EUI ROBERT SCHUMAN CENTRE

Services Trade, Growth and Regulation

Bernard Hoekman (EUI & CEPR)

IDB Regional Policy Dialogue

Panama, October 20, 2026

Services trade and growth

- Long-standing anti-services bias in economics (development) literature
  - Going back to Adam Smith and Karel Marx: (neo-)classical or heterodox, strong bias that industrialization (manufacturing) is key driver of growth
- This presumption is increasingly incorrect
  - Notably re: (non)tradability & limited scope for productivity growth
  - In any event, servicification of manufacturing blurs distinction
    - Increasingly complementary activities – even for manufacturers
- Consequences of this bias include:
  - Limited focus on services as drivers of inclusive, sustainable growth
  - Neglect of role of services as inputs into production and factor productivity
  - Underinvestment in data on trade flows and services policies
- UNCTAD report: *Measuring servicification & impacts of services trade and policy* (2026):
  - Governments can/should use existing administrative data (firm-to-firm transactions from VAT data, social security data, census) to analyze role of services – employment, imports (FDI), exports, servicification, productivity
  - Use these data to evaluate effects of services/digital policies

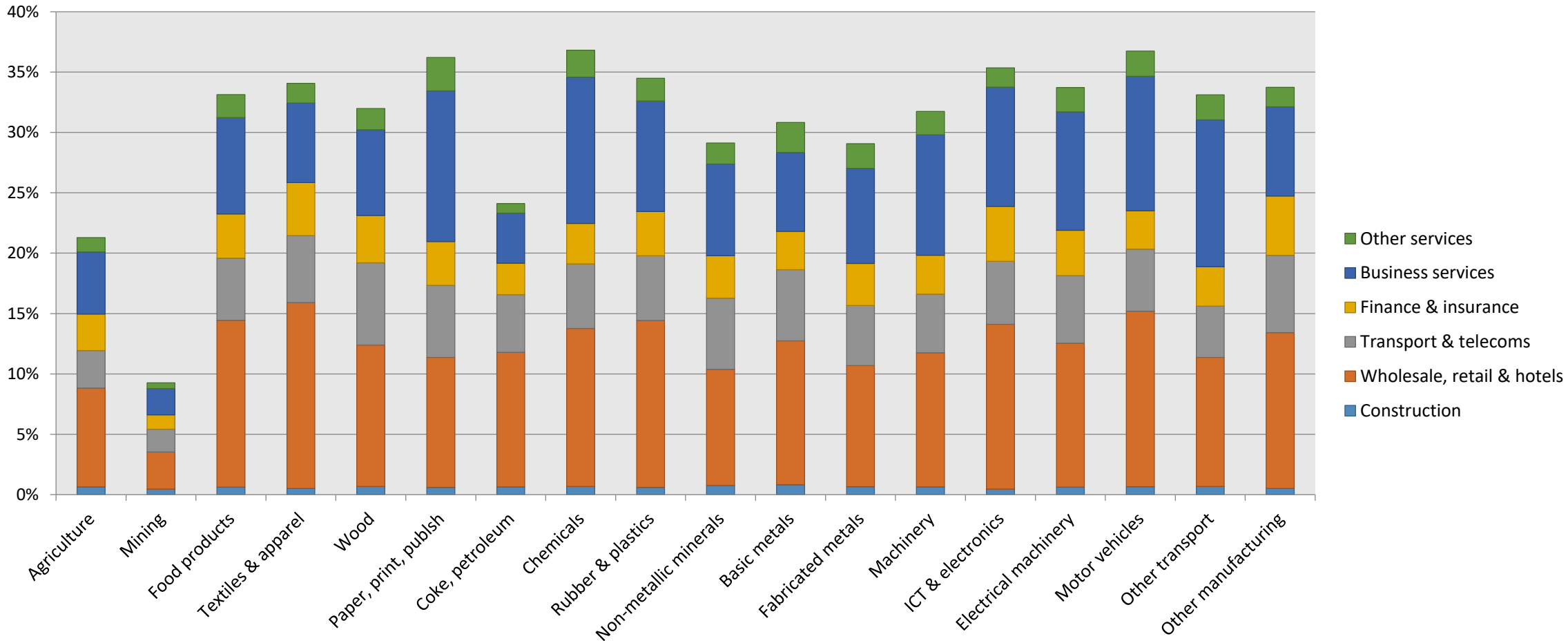
Services matter for productivity and growth

- There is now extensive evidence that trade and regulatory policies affecting trade in services impacts on the performance of services sectors and “downstream” sectors that use services as inputs into production
- Much of this focuses on the effects of services sector performance on agriculture and manufacturing activities: policies affecting the cost or quality of services inputs impacts the performance of industries that use services relatively intensively
- Such research has mostly been at sector level. Recent work uses firm-level data
- Reveals that linkages between services and manufacturing productivity is stronger for firms that use services inputs more intensively
- Provides much more granular information on sales and purchases of services by firms, how foreign investment matters (Forward as well as Backward linkages), indirect and direct exports of services, impacts of firm size, growth along the intensive and extensive margin, employment by skill and gender and regional distribution of services-related activity within countries

Examples from Latin American countries

- IDB research [Marra de Artiñano and Volpe Martincus (2023) –Uruguay and Ecuador services; Di Iorio and Volpe Martincus (2025) digital services]
- **Uruguay:** Use data from the corporate income tax, census of foreign affiliates of multinational firms, firm-to-firm transactions from value-added tax declarations and customs data on good trade
  - Significantly more firms export services than export goods; the median exporter of services is smaller
  - Linkages with foreign affiliates are positively associated with exporting both services and goods
- **Ecuador**: Use microdata on the universe of domestic firms, including exports and imports and firm-to-firm sales and purchases from VAT declarations.
  - Firms that begin to export services increase in size, productivity, and propensity to import goods. Local firms that start to sell to a service exporter are more likely to subsequently start to export services
  - Foreign-owned firms (FDI) account for 57 and 68 percent, respectively, of total exports and imports of services
  - Exporting digital services is associated with about 21% higher employment. Starting to export digital services increases employment by about 23–26% in the entry year and by about 12–14% in the following year. These effects exceed those for exporting other services

Services as inputs into production (share in sectoral value added)



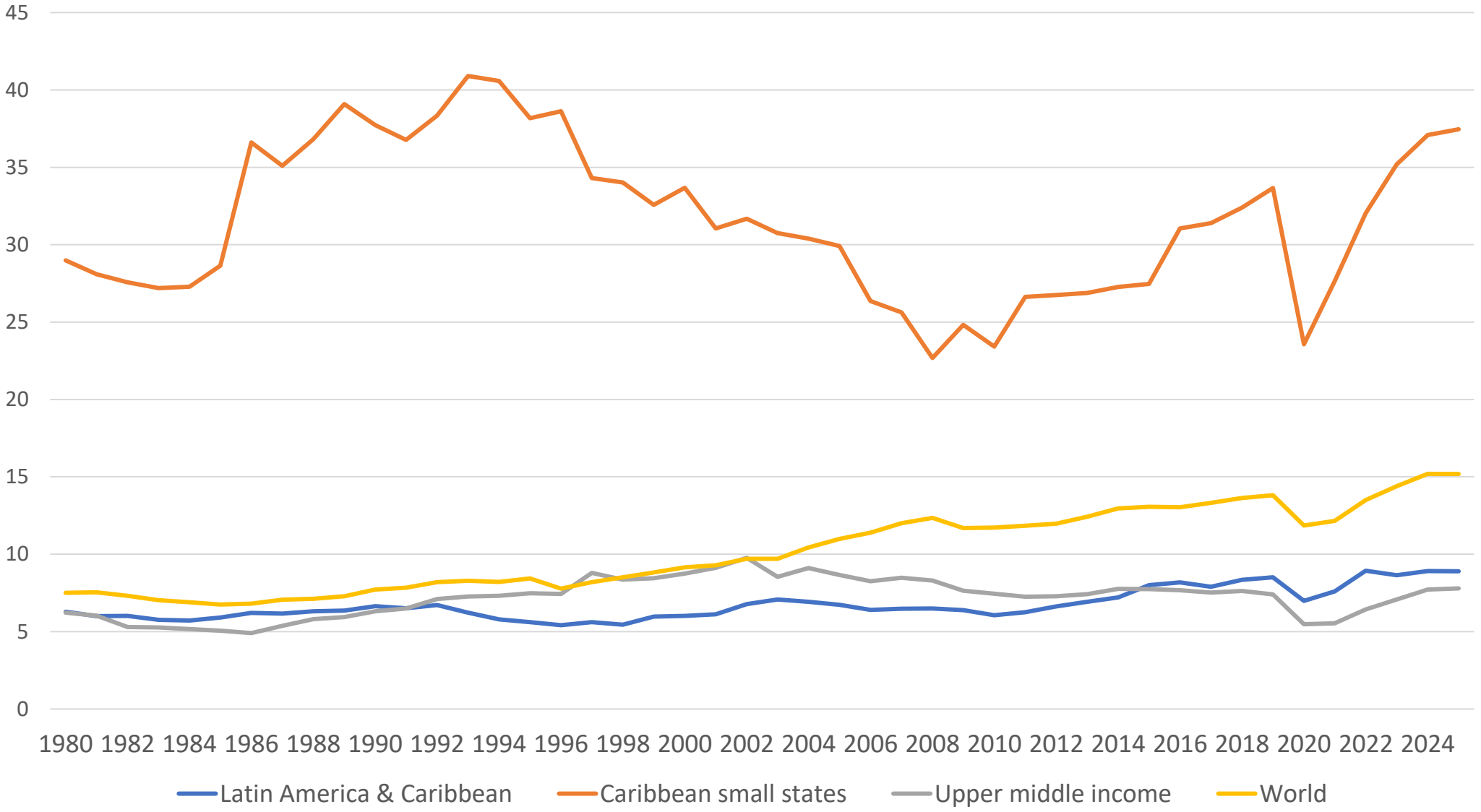
Source: OECD-TiVA database

Share of services in total exports, 2000-2024



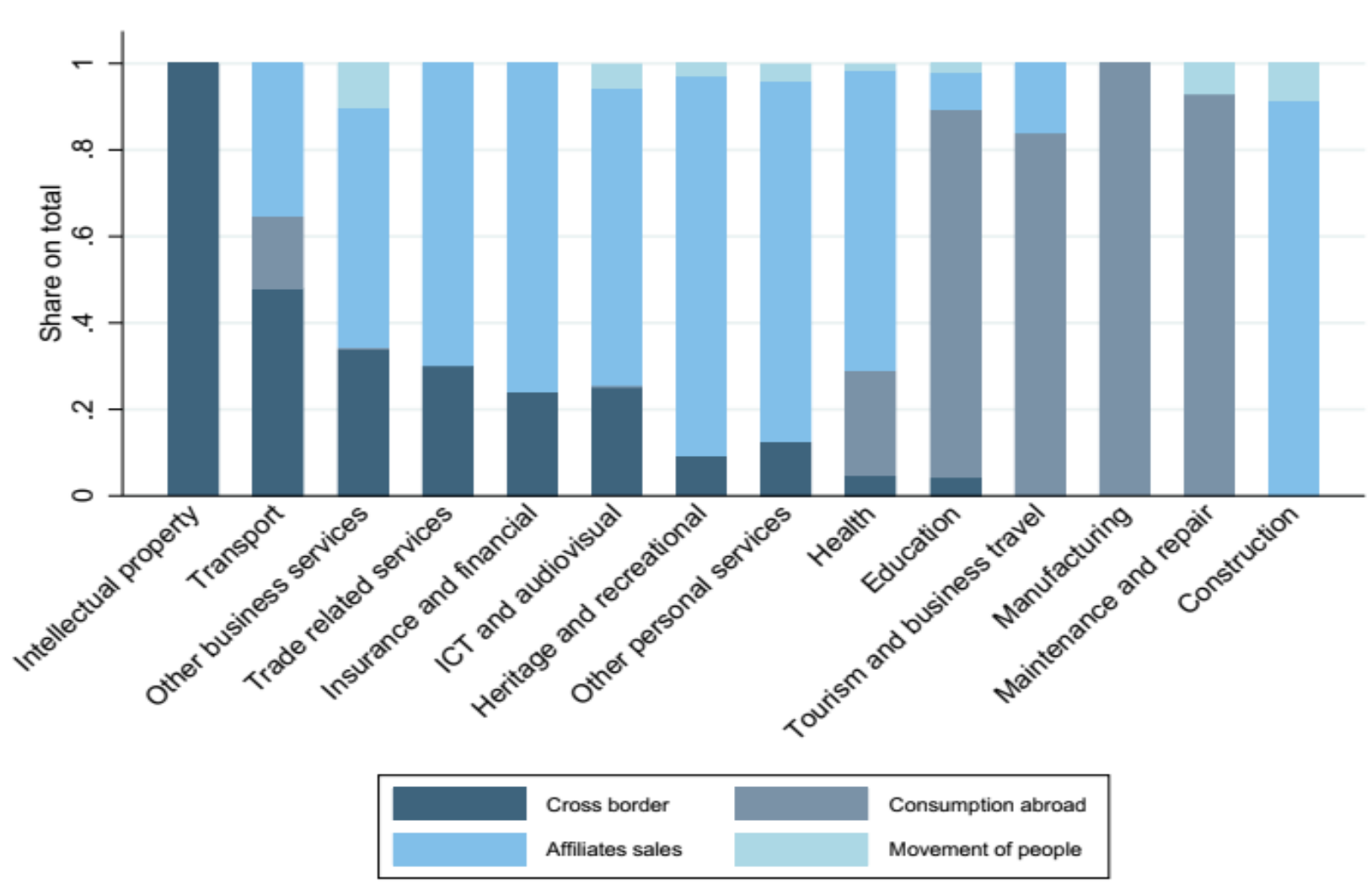
Source: World Development Indicators

Trade in services (% of GDP)



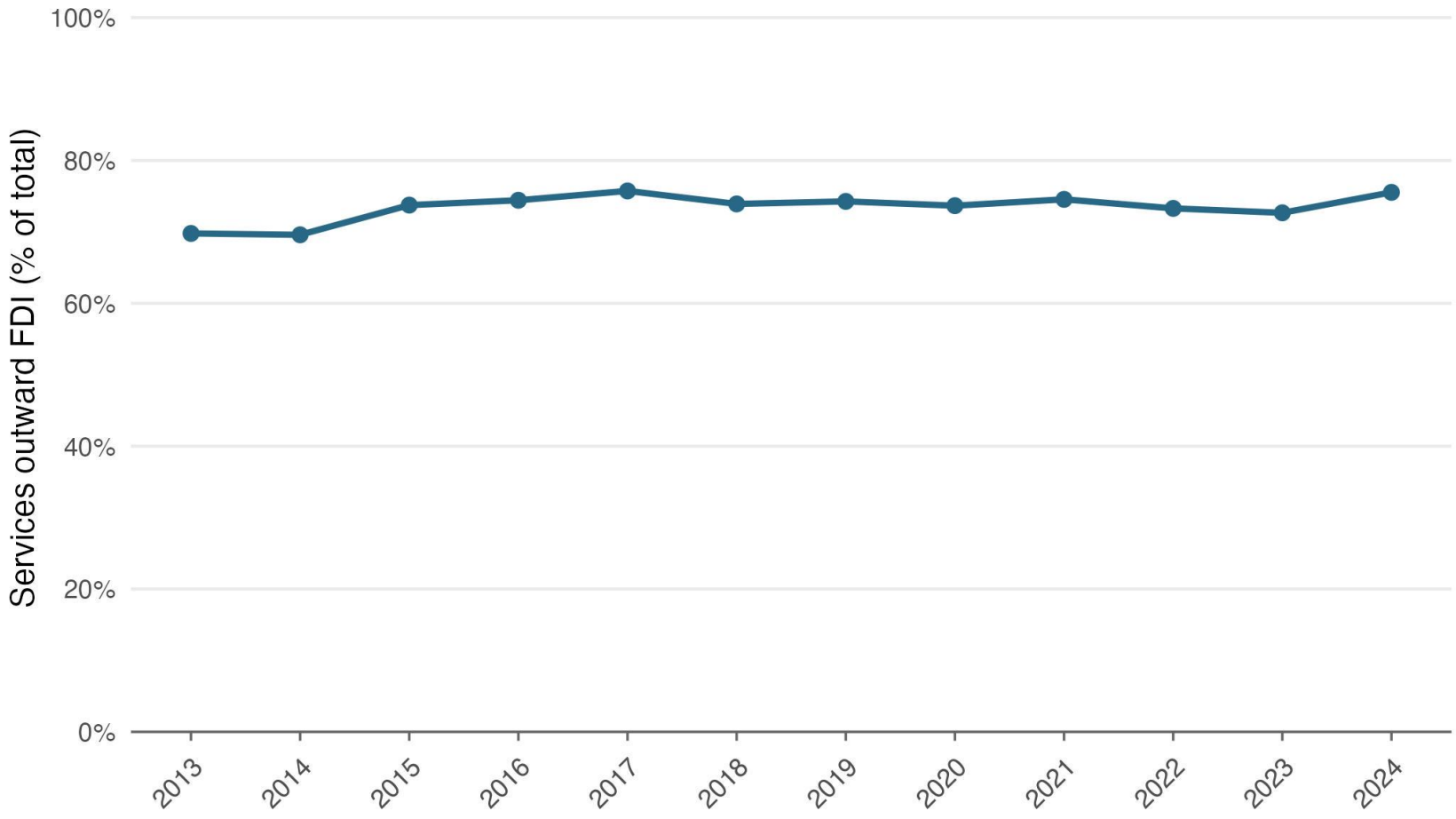
Source: World Development Indicators

Modes of supply by services sector



Source: Breinlich and Magli (2024), based on TISMOS.

Share of outward FDI in services sectors, 2013-2024

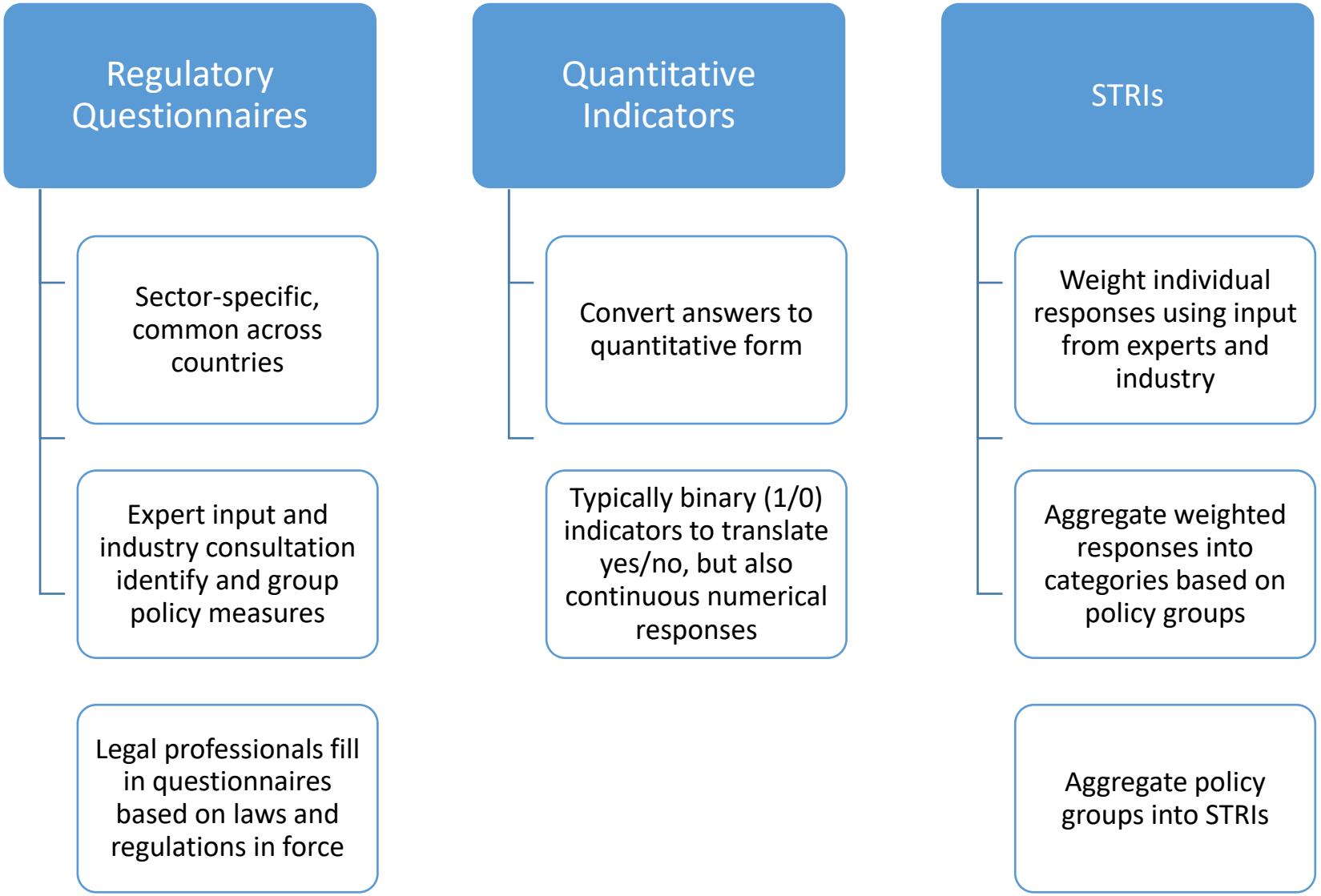


Source: OECD (total outward FDI of OECD member countries)

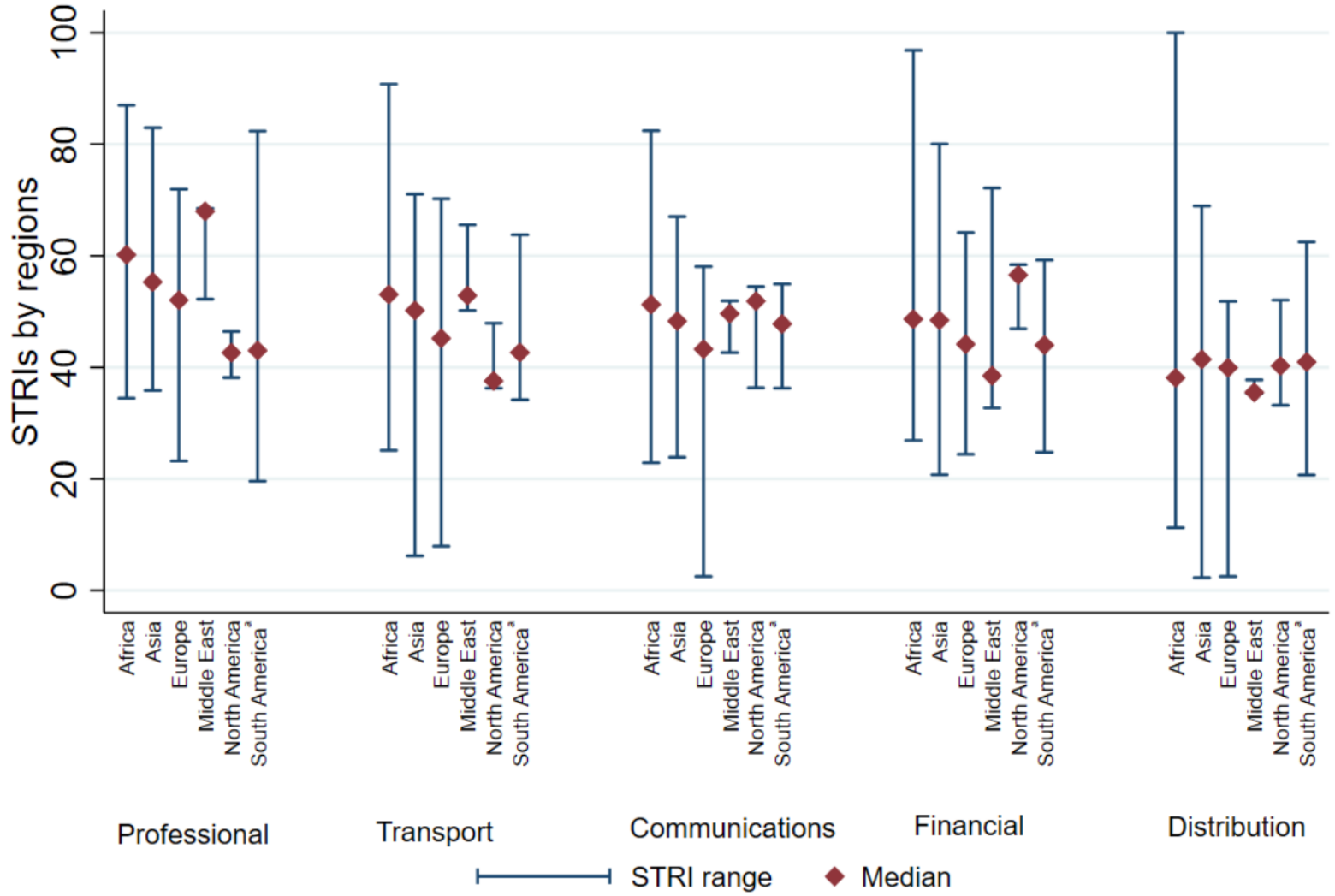
Services value chain dynamics

- Much (most) of the focus is on agricultural and manufacturing global value chains
- But many services activities also involve multi-country value chains
  - Travel, tourism & cultural/recreational services
  - Transportation & logistics
  - Health-related services
  - Education and skills development
- Calls for understanding linkages and spillover effects between services activities and how these affect growth and sustainable development
- In practice FDI will be important (mode 3)
- Many activities are interdependent: travel and tourism supply chains may support health services exports and vice versa
- All these activities are affected by technical change, e.g., increasing tradability through digital provision, use of AI, etc.

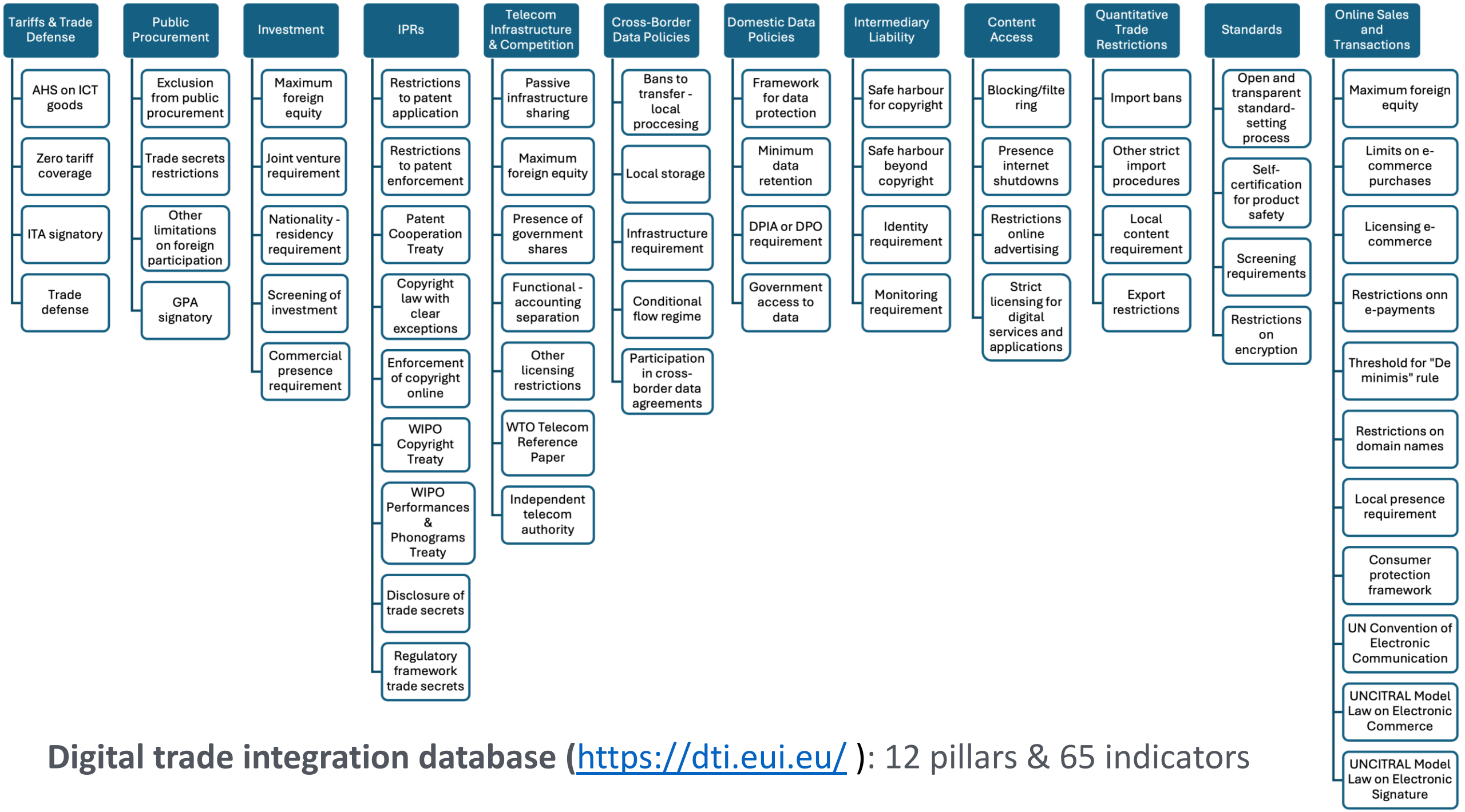
Measuring services trade policies: STRI methodology



STRIs by region and major services sector



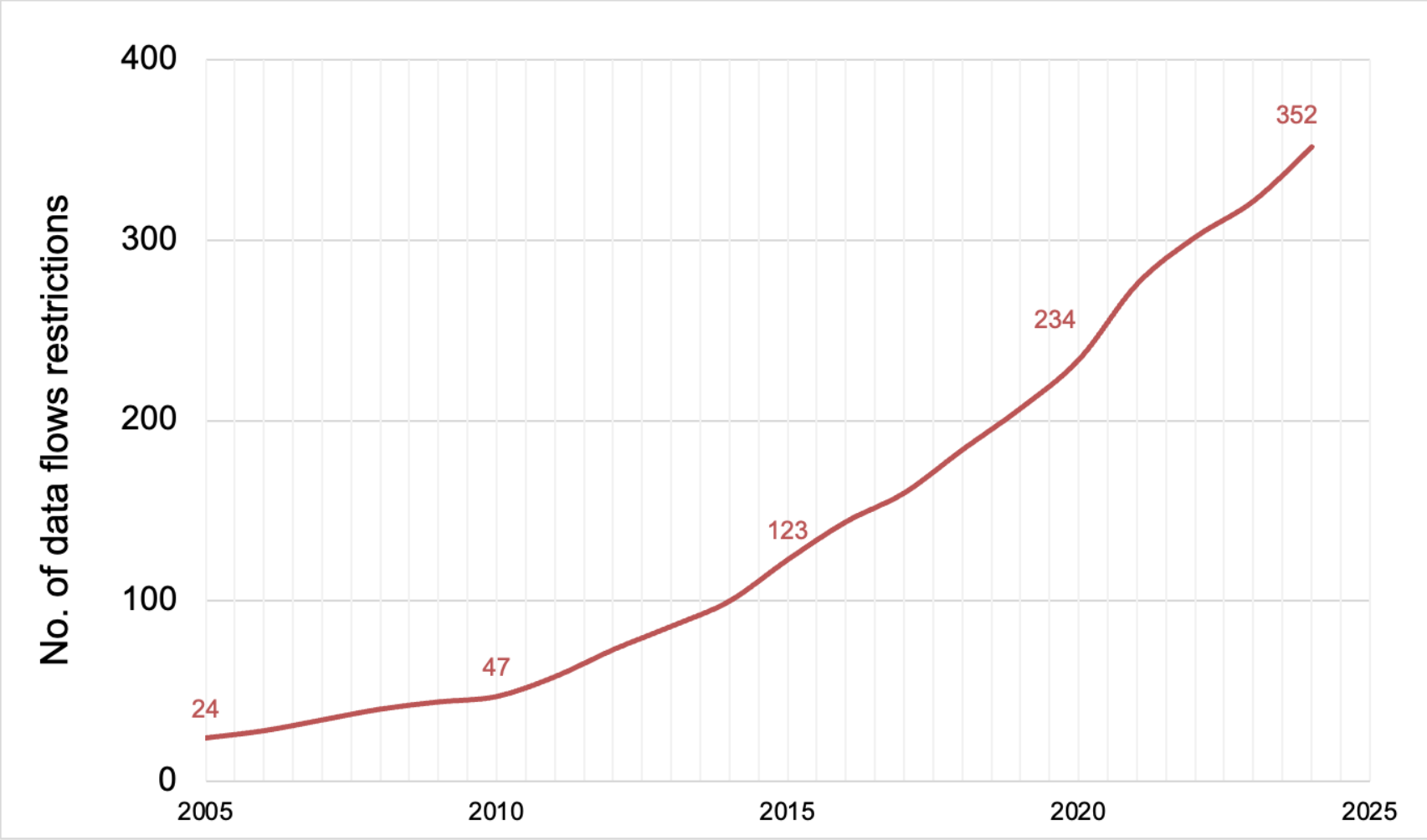
Source: Baiker, Borchert et al. (2025). *The state of global services trade policies*



Digital trade integration database (https://dti.eui.eu/): 12 pillars & 65 indicators

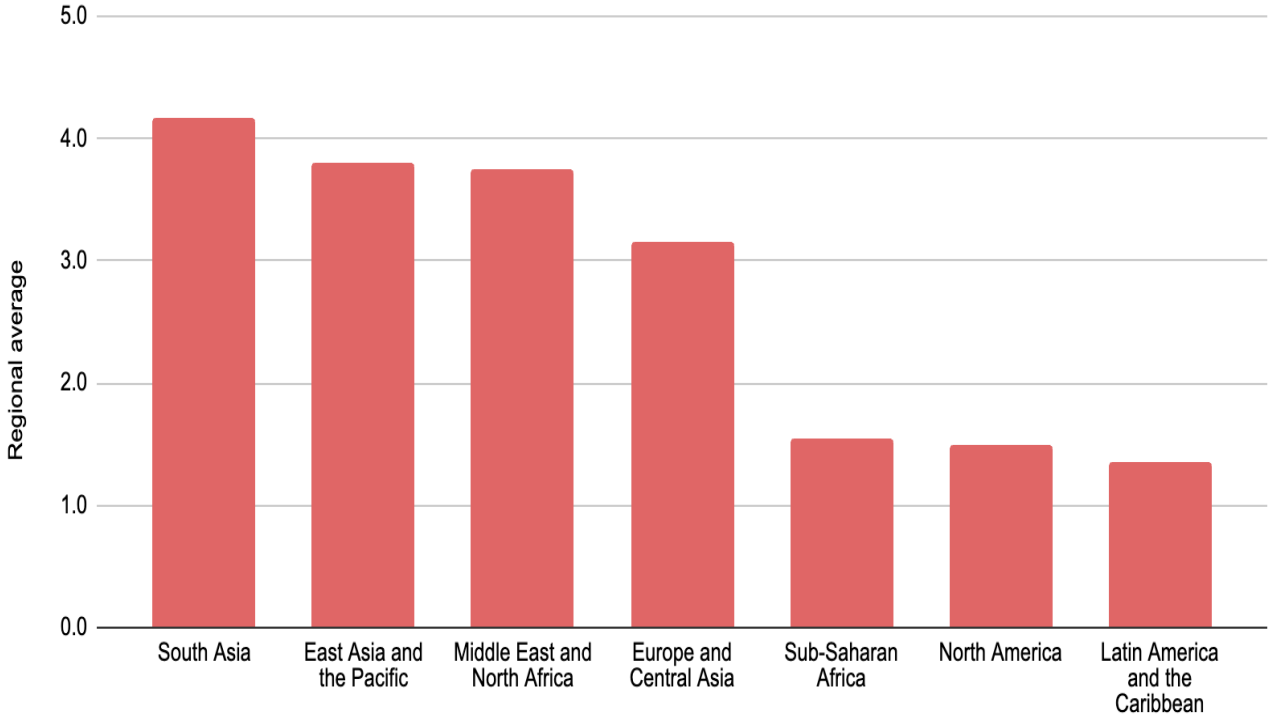
Number of restrictions to cross-border data transfers (2005–2025)

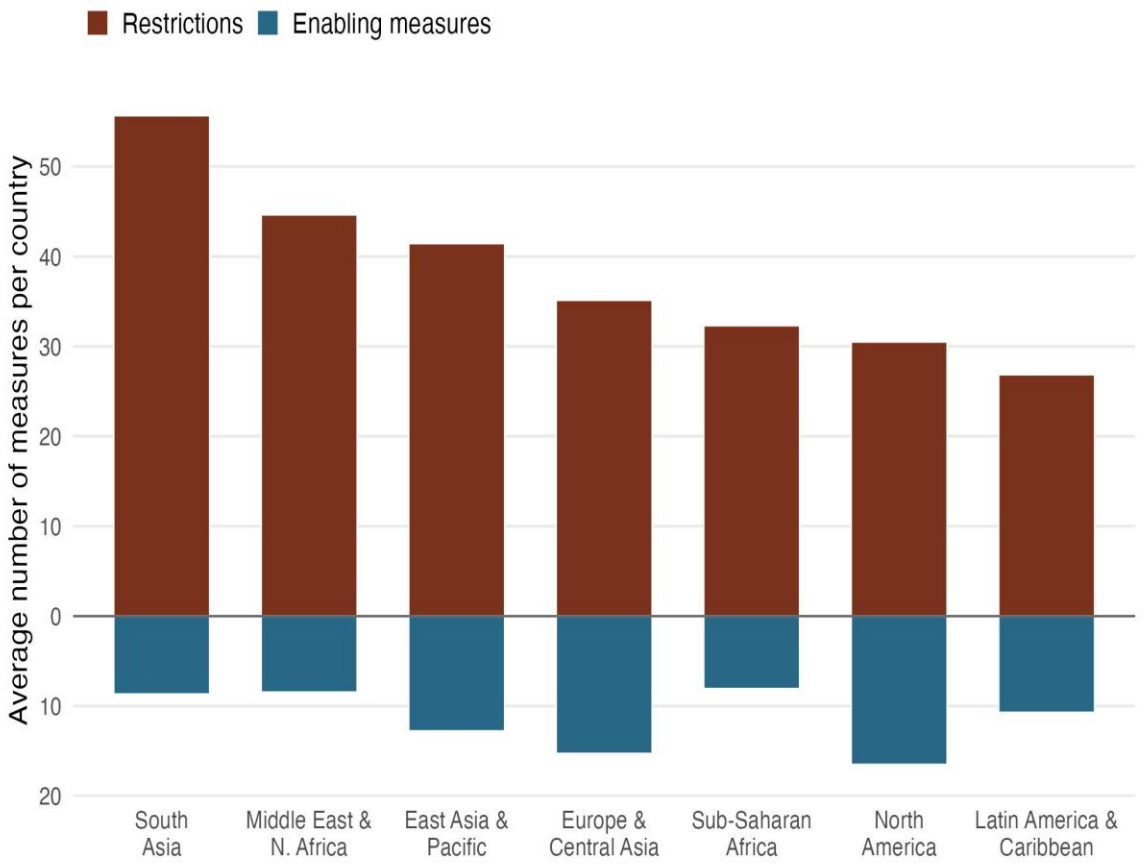
(local processing or storage requirements; bans of data transfers)



Source: Ferracane et al. (2025), Global Trends in Digital Trade Policies and Practices. *World Trade Review*

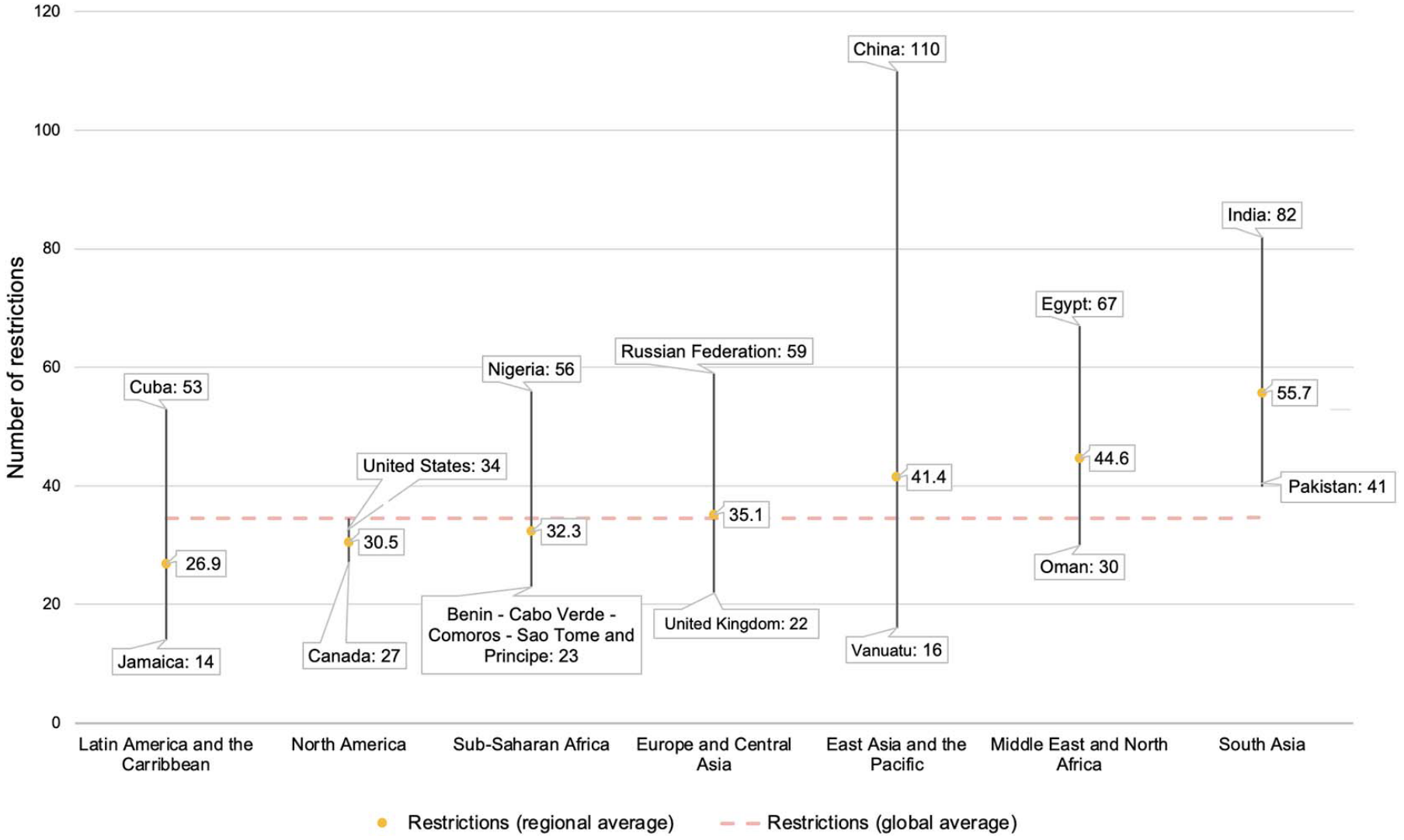
Digital trade regulation: Regional averages and average number of restricting and enabling measures





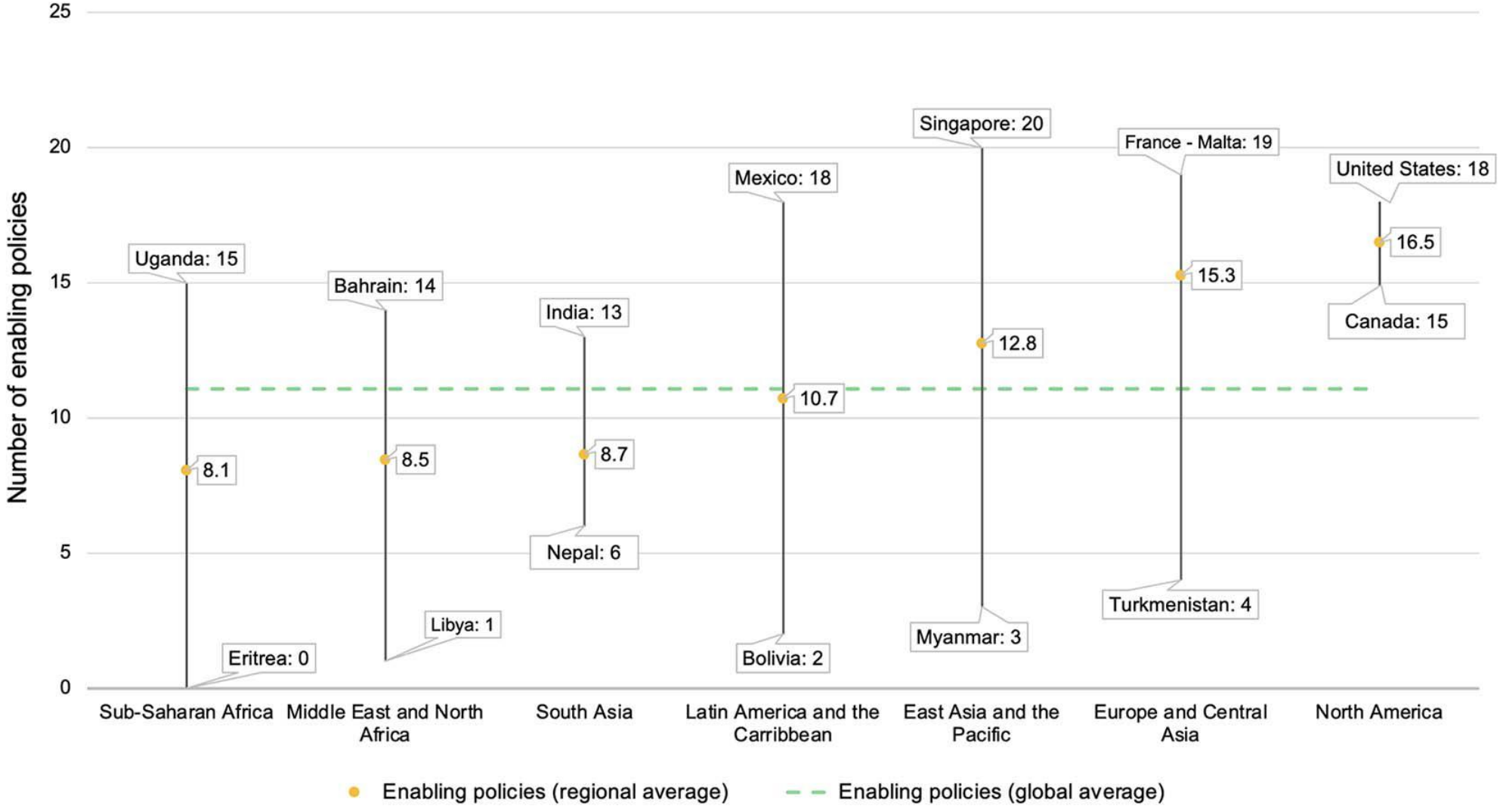
Source: Ferracane et al. *World Trade Review* (2025) & Digital Trade Integration database. https://dti.eui.eu/

Digital trade integration restrictive policies



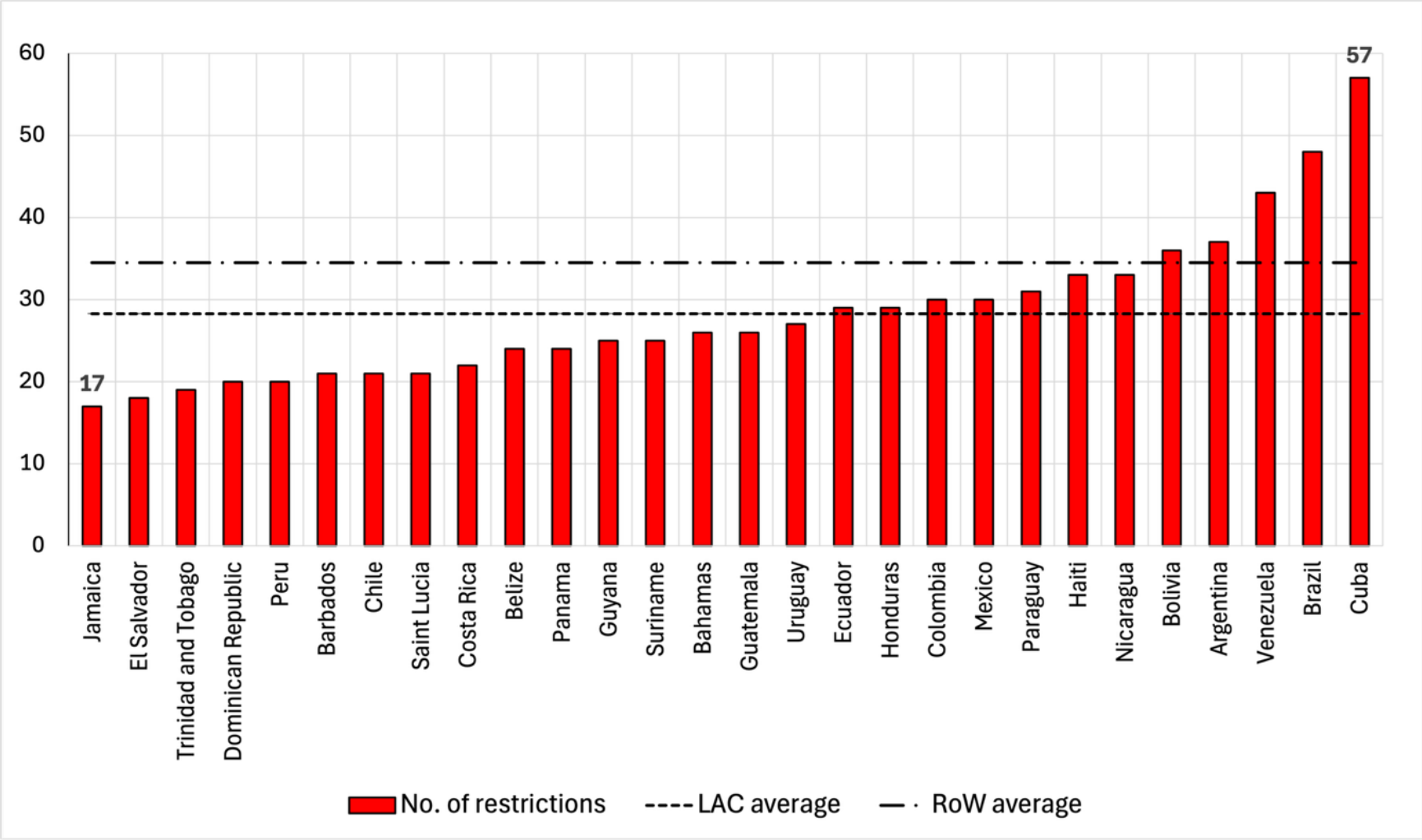
Source: Ferracane et al. (2025), Global Trends in Digital Trade Policies and Practices. *World Trade Review*

Digital trade integration enabling policies

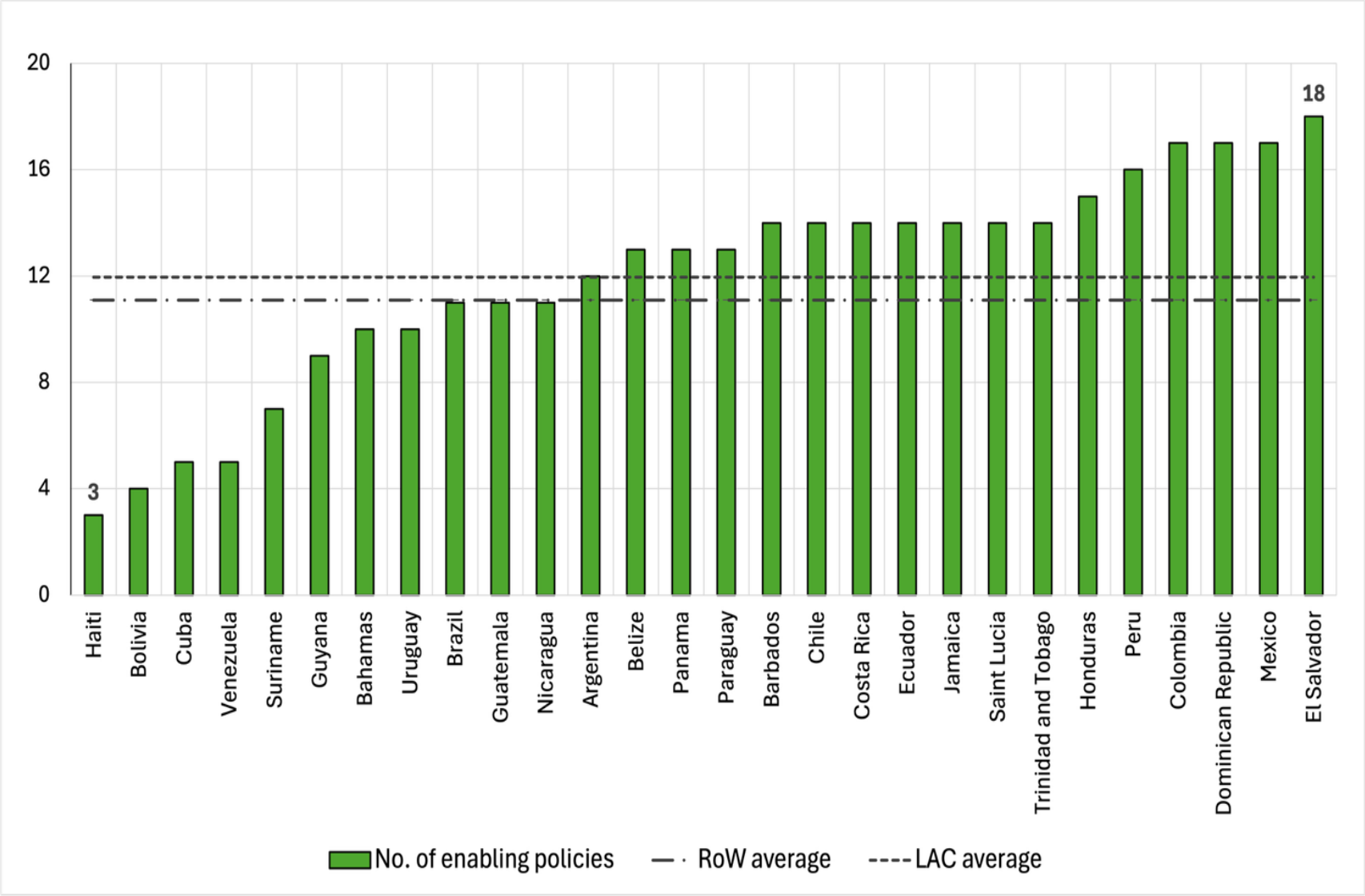


Source: Ferracane et al. (2025), Global Trends in Digital Trade Policies and Practices. *World Trade Review*

Number of restrictive measures by country



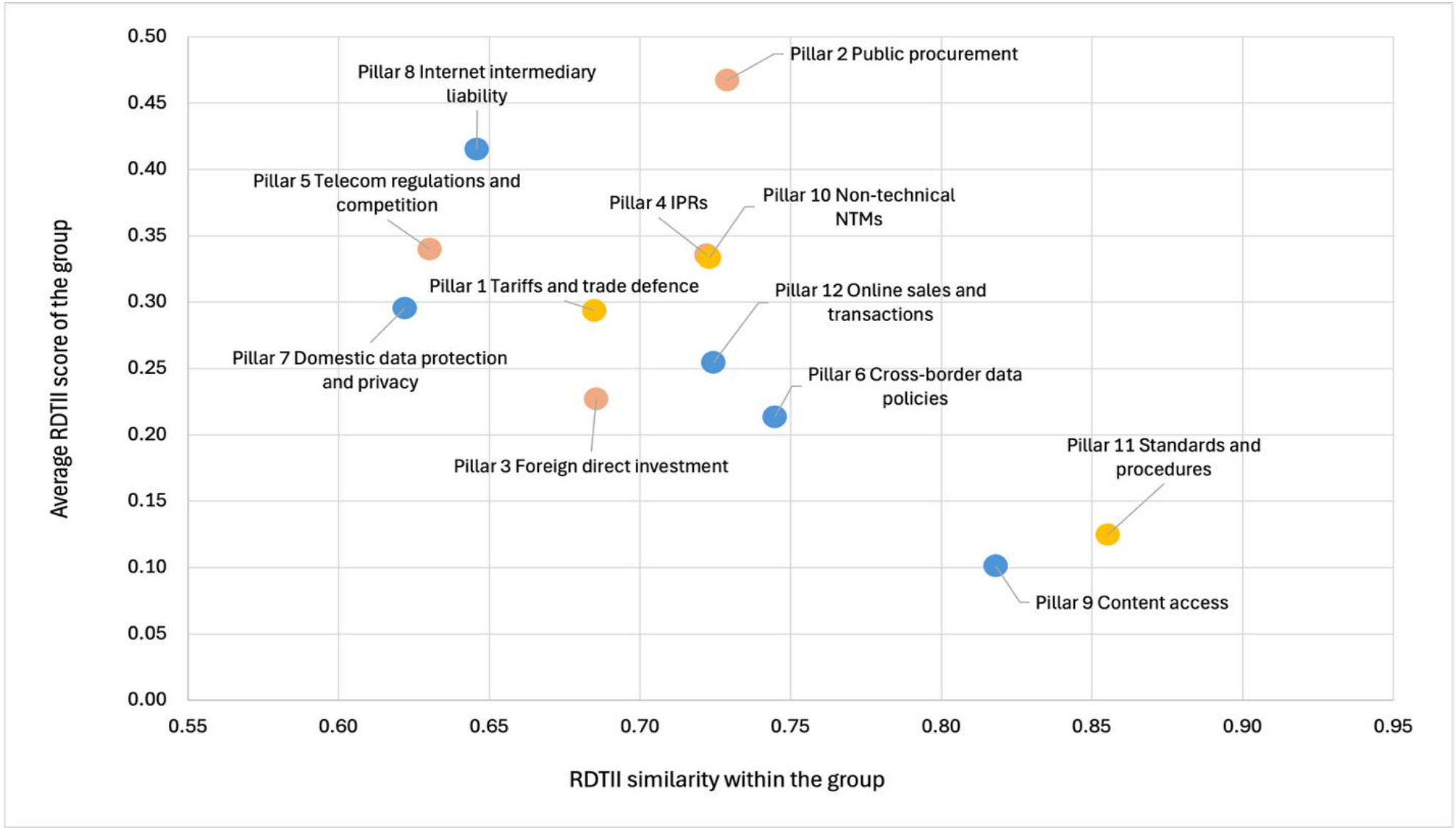
Number of enabling policies by country, 2025



Supporting services trade requires a focus on digital trade

- Focus on data/digital regulation as well as STRI
- Cooperation on digital regulation to facilitate digital trade
  - Supportive domestic regulatory frameworks
  - Enhance market access via convergence/recognition of regulatory requirements
- Digital partnerships
- Data adequacy arrangements – bilateral and plurilateral
- Several WTO plurilateral initiatives are pertinent to digital trade
  - E-commerce agreement – 14 LAC countries participated in the negotiations but only 3 joined (Argentina, Costa Rica, and Peru)
  - Moratorium on customs duties on electronic transmissions (3 LAC signatories of the ECA plus Ecuador, Guatemala, Mexico, Panama and Paraguay)
  - Services Domestic Regulation initiative: only 10 LAC signatories (Argentina, Brazil, Chile, Colombia, Costa Rica, El Salvador, Mexico, Paraguay, Peru and Uruguay)

Regional digital trade integration index and policy similarity (LAC, 2025)



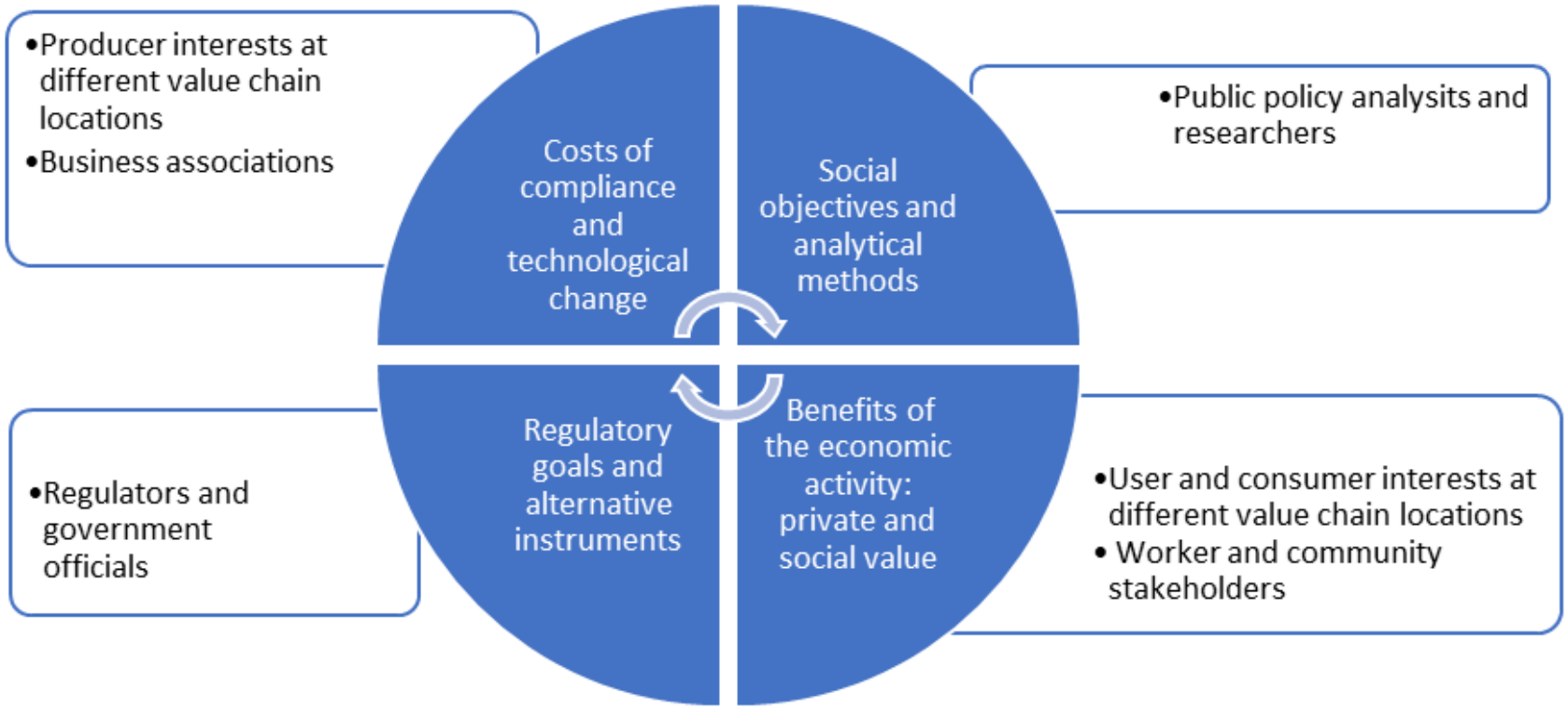
Source: Mulder and Rogaler (2026), based on DTI database

Determining what matters: Leverage/engage with epistemic communities

- Provide information; generate feedback; support learning
  - Help identify policy gaps, weaknesses, new technologies
- Beyond “reduce restrictiveness” – enabling policies matter as much
  - Consider objectives/effectiveness of regulation, not just trade/spillover effects
  - Focus on empirical assessment of policy (in)effectiveness
- Enhance messaging on why services policies matter
  - For inclusive growth (new employment opportunities; gender dimensions; innovation)
  - For sustainability (SDGs)
  - For adjusting to structural transformation and technical change
  - For robustness/resilience to shocks

Partner with private sector to identify regulatory trade frictions

- Supply chain platforms that bring together firms operating across different stages of services/digital value chains with government
  - Analogue to National Trade Facilitation Committees for trade in goods



Findlay and Hoekman, *Journal of International Business Policy*