

ASSESS_TiSA: Assessing the claimed benefits of the Trade in Services Agreement (TiSA)

Joint AK EUROPA, EPSU and ÖGB Europabüro Workshop, Brussels, 30 November 2017

Werner Raza and Bernhard Tröster

Contents

➤ **PART I: The EC-SIA on TiSA**

- Summary of Results
- General Approach to TiSA in the SIA
- Critique & Conclusions

➤ **PART II: The multi-dimensional role of regulation**

- Regulation in conventional trade analysis
- Rationales for regulation
- Benefits of regulation
 - Cost/benefit analysis
 - Case studies
- Conclusions & Policy Recommendations

PART I: THE EC-SIA ON TiSA

Trade Sustainability Impact Assessment (SIA): ex ante assessment of trade provisions impact on economic, social, environmental and human rights issues in the EU and other selected countries

- SIA for TiSA conducted by Ecorys/CEPR from 2014 to mid-2017
- Consultations with key stake holders and civil society

SIA Objective: *highlight elements which might be considered by the Commission during the negotiations in order to in general, maximise the overall benefits of the agreement and prevent or minimise potential negative impacts*

(Ecorys 2017, <http://www.trade-sia.com/tisa/the-study/objectives/>)

Summary of Results

Cost of trade in services decline by 3.4% in the OECD markets and 5.8% for low and middle income markets

→ Reported **economic impact** of TiSA is positive, but small

→ **Minimal changes** in sectoral output in the EU

Table 1: Summary of TiSA-SIA macroeconomic results

	Real National Income*	GDP (quantity index)*	Consumer Prices	Total Exports	Total Imports
EU	0.1	0.1	0.0	0.2	0.2
Max	1.2 (Hong Kong)	1.1 (Hong Kong)	-0.8 (Mauritius)	2.6 (Mauritius)	1.9 (Hong Kong)
Weighted Average	0.05	0.05	-0.0	0.4	0.3
Min	0.0 (var.)	0.0 (var.)	0.1 (var.)	0.1 (var.)	0.1 (var.)
USA	0.0	0.0	0.0	0.6	0.4
LDC	0.0	0.0	0.0	0.0	0.0

* GDP measures changes in aggregated quantities; real national income reports deflated value of national production (profits, wages and indirect taxes) (see also Ecorys/CEPR 2017a: 31).

Summary of Results

Social analysis

Table 1: Social Indicators TiSA-SIA for the EU

Indicator	GDP	Consumer Prices	Wages Low skilled	Wages Medium skilled	Wages High skilled
EU	0.1	0.0	0.1	0.1	0.1

Note: changes in % relative to baseline scenario in 2025

- Quantitative indicators derived from CGE model
- **Limited validity** of these results with regard to social issues, for instance unemployment, poverty & inequality
- Case studies included for **qualitative assessments**, but largely linked to quantitative analysis

General Approach to TiSA in the SIA

Assumption:

TiSA leads to the elimination of the “binding overhang”

- GATS commitments are ***less liberal*** than current policies
- Risk of „re-regulations“ to GATS level reduces willingness of investors to commit resources
- **New commitments in TiSA** to the **current level of regulation** reduces policy uncertainty and induces positive economic impact (due to lower trade costs)
- **Existing** discriminatory policies, market access conditions and domestic regulations **remain unchanged** (‘low-hanging fruits’?)

How useful is this approach to assess the impact of TiSA?

Critique and Conclusions

How useful is this approach to assess the impact of TiSA?

- **Importance of policy space** (for catch-up economic development and adaption to changing circumstances)
- Given the level of RFAs and BITs, how free are governments „ ***... to cut back on market access up to the binding without violating GATS commitments***”?*
- Policy uncertainty largely related to Mode 3 (commercial presence via FDI), but **data and model inputs refer to Mode 1 and 2 only**
- In contrast to ambitious of TiSA negotiation partners, e.g. EU „***tackling the existing barrier***“ (EC 2016:2) and corporate lobby groups
- Challenge to model „binding overhang“ adequately

* (Ecorys/CEPR 2017a:27)

Critique and Conclusions

1) Economics effects are positive, but insignificant

EU real income expected to increase by 0.1%, exports by 0.2%

2) Economic case for TiSA rests upon unrealistic key assumption

„Binding overhang“ questionable: Can governments change regulations „up to GATS levels“?

3) Chosen methodology unable to capture important economic effects

- Effects of further services trade liberalization excluded by assumption
- Mode 3 services trade only partially included
- Methodological limitations

→ SIA as limited base for decision-making process in TiSA negotiations

Regulation in conventional trade analysis

Analytical work on NTMs in conventional trade analysis include:

- (i) **measures** of NTMs (e.g. STRIs)
 - (ii) methodologies to quantify NTMs (gravity models)
 - (iii) approaches to quantify the effects of changes to NTMs on trade and welfare (CGE models)
-
- **NTMs** are conceptualized as **costs to trade**
 - **Interlinked analytical tools** strengthens this mechanisms
 - Excludes the multi-dimensional aspects of regulation

 - **Specific uncertainties** in methodologies with regard to trade in services (data quality/availability, modes of supply)

Regulation in conventional trade analysis

Wide range of AVE estimates from NTMs in services

→ Implications for welfare estimates from liberalization

Table 1: Summary of NTM quantification results for the EU

<i>Services</i>	Berden et al. (2009)	Egger et al. (2015)*	Fontagné et al. (2016)**	CEPS/WTI (2016)*
- Air transport		25.0		27.3
- Communication	1.7	1.1	48.1	3.0
- Construction	2.5	4.6	45.3	16.0
- Distribution		1.4		2.7
- Financials (banking)	31.7	1.5	63.5	3.3
- ICT	3.9			44.5
- Insurance	19.1	6.6	33.5	22.1
- Maritime transport		1.7	70.2	13.5
- Other business	3.9	35.4	127.6	44.5
- Other transport		29.7		
- Pers., recreational	2.5			18.4
- Trade			47.8	
- Transport			28.3	42.4
- Travel				
- Public services			26.9	14.4
All services (simple avg.)	9.3	11.9	54.6	21.0

* based on Jafari/Tarr (2015) **AVEs refer to simple averages of all EU member states

Sources: Berden et al. (2009), Egger et al. (2015), Fontagné et al. (2016) and CEPS/WTI (2016). See also Berden/Francois (2015) for an overview including NTM-AVEs on goods sectors.

PART II: The multi-dimensional Role of Regulation

The Rationale for Regulation

Market Failures

Table PF.3. Examples of Regulatory Interventions for Dealing with Market Failures

Type of market failure	Type of regulatory intervention		Sectors affected and measures
	Market access	Operation	
Externalities	Direct provision of services by the state		National and internal security services Firefighting Central banking Education Construction of infrastructure
	Entry control: licensing (public concessions)		Distribution services (retail stores, gas stations)
	Entry control: geographical restrictions		Air transport: noise limitations Road transport: limits on emissions
		Behavior control: standards (target)	
		Behavior control: standards (specification)	
		Economic incentives: subsidies	Research and development: tax benefits and direct incentives
Information deficits	Entry control: prior approval (licensing)		Financial services: assessment of technical and financial capacity during licensing procedures
	Entry control: prior approval (certification)		Professional services: certification (title) requirements
		Information requirements: disclosure	Sporting and recreational services: risk information
Coordination problems		Behavior control: standards (specifications)	Telecommunications services: technological standards
		Self-regulation	Road transport services: cargo standards

The Rationale for Regulation

Non-economic Regulatory Objectives

Table PF.4. Noneconomic Regulatory Objectives and Common Interventions

Goal	Types of regulatory Intervention		Sectors affected and measures
	Market access	Operation	
Achieve distributional justice	Direct provision of services by the state		Financial services (national pension scheme)
		Behavioral control: standards (performance: universal services requirement) and price control	Public services: health (publicly funded hospitals) Public services (telecom, water distribution, energy distribution)
		Behavioral control: standards (specifications): limitations on private contracting	All services sectors Consumer protection measures
Reflect community values	Entry control: prohibitions, licensing	Behavioral control: price control	Leasing of real estate
		Economic incentives: subsidies	Entertainment services (bars, nightclubs, casinos)
		Behavioral control: standards (specification): national treatment requirements	Cultural services (libraries, theaters) Screen and stage quotas
Support individual well-being		Information requirements	Distribution services: disclosure of risks in tobacco and alcohol products
		Economic incentives: specific taxes	Distribution services: additional taxes for tobacco and alcohol products
		Information requirements and behavioral control: standards (specification)	Entertainment services: rating of films and video games

The Rationale for Regulation

Enabling Market Exchange

- Law and regulations serve to constitute market relationships
 - Given the incompleteness of contracts, trust is of fundamental importance for a market society:
 - (i) Trust is a constitutive determinant of economic growth, GDP per capita is positively correlated with the existence of trust
 - (ii) The building-up of trust occurs only over the long-term, depends on the emergence of quality institutions and is positively influenced by participatory and democratic forms of governance
 - (iii) There exists a strong positive relation between the quality of the legal system and trust
 - (iv) Empirical literature suggests that European countries are high-trust societies
 - (v) Erosion of trust will raise demand for regulation
- **There exists an economic trade-off between regulatory change and trust**

The Rationale for Regulation

The Case for Regulatory Diversity

- Regulation of economic activities that are relatively new and where technological innovation is dynamic, e.g. digital services, ICT services, telecommunication services, are prone to error
- A certain level of regulatory diversity by allowing for different regulatory approaches will tend to reduce the costs of error and increase the likelihood that experimentation as well as mutual learning between regulators in different countries be fostered
- Extra costs incurred by allowing for a diversity of regulatory approaches seem warranted, particularly where the potential economic and social costs of insufficient regulation are high or lead to irreversible consequences for human lives or the environment

The Benefits of Regulation

Cost- Benefit Analysis (CBA)

- Regulations increase trade: various studies have shown that regulations and standards, e.g. in chemicals, pharmaceuticals and agri-foods, have net trade-enhancing effects, i.e. lead to more trade (e.g. Bratt (2014), Beghin et al. 2012, 2015, van Tongeren *et al.* 2010)
- Benefits of regulation are higher than costs of compliance: OIRA Review of all US regulation between 2000-2012 has come to the conclusion that benefits outweighed costs in every year and did so by a factor of more than six on average over the whole period (OIRA 2010, cited in Myant and O'Brien 2014: 29).

The Benefits of Regulation

Limits of Cost- Benefit Analysis (CBA)

Major epistemological problems of economic valuation:

- Fundamental uncertainty (e.g. future public health costs of GMOs in food)
- Monetization of multiple value-dimensions (e.g. economic costs and benefits of an additional day of paid leave vs. community and family value of more leisure time)
- Ethical limits of economic valuation (e.g. statistical value of a (lost) human life due to exposure to air pollution)
- Social limits to economic valuation (e.g. assessing the economics benefits and costs of allowing child or slave labor)

Case Study I: Transportation and emissions

- **Importance of global logistics and transport networks** in globally fragmented production processes (10-15% of costs in finished EU products)
- At the same time, **transportation accounts for 30% of CO₂ emission** in OECD countries
- **Trade liberalisation** as important factor – also in the future (potentially +15% up to 2050; ITF/OECD 2015)
- TiSA aims for enhanced market access to all modes of transportation
- Potential **conflict between trade liberalization vs environmental/health objectives**
 - Energy efficiency policies: **Cost/Benefit Analysis** useful?
 - **Freight modal shift**: regulatory interference with the free choice among competing transport modes possible
- ➔ **More fundamentally**: Will EU reach its goal of cutting back greenhouse gas emissions by 80-95% by 2015, under the condition that respective policies be 'least burdensome' to trade? Are the policy priorities set correctly?

Case Study II: Digital Trade, Privacy and Data Protection

- Digital trade seen as decisive factor for future growth dynamics
 - Not only e-commerce; enabling-function of data flows!
 - free cross-border data flows perceived as necessity
 - EU regulatory approach: high normative value of privacy and data protection (fundamental right; General Data Protection Regulation 2016)
 - Trade agenda: personal data protection and privacy rights seen as trade-impeding
 - Shift from rights-based to economic approach (trade-offs) leads to several uncertainties/problems:
 - Value-creating content of dataflows? Role of private data?
 - Balancing private and commercial nature of data possible?
 - Regulation with enabling function for digital trade (trust)
 - Value of regulatory diversity, policy space
- Will the EU stick to its high standards in TiSA?

PART II: The multi-dimensional Role of Regulation

Case Study III: Labor standards in TiSA

- **Problem:** Trade violates fundamental social norms, which are considered unfair by people
- **Illustration** (© D.Rodrik): Suppose Harry and John own two firms that compete with each other. In each of the following four scenarios, Harry outcompetes John, resulting in John and his employees losing their jobs. Should they be blocked or allowed to run their course?
 - 1) Harry works hard, saves and invests a lot, and comes up with new techniques and products, while John lags behind.
 - 2) Harry finds a cheaper (or higher quality) supplier of inputs in Japan.
 - 3) Harry outsources to a supplier in Bangladesh, which employs children workers in 12-hour a day shifts and under hazardous conditions.
 - 4) Harry brings Bangladeshi workers to the EU under temporary contracts, and puts them to work under conditions that violate domestic labor, environmental, and safety laws.

➔ All four scenarios are equivalent in economic terms. Scenarios 3) and 4) violate fundamental labor rights and EU legislation, and are considered a breach of basic principles of fairness.
- **Likely approach in TiSA:** no social provisions nor Trade and Sustainable Development chapter as in other EU trade agreements.
- ➔ Should a new 'model' plurilateral agreement be allowed without promoting basic social standards?

Conclusions & policy recommendations

1. Complement SIA with a deliberative policy process that allows for the inclusion of diverse collective preferences at a par with the economic assessment.
2. Define core regulatory standards and principles that are non-negotiable and establish a hierarchy of principles and objectives, that are subject to economic valuation or not.
3. Consider to revise SIA exercises by introducing alternatives methodologies that allow for comparative assessment of all value dimensions of a collective choice problem through some consistent procedure → e.g. social multi-criteria evaluation (Munda 2008)



Thank you for your attention!

Werner Raza, Bernhard Tröster

Austria, 1090 Vienna, Sensengasse 3

T +43 1 3174010-100, E w.raza@oefse.at

I www.oefse.at www.centrum3.at



A 1090 Vienna, Austria, Sensengasse 3 T +43 1 3174010
E office@oefse.at | www.oefse.at, www.centrum3.at

OFSE 
Austrian Foundation
for Development Research