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Trade in Services in the
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Trade in Services in the European Union

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Abstract

Services dominate in the creation of value added in national economies, especially in developed countries, and they have a growing trend in developing (emerging) economies. Their calculation is complex because they cover four modes of trade (according to GATS), and also because a part of the service value is hidden in the value of production/trade of manufactured goods. Their importance in foreign trade, despite the increasing trend, is still three times smaller than the value of trade in goods, and they are thus under-valued. This paper explains specific characteristics of foreign trade in services, provides analysis of the structure of service trade and highlights the limitation of wider trade expansion (i.e. liberalization of trade). The analysis employs statistical tools and secondary data and covers the EU member states. The EU is a very important player in the global arena and it is a net exporter of services, where richer member states are oriented to other business sectors, while the Central, East and South members are focused on travel. The EU members mainly trade between themselves. Service trade is faced with tougher restrictions in cross-border trade. The OECD measures these restrictions by the Services Trade Restrictiveness Index. The EU common market provides better conditions for the intra-EEA trade in services even though the protection differs among countries and it is more liberal for computer and telecom sectors while in accounting services and legal services the protection is high due to national legislations.

KEYWORDS: services, EU, liberalization, trade, services trade restrictiveness index.

Introduction

Thanks to technology development the service sector increased its shares in GDP and also in gross value added, and now it represents the largest part of the economy (GDP). For instance, these shares equal to almost 80% in the USA, and 76% in advanced economies. The importance of the service sector is growing in emerging and developing countries, too, but its share is lower than in developed countries. "For developed countries, services trade will be key to retaining global competitiveness and building on their technological strengths. For developing countries, service trade offers an opportunity to leap-frog into more high-value-added exports and to diversify away from resources or manufacturing" (WTO, 2019a).

The aim of this paper is to summarize the main characteristics of foreign trade in services, which includes the value of service trade, service types, the liberalization of service trade, and servicification of industry on the sample of EU member states.

Globalization ensures favorable circumstances for trade growth and for the dispersion of the production process across different countries. In 2018 trade in goods reached the level of 19.67 trillion USD, while the trade in services was 5.63 trillion USD (WTO, 2019b). That is a sort of paradox since services represent a huge part of economies. The shortage of this statistical interpretation and traditional approach is that the calculation of foreign trade in services does not include all four modes of services. Services are very present in manufacturing and their share in production is hidden in the total merchandise value. The analysis is focused on the European Union member states, and it is made by applying mathematical and statistical tools.



The novelty of this analysis is in the systematization of trade in services on the EU level, but also on the level of member states, as well as in exploring differences between member states due to the traded services. A special part of the paper deals with the process of liberalization of trade in services on the global and EU level where the comparison of service trade liberalization index will be provided for extra-EU trade and intra-EU trade.

The paper consists of four chapters, and the second gives the literature review about recent development of services' trade and trade liberalization. The third chapter comprises the research and is followed by the conclusion.

Different authors and/or studies approach the analysis of services from a different point of view, including different variables and angles. Firstly, it is important to specify the definition and coverage of service trade (conceptual issues) followed by the way of measurement of service trade (measurement issues). Then we are going to present the enabling factors that push the service trade (drivers) and the consequences of trade liberalization and increasing service trade.

(a) conceptual issues

According to the General agreement on trade in services (GATS) there are four different ways — modes of supply — that may be used to deliver services from a supplier to a client/customer. They are as follows: mode 1 - cross-border supply (e.g. through the internet); mode 2 – consumption abroad (e.g. tourism); mode 3 – commercial presence (e.g. through foreign direct investments) and mode 4 – the presence of a natural person (temporary labor mobility). Services in mode 3 are dominant in service trade representing about 59% of the total service trade in 2017 (WTO, 2019a).

In more details - services include transport (both freight and passengers), travel, communication services (postal, telephone, satellite, etc.), construction services, insurance and financial services, computer and information services, royalties and license fees, other business services (merchandising, operational leasing, technical and professional services, etc.), cultural and recreational services, and government services not included in the list above. Trade in services drives the exchange of ideas, know-how and technology, although it is often restricted by barriers such as domestic regulations.

(b) measurement issues

Many authors warn about the specific characteristic of services - their intangibility and their close involvement in manufacturing production as the main problem of the calculation of their participation in foreign trade. Low and Pasadilla (2016) describe the specificity of services and indicate the problem of their calculation. The main characteristic, they emphasize, is intangibility making them analytically and statistically elusive. Services differ from goods because of: (1) a lack of storability - production and consumption must be simultaneous, the typically cited example of which is a haircut; (2) impossibility of transporting them or providing them at a distance - requiring that the producer and consumer be in the same place; (3) many services are customized and not commoditized - which makes problems with the variation in the characteristics of units of output, it is difficult to establish reliable value estimates and sometimes product prices and (4) intangibility – hard to see and measure. Due to technology development, especially information and communication technology, the first two characteristics are not so important in the contemporary time (even though for some kind of services they are important). The third characteristic is also present in the goods production and trade, while the fourth characteristic is a specific, relevant and permanent feature of services. Heuser and Mattoo (2017) state that “services deserve special attention for four reasons, relating to how they are transacted, how they affect downstream sectors, how they are regulated, and how international cooperation can contribute

to integrating national markets". They also warn about the inadequate calculation of services value-added in manufacturing due to the fact that in-house services are not separately included. Therefore, in manufacturing it is important to distinguish between in-house produced services and bought in services as input in the production process. Productivity depends on the services intensity (Lodefalk, 2014).

(c) drivers of service trade

Liberalization of service trade is a necessary precondition for a higher participation of services in the global trade. It is not important just for itself, but it also contributes to the rise of productivity and comparative advantage in manufacturing sectors (Arnold, Javorcik, Lipscomb, & Mattoo, 2016; Van der Marel, 2016, Lee, 2019).

Borchert, I., Gootiiz, B., Mattoo, A. (2014), provide an analysis based on the sample of 103 countries across a range of service sectors and relevant modes of service delivery. They warn about the existence of numerous "second-generation" restrictions on entry, ownership, and operations, even though there is no formal discrimination against foreign providers. The hidden, but problematic area is the license policy that is often discretionary in many countries. They also detected "...some of the fastest-growing countries in Asia and the oil-rich Gulf states have restrictive policies in services, whereas some of the poorest countries are remarkably open". There are differences regarding the type of services: "professional and transportation services are among the most protected industries in both industrial and developing countries, whereas retail, telecommunications, and even finance tend to be more open".

Fiorini and Hoekman (2018) found a connection between the productivity effects of service trade liberalization and regulatory quality (policy). They emphasized the necessity to improve regulatory quality in designing trade liberalization agreements. In this way the economies will gain welfare from the service trade liberalization. Kordalska and Olczyk (2018) conducted an analysis of determinants of service exports in both value-added terms and gross terms for seven Central Eastern European economies in the period from 1995 to 2011. Increasing labor productivity and highly-skilled and medium-skilled workers are important for the service export growth. Domestic services are linked to the manufacture sector, and the determinants of service gross export and service value-added export are fairly similar, but the strength of the impact differs across the analyzed countries.

Mukherjee (2018), studied the service free trade agreements (FTAs) and its impact on different types of services. He found that service agreements had a trade creating impact (with the maximum effect in R&D and other business services, transport and storage and wholesale retail trade) and no trade diverting for services trade. The effects are higher for services traded for intermediate usage. Some services, i.e. financial intermediation and post and telecommunication were not affected by this kind of agreements. He didn't find a different influence of service agreements for services traded for intermediate usage or final consumption.

There are papers that point to the (hidden) barriers in trade in services and the implications of service trade agreements that often do not cover the overall service sector, so they are limited in scope. This is quite strange regarding that services have a high share in the total value added and employment.

Ebeke et al. (2019) describes the EU regulation covering the intra-EU service trade and creates an econometric model with the aim to find out which variables are crucial for the liberalization of mutual trade. They have found that political factors and good governance play a key role in the service trade liberalization. Government effectiveness increases the likelihood of reform which is accompanied by stronger parliamentary support of governments and by a positive impact of EU financial assistance programs. Lee (2019) found that service bilateral/regional trade agreements (or with provisions on services) foster the gross export among the participating countries

and also, to a larger extent, GVC exports in manufacturing from developing (South) to developed countries and between developing countries. The trade-enhancing effect of RTAs that cover services is more than double than the effect of RTAs that only cover goods for Southern exporters. An important finding is also that regarding specific provisions, service agreements that allow the export of services without local presence (i.e., right of non-establishment) significantly increase GVC exports in manufacturing. Egger, Larch and Staub (2012) have analyzed the impact of RTAs in goods and services on both types of trade flows for European countries, finding much larger welfare gains from liberalization in goods and services than from just one of the two. Dhingra, Freeman, and Mavroeydi (2018) have examined the effects of non-tariff provisions on trade in goods and services, and found that provisions related to services, investment, and competition jointly make up roughly half of the impact of RTAs on exports.

In this part the trade in services on the global level and the EU level will be analyzed. The role of services in manufacturing production will also be presented. This third part of the research is focused on the trade liberalization with special emphasis on the service trade restrictiveness index.

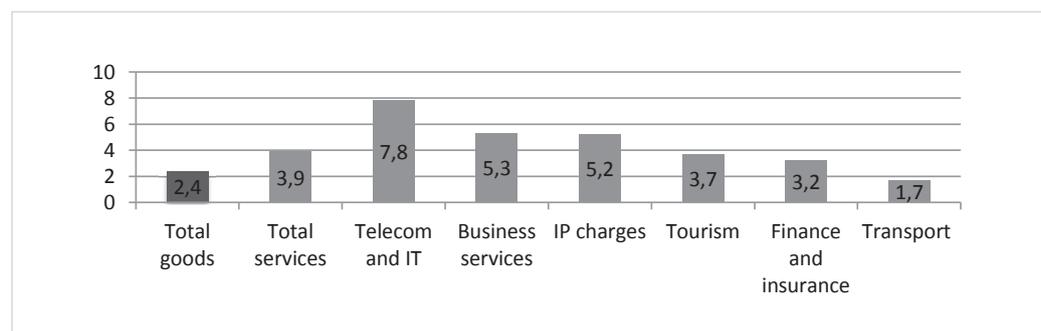
How big is trade in services?

The World Trade Organization (WTO) has experimentally created a dataset with the inclusion of the GATS mode 3 – commercial services provided in foreign countries in 2017. According to this way of calculation it is estimated that the trade in services was 13.3 trillion \$ in 2017, which is more than doubled when compared to the traditional approach. It can be concluded that the average annual growth rate of service trade was 5.4 per cent from 2005 to 2017, and that it is faster than goods trade (WTO, 2019a).

Among all service sectors, distribution and financial services are the most traded services representing 19.9% and 18.6% of the total service trade (WTS, 2019).

The most important exporters of services are the USA, the UK, Germany, France and the Netherlands.

“According to the WTO Global Trade Model, the share in global trade of the services sector could increase by 50 per cent by 2040. If developing countries are able to adopt digital technologies, their share in global services trade could increase by about 15 per cent.” (WTO, 2019b).



Source: WTO (2019).

Commercial presence in another country (mode 3) is the most important part of service trade accounting for 58.9% of the total service trade in 2017. Trade in information and communication technology (ICT) services should be pointed out due to their huge increase. Their trade is estimated at US\$ 1,756 billion in 2017, which has more than doubled since 2005. IT services were resilient during the financial crisis due to a regular demand for new software as well as fighting cybersecurity concerns.

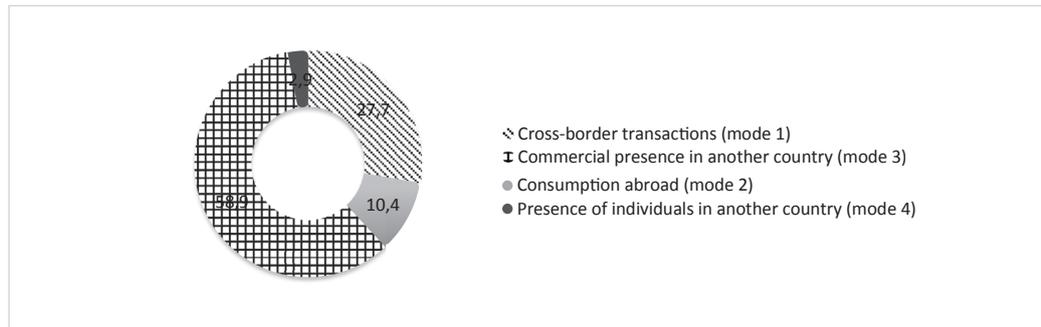
Research

Figure 1

Annual growth rate of gross export in service sectors in period 2007-2017

Figure 2

World trade in commercial services by mode of supply in 2017 in %

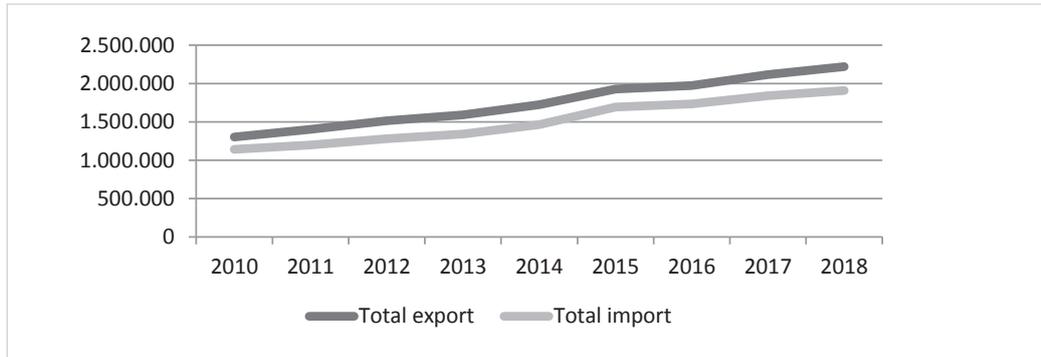


Source: WTO (2019).

If we focus on the EU trade in services, **Figure 3** indicates the EU export, import and trade balance in the services. The data includes both intra and extra-EU trade in services and the values go from 1.35 trillion to 2.5 trillion euro. During the last nine years the trade in services has grown with continuously higher growth of export than import resulting in a positive trade balance.

Figure 3

Total export and import of services in EU from 2010 to 2018 in mil euro

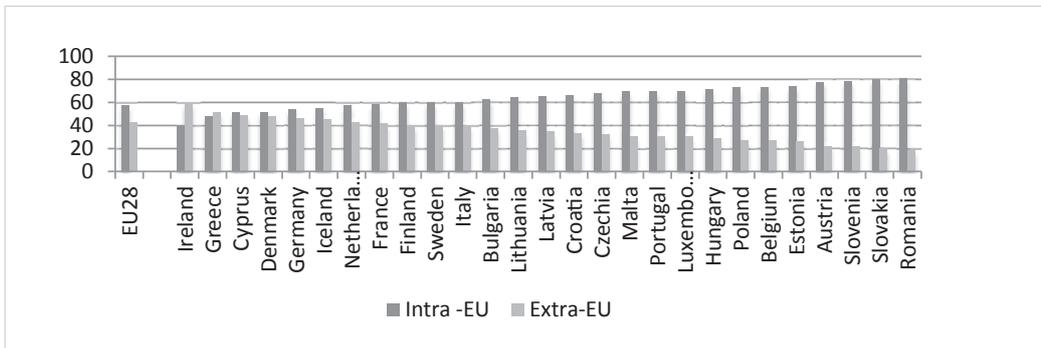


Legend: The data include also UK, as it was a EU member in that period. UK represents about 20% of extra EU export of services and about 13% of extra-EU imports. UK's share in intra-EU trade was about 10%.

Source: Eurostat (2020).

Figure 4

Share of intra and extra-EU trade in services in 2018 (in %)



Source: Eurostat (2020).

From **Figure 4** it can be found out that the intra-EU trade in services prevails in the majority of member states. The exemptions are: Ireland and Greece (and also the UK which in that year was a member of the EU). As most statistical offices do not publish service trade data by mode of supply (except WTO for the total service trade), the further analysis will be presented on the specific service level. Commercial presence, which is essentially investment, is the most common mode

for EU service exports to third countries, followed by cross-border supply. A fifth mode has been suggested covering services that are incorporated or embedded in the production processes of traded goods (e.g. engineering or software design services). In theory, this would account more accurately for today's increasingly digital trade patterns, but it would be difficult to implement in practice (European Parliament, 2019).

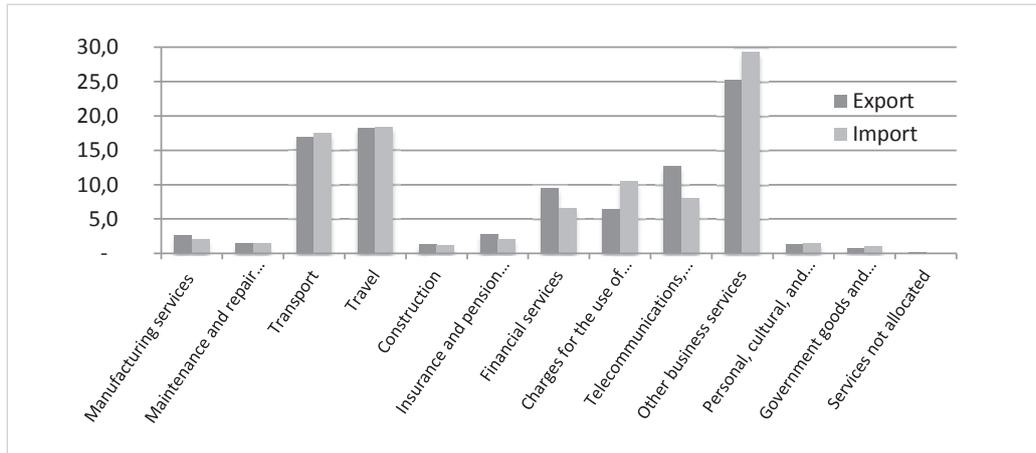


Figure 5

Extra-EU exports and import of services in 2018 (in % of total service)

Source: Eurostat (2020).

In extra-EU trade it can be pointed out that there are three types of services: other business services (research and development (R&D) services, professional and management consulting services and technical, trade-related and other business services), transport and travel.

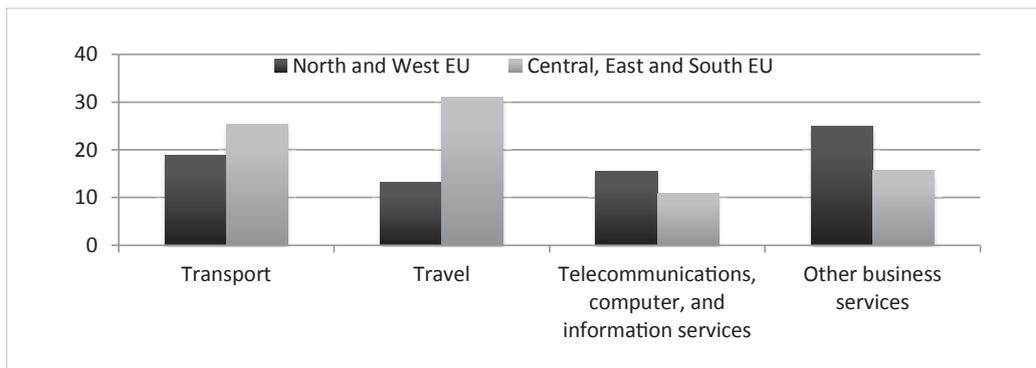


Figure 6

The most important export services in the EU in 2018 (in % of total service export)

Source: Eurostat (2020).

Legend: North and West EU: Austria, Belgium, Denmark, Germany, France, Finland, Ireland, Sweden, Luxembourg, Netherlands. Central, East and South EU: Bulgaria, Croatia, Cyprus, Czechia, Estonia, Greece, Hungary, Latvia, Lithuania, Malta, Poland, Portugal, Spain, Italy, Slovakia, Slovenia, Romania¹.

From [Figure 6](#) it is obvious that the four most important services in the EU member states' export are: transport, travel, telecommunication and other business services, but their importance is not the same throughout the EU. Other business services dominate the export of the North and Western EU member states, following with transport, telecommunications and travel, while travel dominates the export of Central, East and South EU members. The presented data indi-

¹ The grouping was made according to the divide in The Europe 2020 Competitiveness Report Building a More Competitive Europe, World Economic Forum.

cates the average values where we can emphasize some interesting peaks: Ireland - domination of telecommunication and information services (48%), Denmark - domination of transport services (50%); Croatia - domination of travel services (68%). The most competitive and developed countries of the EU are more focused to sophisticated services such as services in information and communication technology and other business services vs. the relatively smaller importance of travel. The opposite appears in the group of Central, East and South EU member states where travel and transport services dominate in export.

Servicification of manufacturing

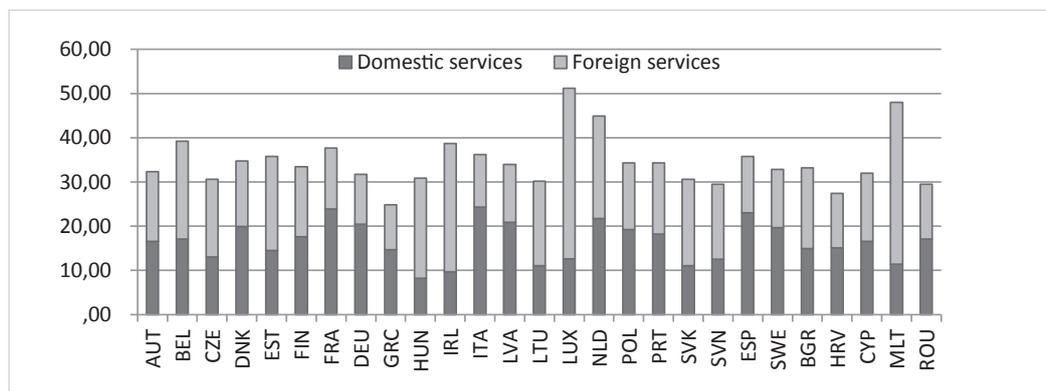
Even though service trade is threefold lower than the trade in goods; some part of services is incorporated in trade in goods. The term “servicification” regards a wide range of service activities included in the production and trade of goods.

OECD (2018) points to the role of services as an integral element of Global Value Chains (GVCs). They account for 25% to 40% of content of manufacturing exports in most OECD and G20 countries. Interesting for many countries, the share of foreign service value added is greater than the share of domestic service value added.

Services are multi-functional and they are a part of the production process. They supply inputs to virtually every economic activity. Producer services, such as transport, telecommunications, financial services, distribution, business and professional services, are essential to the entire operation of an economy. Some service companies develop them themselves and put them in the production process. The value of in-house services is not recorded separately from the value of produced goods. They can be measured just on the case-study basis with the disaggregation of production processes. Moreover, the intangible assets that multinational companies send to their affiliates around the world — including software, branding, design, operational processes, and other intellectual property developed at headquarters — represent tremendous value, but they often go unpriced and untracked unless captured as intellectual property charges.

Figure 7

Share of domestic and foreign services in manufacturing export in 2016



Source: OECD (2018), TIVA Database, https://stats.oecd.org/Index.aspx?DataSetCode=TIVA_2018 (January 12, 2020)

In the majority of countries, services contribute to more than 30 per cent of the manufacturing products value. The exemptions are Greece and Croatia, with the service share below 30 per cent. Foreign services dominate in Luxembourg, Ireland, Malta, the Netherlands, Belgium, the Czech R., Estonia, Hungary, Lithuania, Slovakia, Slovenia, and Bulgaria.

Liberalization of service trade

Service trade is not liberalized as the trade in goods is, and the process of trade liberalization that has started in 1948 was focused on the liberalization and facilitation of trade in goods. It re-

sulted from the fact that merchandise trade was a more important part of the total trade, but the elimination of tariffs, quantitative barriers and similar measures was easier for such products in comparison with services which are more complex and politically sensitive, and are likely to be linked to other policy concerns besides trade. The trade cost equivalent of service trade barriers largely exceeds the average tariff on traded goods (OECD, 2019).

Because of the service specificities, trade liberalization in services is different from trade liberalization in goods: it is fundamentally asymmetric, and often tends to be non-discriminatory (regarding the previous mentioned issues: standards, domestic regulations, hidden barriers). This is the result of the fact that major service producers are situated in the North (developed countries) so the effect of service trade liberalization is not the same for developed and developing countries (asymmetric). Due the fact that many services (transportation, telecommunication, ICT, etc.) are involved in the production process of manufacturing products, not only trade agreements that cover goods are important for the production costs, but also the service trade liberalization. The National Board of Trade (2012) of Sweden argues that trade negotiators should not focus on manufactured goods or services in isolation, but rather consider the interdependencies of the two and take the value chain into account.

The first legal act that covers services was the General Agreement on Trade in Services (GATS) negotiated during the Uruguay Round between 1986 and 1995. This agreement includes a methodology by which countries can schedule measures that conform to a list of market access requirements that impede service trade. Such limitations to market access include foreign equity limits, restrictions on the organizational form for the establishment of a commercial presence by a foreign service supplier, or requirements for economic needs tests.

In the process of liberalization we can distinguish between a few provisions that can be found in services RTAs. The first one is the most-favored nation (MFN), which is most common in the World Trade Organization and means that approved lower tariffs toward the import from one country should be automatically enlarged to the all WTO members. Then, national treatment (NT) regards the implementation of the same rules on the exported services as on the domestic services relating to competition. In some cases the preferential treatment of certain foreign providers post-establishment may be limited. The third and fourth provisions are the right of non-establishment and movement of natural persons provisions that provide more preferential treatment and can lower the costs of service linkages necessary for coordinating GVCs (Lee, 2019). Trade in services is specific and it closely depends on the movement of professionals connected with international business operations. Movement of persons is usually part of the migration policy of a particular country (not just a part of service agreements).

On the global level, GATS was followed by negotiations of the 1998 WTO Agreement on Basic Telecommunication Services and the 1999 WTO Financial Services Agreement. However, in the newest period there are no new agreements, and the circumstances and technology have been changed in the last two decades. Currently, the discussion is focused on GATS domestic regulations, electronic commerce and the relevant aspects of investment facilitation. The Trade Facilitation Agreement entered into force on 22 February 2017. It contains provisions for expediting the movement, release and clearance of goods, including goods in transit. Even though it is focused on the trade in goods, it will result in lowering the trade barrier costs. One of its parts regards services involved in transportation of goods.

The first complex document where EU regulates the service trade on the common market is Directive 2006/123/EC (OJ L 376/36, 2006) on Services in the Internal Market ("the Services Directive" or "the Bolkestein Directive") which should have been fully implemented since 2009. Its goals were to promote the internal market for services through the facilitation of the cro-

ss-border provision of services within the EU and by reducing regulatory barriers to the provision of services across borders (trade), as well as through the establishment of a firm in another EU country (FDI) and the simplification of administrative procedures and fostering administrative cooperation between EU countries. It covers a wide range of services and is best understood as a 'horizontal' directive, that is, it applies to a wide range of sectors. The services that are not covered include, among others, financial services, network industries and transport services. These are covered by separate pieces of legislation. Importantly, the Directive wouldn't replace national regimes, it simply introduced a set of prohibitions and principles that EU Member States need to respect when regulating services at the national level. The draft of the Directive was in the negotiation/adoption process for more than two years due to the criticism from left-wing European politicians, who found that it would lead to competition between workers in different parts of Europe (the expression "Polish plumber") which can result in social dumping (decreasing of their salaries). The problem was the Commission's "country of origin principle" which said that a company offering its services in another country would operate according to the rules and regulations of its home country. It was also been accompanied by mass protests in various EU countries, such as France, Belgium, Sweden and Denmark. Countries with higher standard of social protection were afraid that domestic companies could be priced out of the market by cheaper, foreign competitors. Because of these disagreements, the original draft was substantially amended after 2004 by dropping out the "country of origin principle". The adoption of this Directive was the precondition for opening the internal market in services to cross-border competition without eroding the European social model. The directive is intended to boost growth and jobs, but also to ensure that Member States do not lose control of the market in services of public interest and that workers' rights are protected. This balance between trade liberalization and social rights protection seems to have been achieved.

The problem with the directives can be their incomplete implementation and this was also the case with the Service Directive. The Commission has found that service providers still face significant administrative burden and costs when going cross border. It has also found that the system of administrative cooperation between EU countries is currently not working in practice, and that countries continue to impose their domestic requirements on service providers with little regard to the regulatory framework already imposed on the service provider in their home country (Monteagudo, 2012; Copenhagen Economics, 2018; European Commission, 2020).

Services are part of the international trade, and its international dimension has rapidly increased since the 1990s onwards with the liberalization of firms' cross-border activities. Even though the service trade grew, the trade costs for direct service trade are much higher than for goods. This is confirmed by regulatory burdens, non-tariff barriers and trade restrictions (OECD, 2020). OECD calculates the Service Trade Restrictiveness Index (STRI) which covers 45 countries and 22 sectors. The value of index goes from 0 to 1 where 0 represents a liberal system and 1 is the most restrictive. STRI offers a comprehensive and transparent overview of global trends in service trade regulations, thus facilitating deeper analysis of the effects that such regulations have on trade in services and the wider economy. In the last report (OECD, 2019) the OECD points that air transport services, legal services, and accounting and auditing services tend to be more restrictive than other sectors, while distribution services, sound recording, and logistics freight forwarding tend to be the most liberal. STRI measures include five dimensions: regulations of foreign entry, restrictions on movement of people, barriers to competition, regulatory transparency and other discriminatory measures.

Nordas and Rouzet (2017) investigate the impact of service trade restrictiveness as measured by the STRIs on cross-border trade of services and find impact in sectors with higher scores of

restrictions on the lower trade between countries, and with lower/worse service performance in telecom, finance and transport, in particular countries. Additionally, they find service trade restrictions in transport, telecoms and financial services are negatively associated with exports, imports and product differentiation in manufacturing.

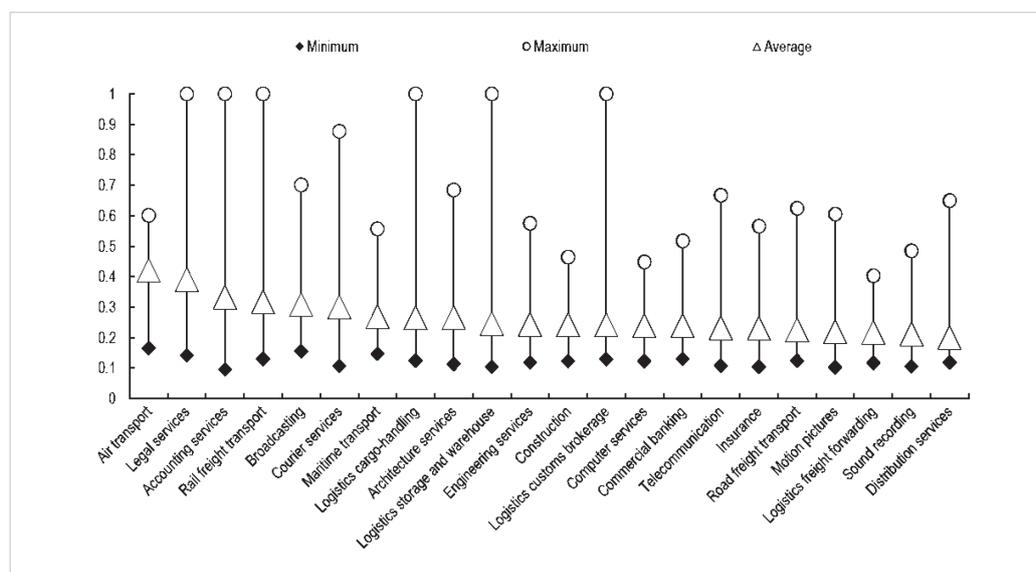


Figure 8

STRI average in 46 countries, minimum and maximum scores by sectors in 2019

Source: OECD, 2020.

The largest increase in restrictiveness in 2019 in comparison with 2018 was found in sectors related to the digital trade: audio-visual services (motion pictures and broadcasting services), as well as computer and telecommunication services. In this Figure there are some countries with totally restrictive policies (very high STRI scores) such as India, Thailand, Korea (that are not part of OECD, but OECD included them in this report). Because of these huge differences between minimum and maximum scores, it is more useful to concentrate on the EU member states.

For the EU member states, intra-EU trade is very important and as in the manufacturing trade, in the service sector this is also the dominant part of trade. EU members together with EFTA members (without Switzerland) form the European economic area (EEA) which is the largest common market enforcing free movement of goods, services, capital and people. OECD additionally calculates also intra EEA-STRI.

The intra-EEA STRI database measures the extent of service trade restrictiveness within the EEA Single Market (Benz and Gonzales, 2019). It covers 25 countries². Service trade within the EEA is substantially more liberal than the multilateral policies (MFN) that EEA members applied towards non-members. Still, there remains a certain level of restrictiveness within the Single Market, and it depends on EU rules. Taking into account EU rules, but also national laws, intra-EEA services trade barriers can differ across countries.

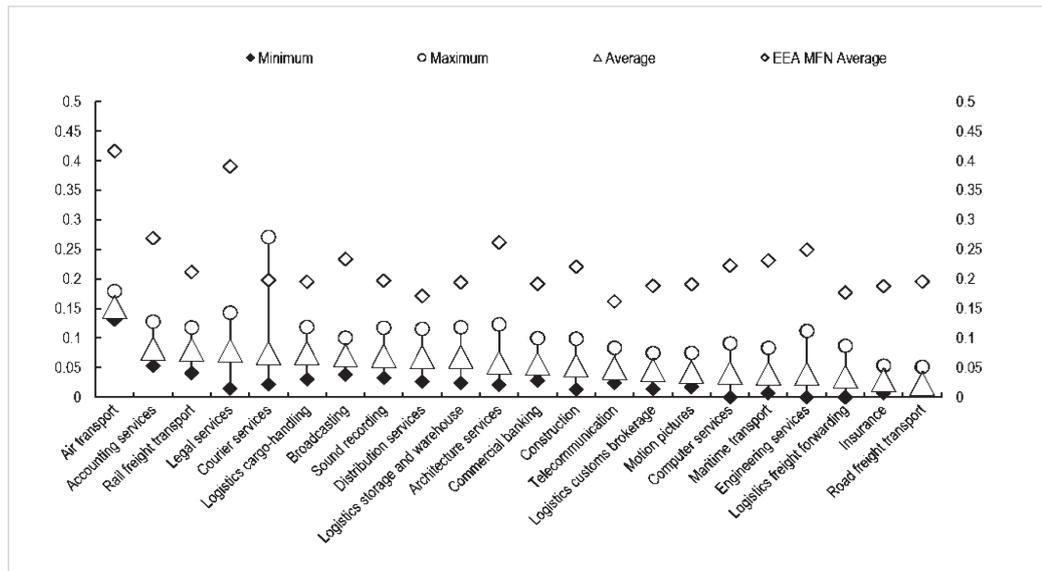
These barriers are not on the same level for all EU member states. Restrictiveness of EEA service trade depends on the EU legislation and common rules, so there are some services such as air transport, regulations and directives governed by almost 90% of all STRI measures. Road freight transport and audio-visual services also have a high importance in the EU legislation. The

² It doesn't include data for Croatia, Romania, Bulgaria, Malta, Cyprus.

opposite situation is for telecommunications, cargo-handling or distribution. In the latter sectors EU legislation is pertinent for 60-79% of all measures.

Figure 9

Intra-EEA STRI by sectors in 2019 (scores)



Source: OECD, 2020.

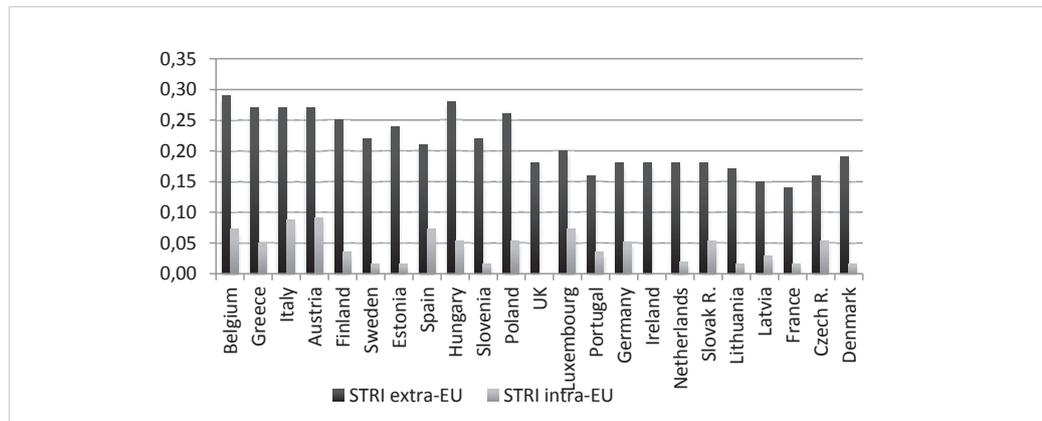
Figure 9 indicates the difference between MFN rates-average and the EEA restrictiveness in all service sectors. MFN rates are higher than intra EEA rates in all sectors with the exemption of courier services where some maximum rates in the EEA are higher than in MFN. In the majority of sectors the average intra EEA rates are below 0.1 while the MFN rates are between 0.15 and 0.3, which makes extra-EU trade in services more expensive than intra-EU trade.

Below, a sector with higher restrictions (accounting services) and two sectors with a liberal regime (computer and telecom sector) will be presented.

Figures 10 to 12 clearly indicate the huge differences between STRI in extra-EU trade and STRI in intra-EU trade in specific sectors. The case of the computer sector shows the highest STRI is just above 0.25 on the extra-EU trade and 0.08 in intra-EU trade. Very similar scores are recorded in the telecom sector, too.

Figure 10

Intra EEA and extra-EEA STRI scores in the computer sector in 2019



Source: OECD, 2020.

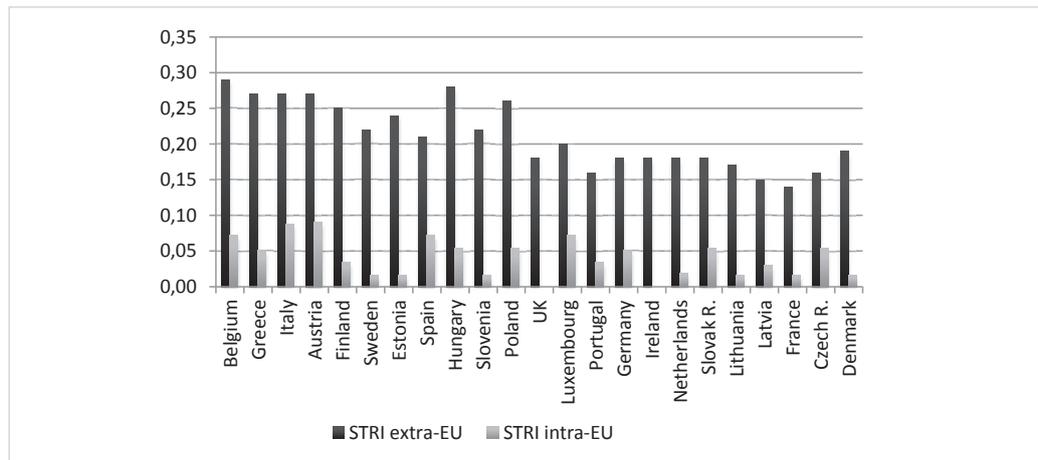


Figure 11

Intra EEA and extra-EEA STRI scores in the telecom sector in 2019

Source: OECD, 2020.

In providing accounting services the STRI in extra-EU trade varies between 0.12 and 0.51 while at the same time the intra-EU STRI is between 0.04 and 0.12.

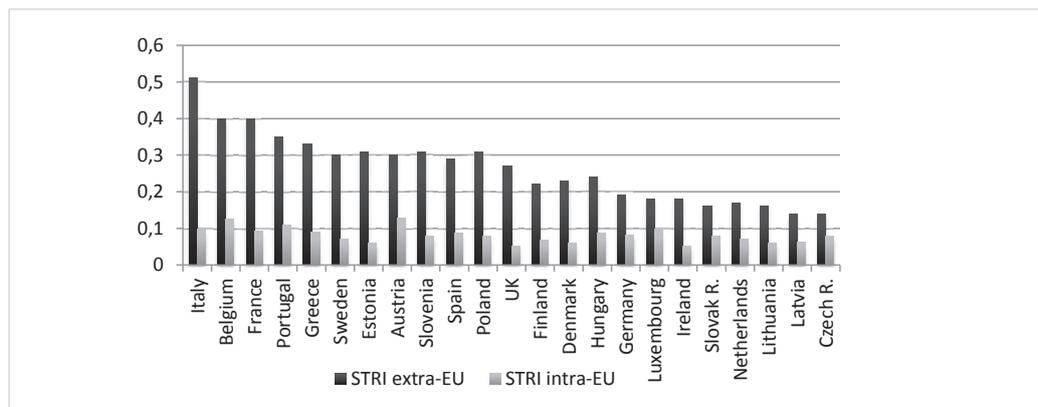


Figure 12

Intra EEA and extra-EEA STRI scores in accounting sector in 2019

Source: OECD, 2020.

Services are often neglected in trade research as they represent less than 1/3 of the trade in goods value. That is shown to be contradictory to the service domination in the national economic structures. A reason for this can be also found in their specificities, and because of them it is difficult to include (measure) all modes of services in the analysis. Service trade can be investigated separately through the export and import of services, but a significant part of services is incorporated in the value of goods that is difficult to precisely measure.

The characteristics of service trade on the global level have been presented in this paper and they were confronted with the process of trade liberalization. Special accent was put on the EU member states as the EU represents a common market that ensures four freedoms and services to be part of them. The EU is one of the main exporters of services in the world market. From the analysis it comes as obvious that service trade grew after the global economic crisis, with the domination of just a few service types in the trade. The EU is a very important player in the global arena and it is a net exporter of services, but its members are not equally focused on the same type of services. The richer member states are oriented to the other businesses sector, while the Central, East and South members are focused on travel. The EU members mainly trade between themselves.

Conclusions

Service trade is faced with different restrictions in their international trade, such as regulations of foreign entry, restrictions on movement of people, barriers to competition, regulatory transparency and other discriminatory measures. Those regulations are not only part of trade policies, but also of the competition policy, migration policy, investment policy that are not all common EU policies, i.e. there the national legislation/competence has inevitable impact. Even though there are international agreements, the average barriers to service trade are higher than for merchandise trade.

Because of the complexity of different barriers to service trade, OECD calculates STRI scores. The EU common market provides better conditions for the intra-EEA trade in services even though the protection differs between countries. The majority of the service sectors face very low STRI scores, below 0.1 in intra-EU trade, while some specific sectors, such as accounting and courier services face higher protection. The scores are higher for the trade with countries outside the EU (or EEA).

The EU as a global player is faced with the so called new wave of protectionism - "no-deal" Brexit happened in January 2020, and it will influence the service trade as the UK was one of the most important service traders in the EU. This trade is not regulated by a mutual agreement and it can result in difficulties with providing services, and consequently in the decrease of mutual trade. Due to the close existing interconnections, the UK will negotiate its future trading relationship with the EU. Both sides plan to create a trade partnership by which, among others, in the area of services and investment they have an ambition to go well beyond the current commitments under the WTO and existing free trade agreements of the EU with third countries.

On the other hand, US president Trump introduced the "America First" approach with the aim to protect the American economy and jobs by increasing protectionism mainly in the merchandise trade (increasing of tariffs on imports), and by revising the participation of the USA and bilateral and/or regional/preferential trade agreements. President Trump has stopped negotiations with the EU about Transatlantic Trade and Investment Partnership (TTIP) which was designed to regulate cooperation in many areas that are relevant for both sides as they are the most important foreign trade partners to one another. Even the US trade policy is characterized by protectionism. However, it only refers to merchandise trade, while service trade is not included (the USA has a surplus in service trade). The US and EU leaders initiated negotiations about the trade agreement that will cover services between the EU and the USA in 2018, but with no concrete results till now. The potential trade agreements with these two countries – the UK and the USA, would create fundamentals to push mutual trade in goods and services.

This paper presents an overview of specificity of services and their liberalization, but at the same time it opens different issues for further research where every specific sector can be a case study per se. An especially valuable contribution would be to put more effort into researching the ICT sector which is growing very fast.

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