T20 Policy Brief

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Task Force 06
STRENGTHENING MULTILATERALISM AND GLOBAL GOVERNANCE

A Strategic Framework for Good Regulatory Practice in Services Trade

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Abstract

The services sector dominates economic activity and employment. When measured on a value-added basis, services also represent more than half of global trade. Yet its contribution to international trade for many developing countries remains relatively low. This is attributable to the high costs associated with services trade, stemming from factors such as governance quality, information asymmetries, and high regulatory barriers and heterogeneity.

The G20 has emphasised the significance of services trade in global growth and job creation, acknowledging the importance of establishing sound, predictable, and transparent domestic regulatory frameworks for services trade. This underscores the need for discussions during successive G20 presidencies on collective strategies to make current and future market access commitments of G20 World Trade Organization (WTO) members under the General Agreement on Trade in Services (GATS) more meaningful. The conclusion of the plurilateral Initiative on Services Domestic Regulation at the WTO already marks a major milestone.

Given the regulatory heterogeneity among G20 WTO members and concerns around preserving policy space for domestic regulation, a way forward could be a Strategic Framework to further reduce services trade costs, focusing on areas that need improvements in governance, institutions, and transparency.

Against this backdrop, this Policy Brief proposes the development of a Strategic Framework for Good Regulatory Practice in Services. This framework would establish a robust and predictable regulatory environment while advancing cooperation on regulatory convergence across all modes of services among G20 economies. Such measures would bolster trade in the global services economy.

Diagnosis of the Issue[1]

The services sector accounts for the bulk of economic activities in the world. Its contribution to global GDP soared from 53% in 1970 to 67% in 2021 (WTO 2023a). The sector is critical in spurring economic growth, productivity, innovation, and well-being. Transport, logistics, finance, and telecommunication are central to today's global supply chains and trade. With the increasing ‘servicification’ of manufacturing, all kinds of services have been integrated into manufacturing processes, with significant value addition occurring through the supply of services across the value chain. The Covid-19 pandemic brought a renewed focus on the need for more equitable, accessible, and affordable healthcare services. Streamlining the supply of services or making international “trade” in services simpler and less burdensome for service suppliers, can generate potential economic and welfare benefits.

Services are subject to multiple regulations/disciplines “behind the border” (i.e., within the country's territory where they are supplied). Further, the ambit of services is significantly wider than goods, covering the cross-border movement of data, service suppliers, consumers, foreign direct investment flows, and natural persons. As such, the supply of services is the subject of significant regulation at the domestic level, as providing services often involves sensitive questions of entry/access and establishment, requisite qualification, and license to practice or supply services. In its Trade Monitoring Reports, the WTO has highlighted a notable trend where most of the trade measures

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introduced by G20 economies have been aimed at services trade (WTO 2023b).

A lack of transparency and limited availability of information about the domestic regulatory environment affecting trade in services can burden and add to service suppliers' costs. Thus, the major challenge governments confront is to ensure optimum regulation without making conditions for supplying services excessively restrictive (Marchetti and Roy 2008).

Members of the WTO agreed to the Trade Facilitation Agreement (TFA) to improve customs administration and expedite the movement, clearance, and release of goods to reduce the costs of doing trade and enhance trade in goods. Evidence shows that the TFA has contributed to an increase in trade flows, with estimates indicating a 5% increase in global agricultural trade and a 1.2% increase in global trade due to the implementation of the TFA (Beverelli et al. 2023).

However, no corresponding framework within the WTO architecture sets out broad objectives and measures for reducing the costs of trade in services and reducing the differences or heterogeneity in services regulations between WTO members to facilitate the supply of services. This is a major gap at present in the multilateral trading system. Addressing this gap would be in the interest of the primary stakeholders, i.e., service suppliers. It would be particularly important given that services now represent more than half of global trade when measured on a value-added basis.

Such an approach would be similar to the hybrid approach to services liberalisation outlined under the African Continental Free Trade Area (AfCFTA) Protocol on Trade in Services: on the one hand, schedules of specific commitments, and on the other, broad sectoral regulatory frameworks for cooperation. The latter are designed to support the existing commitments set out in the schedules, and promote regulatory homogeneity and coherence.

This Policy Brief proposes developing a Strategic Framework for Good Regulatory Practice in Services to reduce costs and facilitate the supply of services in G20 economies and the rest of the world. Such a Strategic Framework is highly relevant to the G20 agenda and priorities. It would help enhance policy coherence and eliminate redundancies and overlaps in administering services regulations (Stephenson and Mikic 2024). It could also serve as a stepping stone to help move WTO members towards the negotiation of a multilateral Services Facilitation Agreement in the future.

The G20 plays a pivotal role in global economic governance, representing 85% of worldwide GDP, 75% of international trade, and two-thirds of the global population (OECD 2019). For most G20 members, the services sector represents the major force and largest contributor to their economies, and a significant driver of their engagement in trade.

Given the G20's significance in shaping international economic policies and fostering global cooperation, there is a clear opportunity for the G20 to amplify its impact by committing to policies that nurture an open, transparent, and competitive market for services. By focusing on these priorities, the G20 can significantly contribute to developing a more robust and resilient global economy, where trade in services is a key driver for sustainable growth and development.

Recommendations

This Policy Brief recommends the development of a Strategic Framework for Good Regulatory Practice in Services to assist in streamlining and reducing the costs of supplying services, as well as to reduce the degree of heterogeneity in services regulations. The framework would comprise multiple elements outlined below which would contribute to good regulatory practice in services by G20 economies.

1. Implementation of relevant agreements such as the disciplines on Services Domestic Regulation and the Joint Initiative on Investment Faciliation for Development

The disciplines contained in the Joint Initiative on Services Domestic Regulation (SDR) were finalized in November 2021 and are now being officially incorporated into the services schedules of adhering WTO members to enter into force. These disciplines will apply on a Most Favoured Nation (MFN) basis, i.e., their potential benefits will accrue to the entire WTO membership. The agreement seeks to streamline administrative procedures relating to licensing and qualification requirements for service providers and technical standards – key aspects of the domestic regulation of services trade. It remains open for all WTO Members to implement these rules. An assessment of the potential impact of implementation of the SDR agreement has found that it can result in a substantial reduction in services trade costs – ranging from 8.5% in high-income countries to 10% in lower-middle-income countries and up to 14% in upper-middle-income countries (So and Bekkers 2024).

The SDR agreement is essentially a mandatory set of disciplines to be applied by WTO members in terms of administering rules related to authorization, licensing and assessment of qualifications for the supply of services. It covers aspects including timeframes for receiving and processing applications for authorization, acceptance of electronic applications, ensuring that authorization fees are reasonable and transparent, among others. Prompt publication of the information necessary for service suppliers to comply with the procedures for obtaining such authorization, and its subsequent renewal, etc. is mandated under the agreement.

Similarly, the negotiations under the Joint Initiative on Investment Facilitation for Development (IFD) have been successfully concluded, with the discussion shifting to the incorporation of its outcome into the relevant GATS Schedules of Services Commitments. Certain sections of the IFD agreement, particularly those relating to streamlining and speeding up administrative procedures, have important application in services trade, in particular those relating to the supply of services through the commercial presence of a service supplier in the territory of another WTO member ("Mode 3 supply of services").

Box 1 below captures the current engagement of G20 economies in the plurilateral Joint Initiatives on Services Domestic Regulation and the Investment Facilitation for Development.

S.No.	G20 Member	Participant in the WTO IFD JSI	Participant in the WTO SDR JSI
1.	Argentina	✓	✓
2.	Australia	✓	✓
3.	Brasil	✓	✓
4.	Canada	✓	✓
5.	China	✓	✓
6.	France	✓	✓
7.	Germany	✓	✓
8.	India		
9.	Indonesia	✓	
10.	Italy	✓	✓
11.	Japan	✓	✓
12.	Korea	✓	✓
13.	Mexico	✓	✓
14.	Saudi Arabia	✓	✓
15.	South Africa		

16.	Russia	✓	✓
17.	Türkiye		✓
18.	United Kingdom	✓	✓
19.	United States of America		✓
20.	African Union*	-	-
21.	European Union	✓	✓

Box 1: G20 Members' Participation in WTO JSIs on SDR and IFD

**Unlike the European Union, the African Union (AU) is not a Separate Customs Territory within the meaning of Article XII of the Marrakesh Agreement Establishing the WTO. Of the 55 AU Members, only 3 (Comoros, Mauritius and Nigeria) are participants in the SDR JSI. Comoros has only recently formally acceded to the WTO. 30 out of the 55 AU Members are participants in the IFD JSI.*

2. Creation of dedicated portals for services suppliers to consolidate information on services regulations

Information relevant for potential service suppliers is often scattered across various governmental websites, which makes decision-making harder. For example, service suppliers interested in the supply of services through Mode 4 (supply of services through the temporary movement of natural persons), often struggle to understand the complexities associated with the temporary entry visa regime of countries. Similarly, unless information related to the applicable Foreign Direct Investment (FDI) regime is easily accessible, suppliers interested in establishing a commercial presence in a partner country will not able be able to arrive at a quick decision.

3. Conduct of Regulatory Impact Assessments (RIA)

A standardised RIA toolkit should be adopted which can be used to evaluate regulatory impacts of a proposed national regulation for a particular services sector. The outcome of these RIAs will be not only helpful at the domestic level through the cost-benefit analysis they provide, but will also serve to allow the G20 economies to conduct sector-based discussions on the appropriateness of regulations for key services sectors (such as logistics during the Covid-19 pandemic).

4. Dialogues between regulators aimed at reducing regulatory heterogeneity

Regulatory heterogeneity in services-related procedures and technical standards can be reduced through practical measures such as greater dialogues between sectoral regulators of services among the G20 economies and a better understanding of the needs and concerns of the services suppliers, which can lead to workable Mutual Recognition Agreements (MRAs) for qualification and licensing regimes.

Policy measures taken to streamline the supply of services must be anchored to the needs of the primary stakeholders, i.e., service suppliers. All too often, there is excessive focus on the structure and framework of agreements on trade in services and their corresponding schedules, rather than actually ensuring that the market access commitments therein can be made effective and fully leveraged by service suppliers.

Scenario of Outcomes

Services provide a pathway for developing economies to broaden their export portfolios beyond a narrow range of products and commodities. This diversification through services can strengthen economic resilience by reducing dependence on fluctuating commodity prices. Between 2005 and 2022, commercial services exports from the least developed economies surged by over 300%, while those from other developing economies grew by more than 250%. Despite notable progress in leveraging services trade, developing economies still have significant potential to unlock in this sector.

The recommendations in this Policy Brief present a modest yet practical agenda for G20 members to minimise burdens for service suppliers through streamlining costs relating to services trade and reducing heterogeneity in services regulations. It does not prescribe commencing negotiations towards any new agreement at the WTO, or taking on additional sectoral commitments or entering into equivalence agreements. Instead, the major focus of the recommendations is on greater transparency and information-sharing, building on the foundation of GATS Articles III and VI, as well as on regulatory cooperation and achieving a better understanding and execution of good regulatory practices for services. This essentially entails the more transparent administration of the national regulatory environment in a manner that promotes fairness and avoids information asymmetry between interested service suppliers and governments/regulatory authorities.

These recommendations do not affect any existing market access commitments or other cross-cutting services disciplines already taken on by G20 economies. They rather seek to ensure that service suppliers are able to effectively utilise the market access terms available for them under the respective services schedules of commitments.

This proposal for the development of a Strategic Framework for Good Regulatory Practice in Services can be taken up by the G20 Trade and Investment Working Group (TIWG) under the Sherpa track. G20 economies can undertake needs assessments and joint capacity-building initiatives to assist member economies in implementing these recommendations.

In moving forward with the adoption of a Strategic Framework for Good Regulatory Practice in Services, G20 economies will be able to enable service suppliers desirous of supplying services in their territories to make more informed choices, through a more transparent regulatory environment and the filling of information gaps on services. This action may also serve to influence future steps at the WTO to develop a Services Facilitation Agreement as a companion to the existing Trade Facilitation Agreement, which would fill in the current gap in the WTO trade governance.

Such a framework would also create positive spill-over effects, such as, for example, a more favourable investment climate for inward FDI (supported by a more transparent FDI regime and greater coherence in investment regulations and their application). Overall, the measures included in the framework should contribute to significantly lowering the costs and increasing the predictability of regulations related to supply of services across G20 economies.

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