

# Pushing the Frontiers: Services in the Developing World

Aaditya Mattoo  
The World Bank

**October 2013**

**Global Services Summit,  
Washington, DC**

# Expansion of services in developing countries

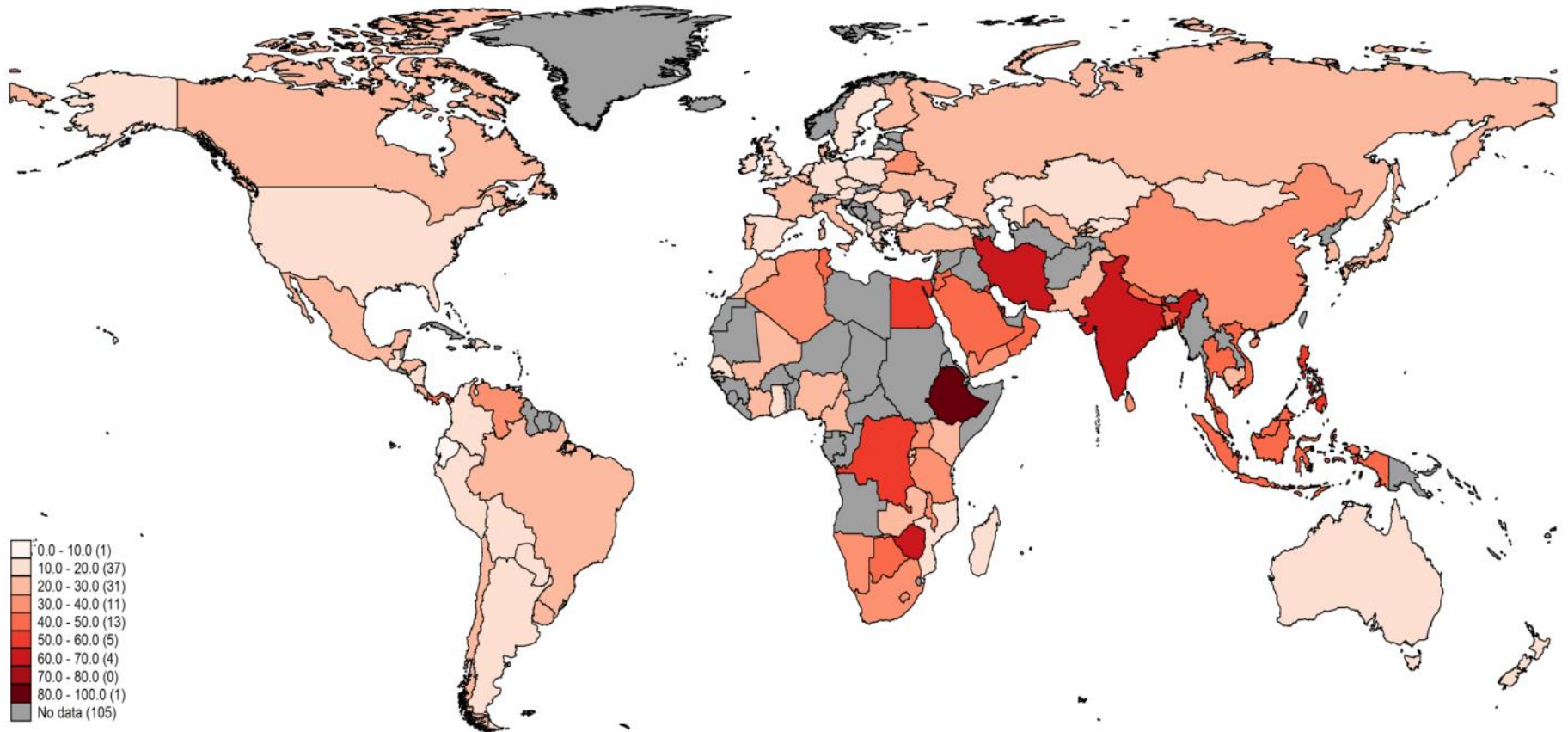
---

- Inhibited by protection at home and abroad, and significant gains from further reform
- International negotiations locked-in unilateral liberalization but not enhanced openness
- But two changes:
  - Advanced developing countries: trade and innovation in services as liberation from the middle-income trap
  - Industrial countries: demographic shifts creating new pressures for services reform
- So international cooperation could take new, more ambitious forms

# Services Policy: Openness to Trade and Investment

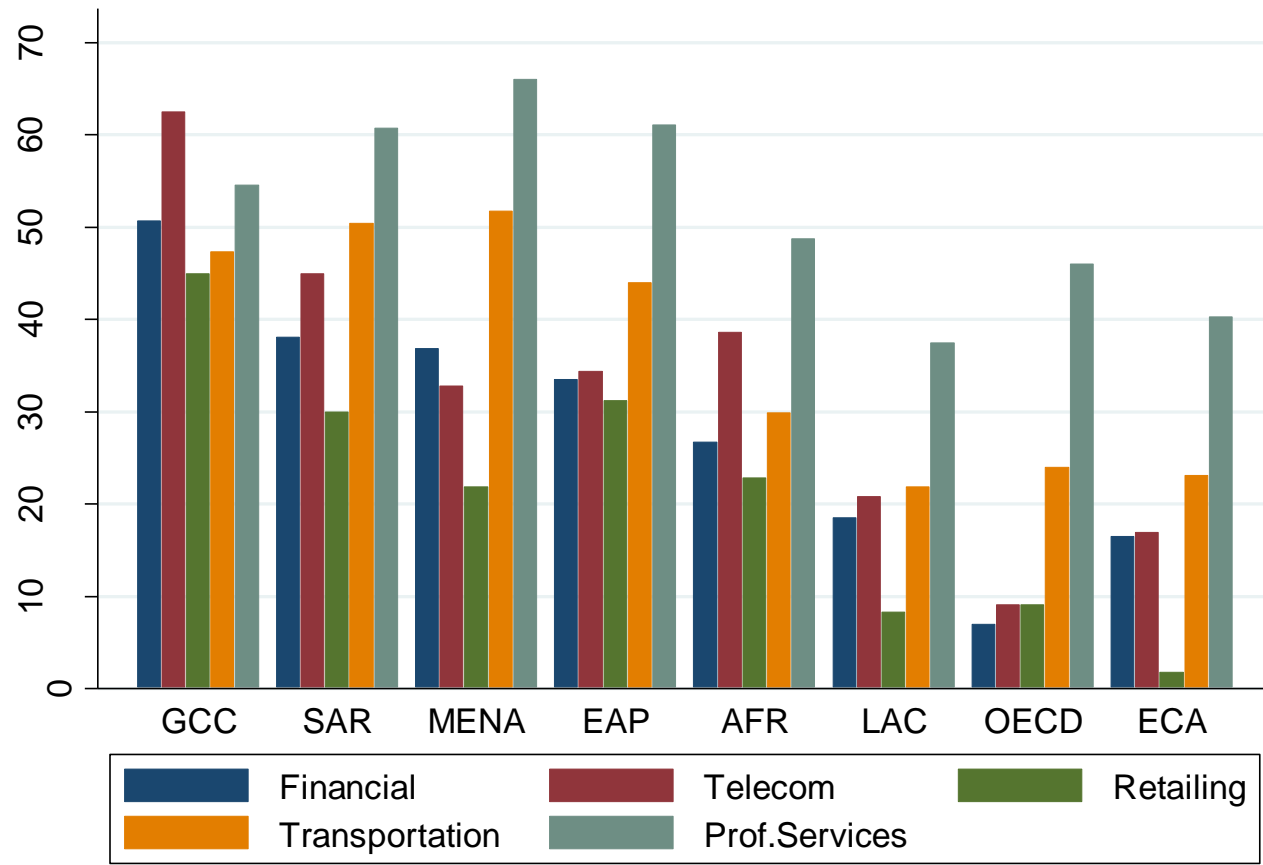
---

New Database covers 103 countries (of which 79 are developing)



# Global patterns: Regions and Sectors

STRI by sector and region:



Note: 103 countries included.

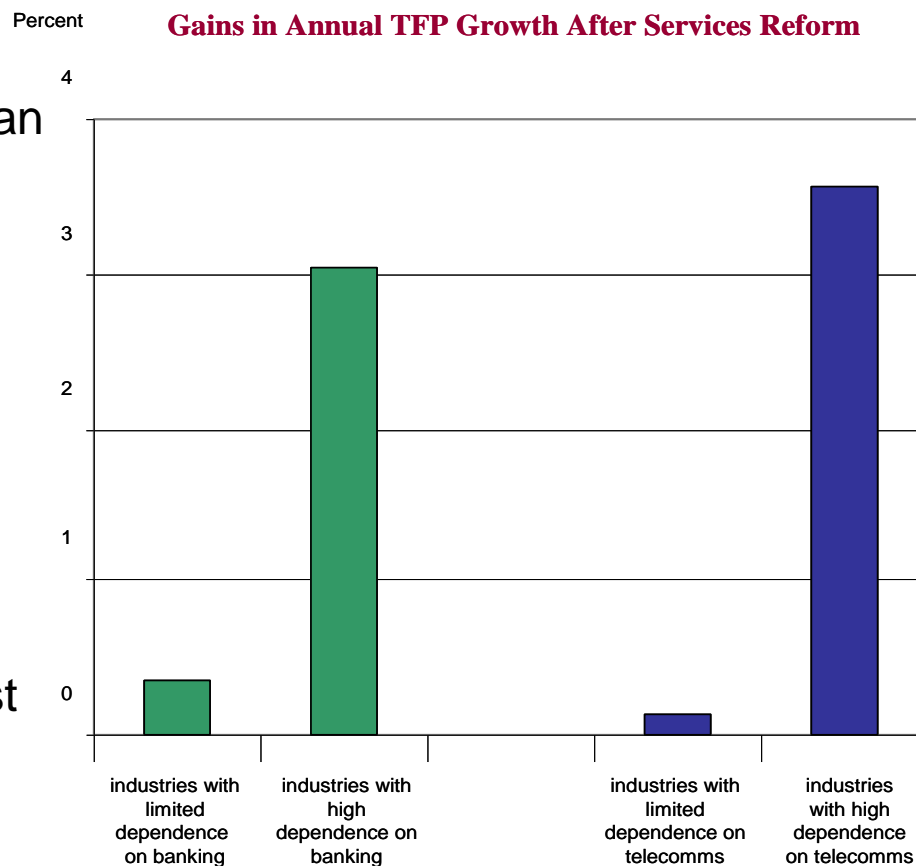
# Services reform as industrial policy

India's services reform has boosted not only productivity and exports in services, but also the performance of downstream manufacturing industries

Study based on panel data for 4,000 Indian firms for the 1990-2005 period finds that

**banking, telecommunications** and **transport** reforms all have significant positive effects on the productivity of manufacturing firms

Similar studies on the Czech Republic, Chile and African countries present robust empirical evidence

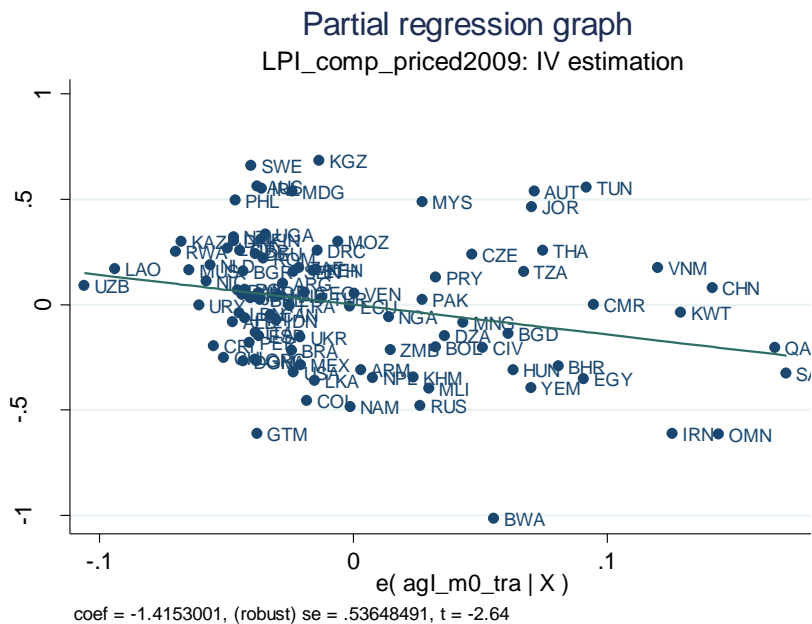


Source: Arnold, Javorcik, Lipscomb and Mattoo (2010).

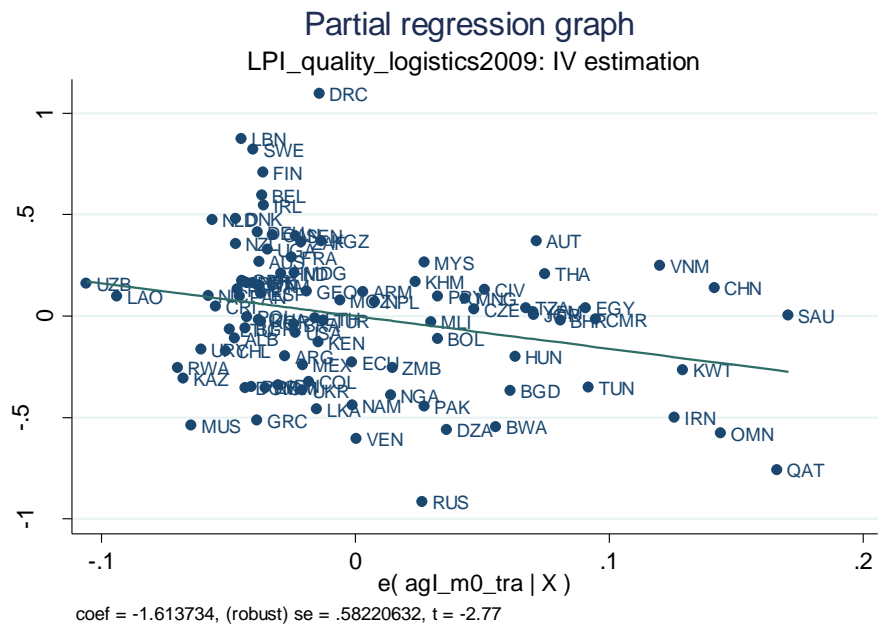
# Services reform as trade facilitation

More restrictive transport policies are associated with more expensive and poorer quality logistics services

Availability of competitively priced logistics services



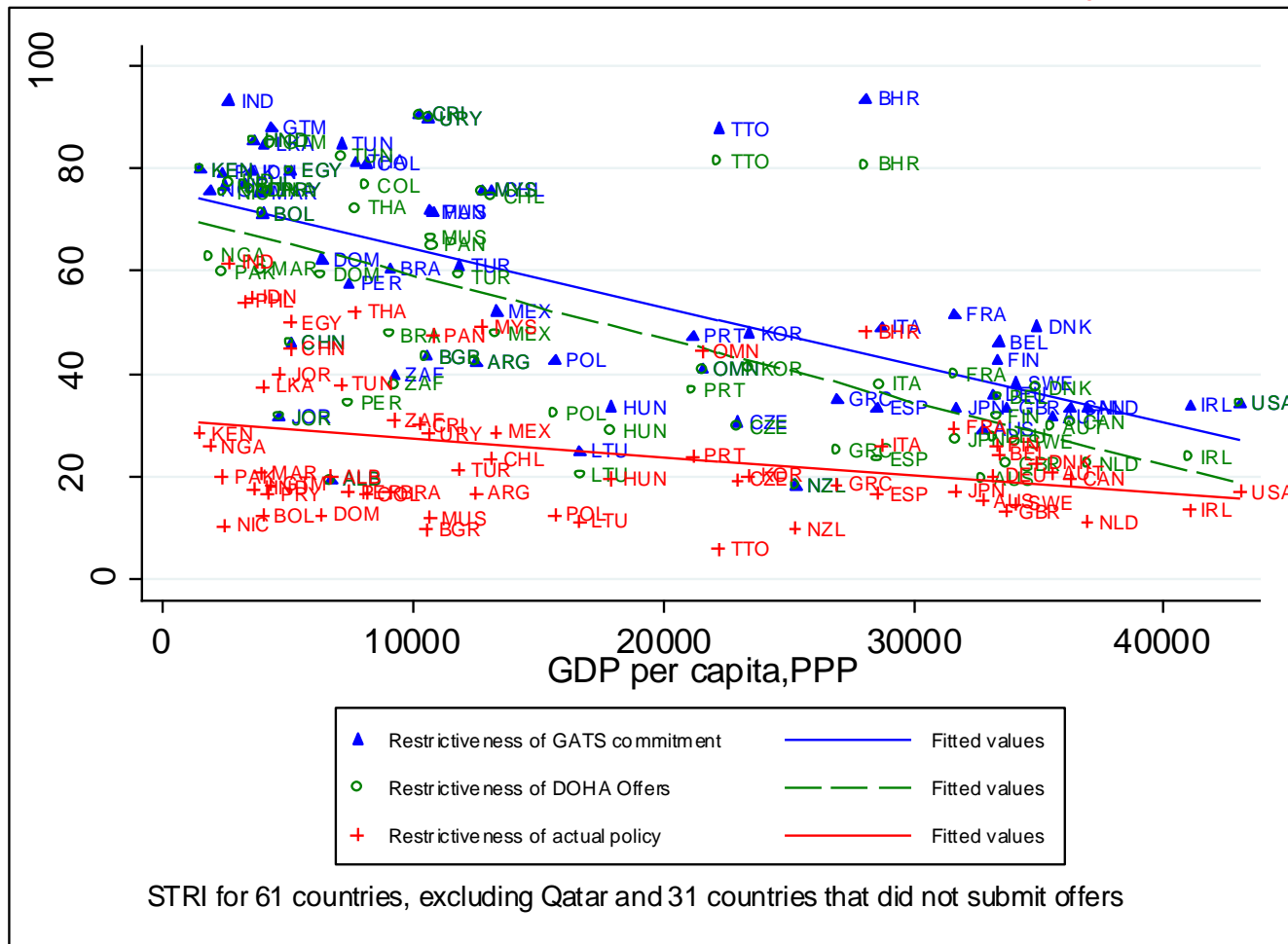
Quality of logistics services



Source: Borchert, Gootiiz, Grover and Mattoo (2010)

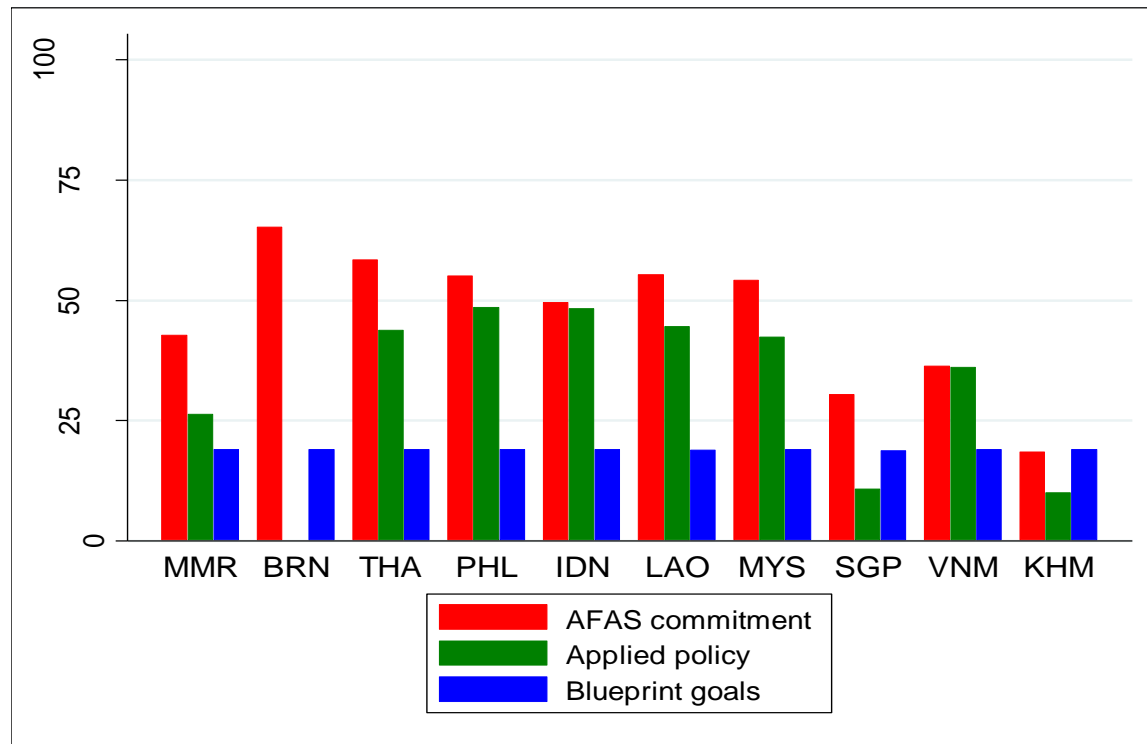
# While multilateralism failed to deliver liberalization...

## Uruguay Round Commitments, Doha Offers and Actual Policy



# Regionalism too has so far had limited impact on actual policies

**AFAS commitments**, **applied policy** and **Blueprint goals** for each country



Note 1: Applied policy information for Brunei is missing.

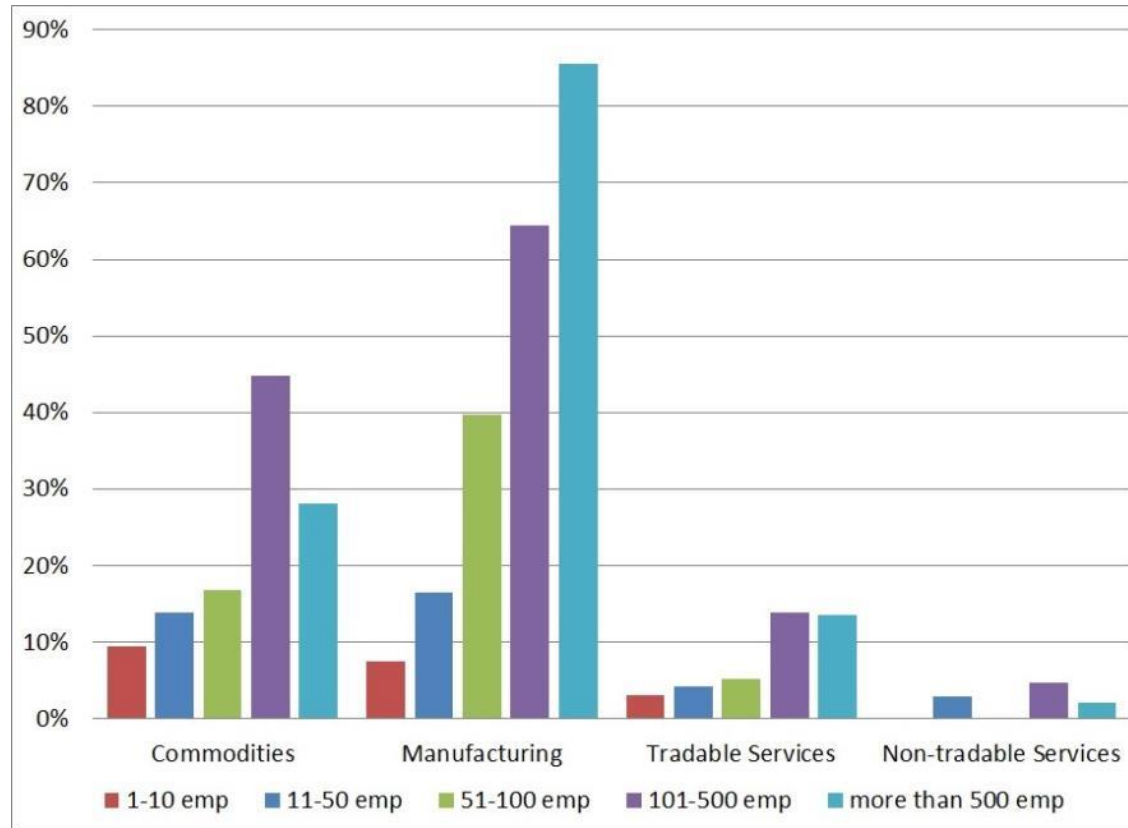
Note 2: MMR =Myanmar, BRN =Brunei, THA =Thailand, PHL =Philippines, IDN =Indonesia, LAO =LAO PDR, MYS = Malaysia, SGP =Singapore, VNM =Vietnam, KHM =Cambodia.



# Change 1: Growing trade and innovation in services in developing countries

**A new study of Chile reveals that relatively few services firms export but size matters less for services exports...**

Export propensity and firm size: % of firms in relevant size category that export 2005-06

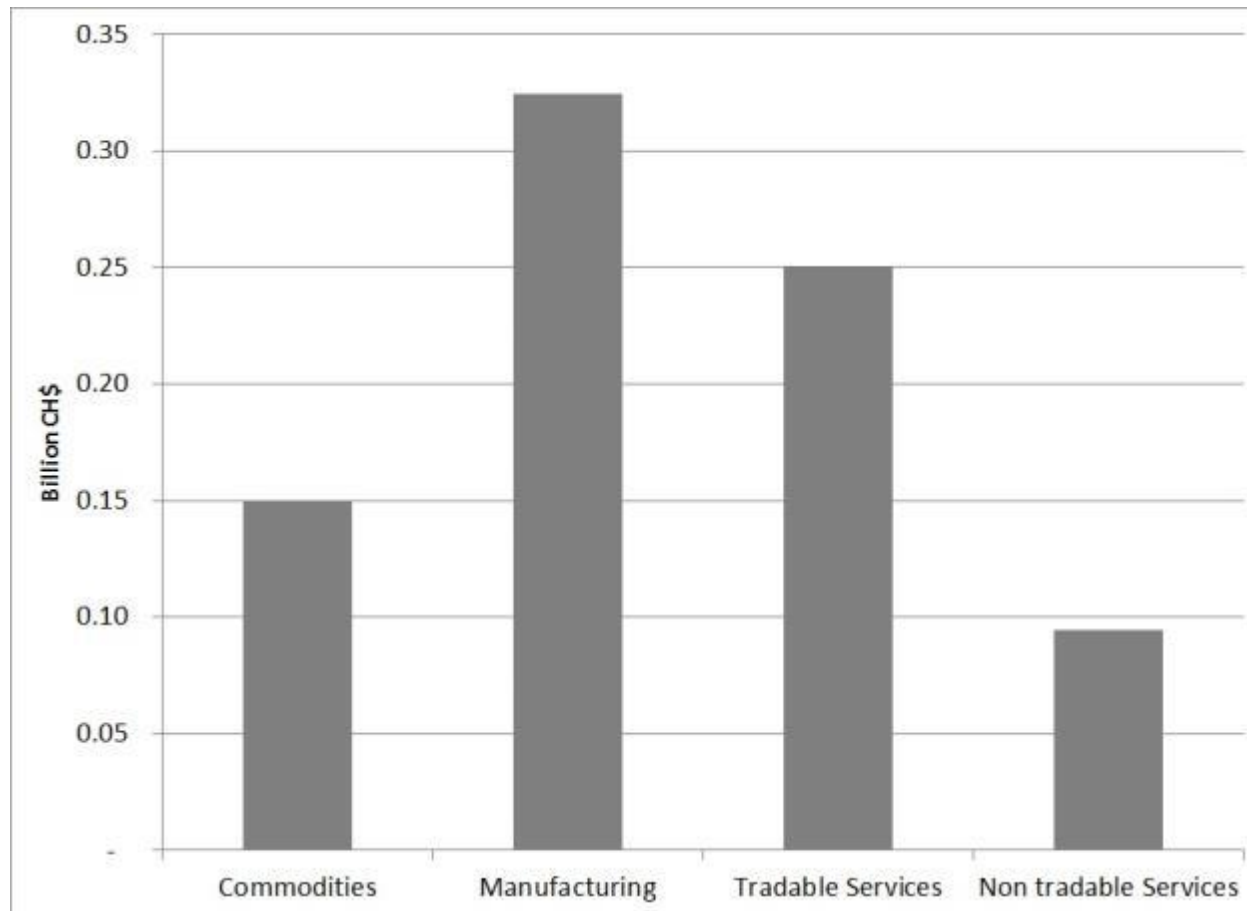


Source: Iacovone, Mattoo and Zahler (2013)

**... than having access to skills and ideas**

# Chilean services firms spend nearly as much on innovation as manufacturing firms

Expenditure on innovation by sector, (Average 2005-2006, using weights)



## Enaex has become a global pioneer in providing rock blasting services to mining companies



- Milodon is the world's largest truck for mixing and loading of explosives.
- Inteliblast software processes input data and determines the type of rock fragmentation strategy
- GPS device mounted on the arm allows location of the perforation and development of customized designs of the blasting processes based on field data.

The port terminal in the region of Arica and Parinacota has innovated along multiple dimensions to increase productivity



- Improvement of the port's layout,
- More efficient slot allocation for management of trucks at the port,
- Automation of electronic records of the port loads entered, and
- New system to efficiently trace loads.

# **Cencosud** has innovated in retail, creating a new client interface to enhance customers' shopping experience

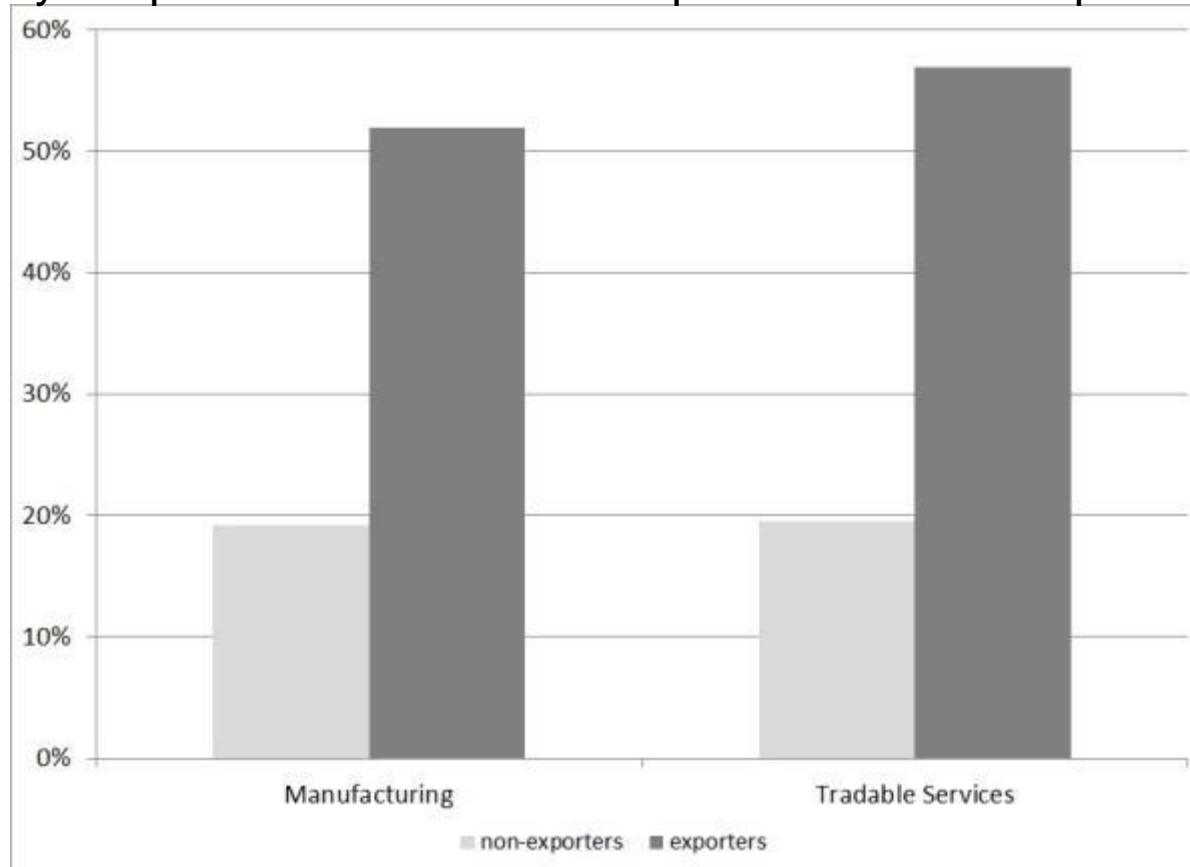


For example, in the electronics section, no more in-store brand promoters but:

- An initial adviser who advises clients on the best product suited for their needs
- An expert who is available to answer technical questions and
- Comprehensive training in-store to costumers on product use

# Mutually reinforcing relationship between trade and innovation: Exporters spend much more on innovation than non-exporters

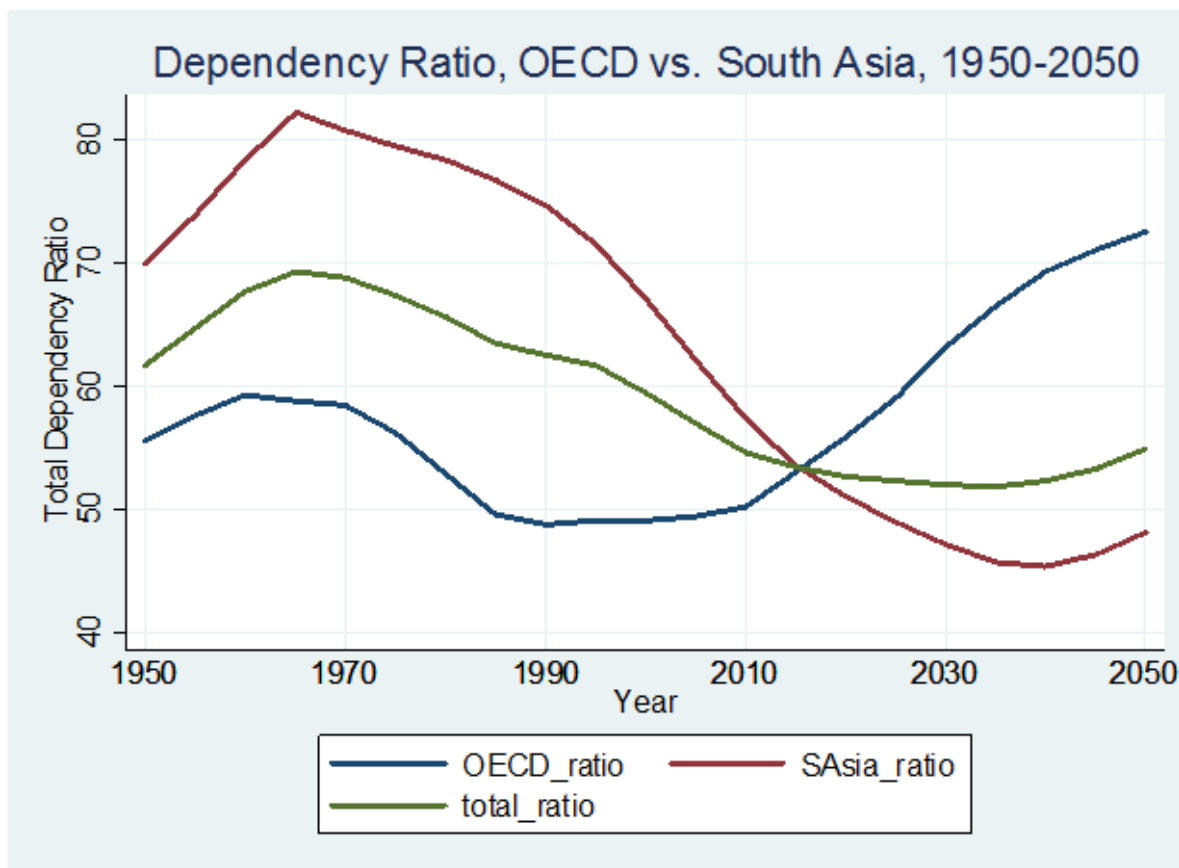
Propensity to spend on innovation of exporters and non-exporters



**Trade and innovation in services are increasingly seen as a way of breaking out of the middle income trap**

Source: Iacovone, Mattoo and Zahler (2013)

## Change 2: Shifting dependency ratios...



Source: Ozden (2012)

**...are creating a mismatch between the demand and supply of face-to-face services**

# Despite growing cross-border trade, the gains from services trade yet to be fully realized

- Production of goods and electronically-traded services has been fragmented but not other face-to-face services like care of the elderly, health care and even education
- One dimension is movement of *services providers*
- Other dimension is movement of *services consumers* held back by more subtle barriers



# The US could save over \$1.4 billion annually even if only one in ten US patients chooses to undergo just 15 types of low-risk treatment abroad

<i>Procedure</i>	<i>US inpatient price (\$)</i>	<i>US inpatient volume</i>	<i>US outpatient price (\$)</i>	<i>Estimated US outpatient volume</i>	<i>Foreign price including travel cost (\$)</i>	<i>Savings if 10% of US patients undergo surgery abroad instead of in the US (\$)</i>
Knee surgery	10,335	399,139	4,142	60,000	1,236	380,604,366
Shoulder Arthroplasty	5,940	23,300	7,931	N/a	2,204	8,704,809
TURP	4,127	111,936	3,303	88,064	2,385	27,581,317
Tubal Ligation	5,663	78,771	3,442	621,229	1,248	171,065,574
Hernia Repair	4,753	40,553	3,450	759,447	1,608	152,655,706
Skin lesion excision	6,240	21,257	1,696	1,588,884	812	151,952,860
Adult Tonsillectomy	3,398	17,251	1,931	102,749	1,010	13,588,218
Hysterectomy	5,783	640,565	5,420	N/a	1,869	250,704,845
Haemorrhoidectomy	4,945	12,787	2,081	137,213	781	23,160,663
Rhinoplasty	5,050	7,265	3,417	N/a	1,906	2,284,315
Bunionectomy	6,046	3,139	2,392	41,507	1,487	5,186,290
Cataract extraction	3,595	2,215	2,325	1,430,785	1,133	171,078,116
Varicose vein surgery	7,065	1,957	2,373	148,043	1,393	15,618,521
Glaucoma procedures	3,882	-	2,292	75,838	1,017	9,670,440
Tympanoplasty	4,993	754	3,347	149,246	1,261	31,408,685
<b>Total savings</b>						<b>1,415,264,725</b>

Source: Mattoo and Rathindran (2006)

# Insurance is the problem!

-more than consumer caution or inertia

- First of all, public health insurance plans – Medicare and Medicaid– do not cover treatment abroad.
- About 60% of the US population receives employment-based health insurance. A majority of these are managed care plans, which cover only emergency treatment abroad.
- Most health tourism today is for uninsured services
- But there is a problem even if treatment abroad is covered: consumers reaps only a fraction of the savings but must bear the entire cost of travel.

# Health- Policy changes

- Rich world:
  - Portability of insurance
  - Covering travel costs
- Poor world:
  - Improve care and credibly signal it
  - Use revenues to improve health care for poor

# Potentially big gains from the international fragmentation of education

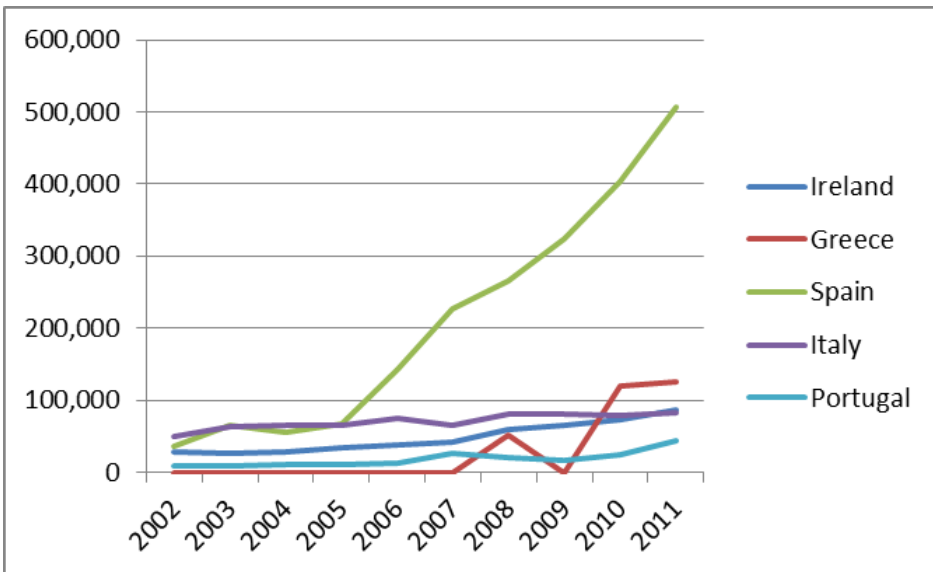
- Need for education to be fragmented between:
  - Standardized components which poor would have a comparative advantage in providing and
  - Specialized components which would continue to be provided in rich world
- Cost-saving from even 2 years of education abroad could be \$90,000 or 40% of the cost of a 4-year US medical education
- Quality is probably not a serious problem. Why?
  - About one-quarter of doctors, medical faculty, and nurses are already foreign trained
- Mobility is already rising:
  - Post-secondary US students studying abroad jumped from 65,000 in 1987-88 academic year to 260,000 in 2008-09.
  - US students studying in developing countries increased from around 2,500 students in 1987-88 to 57,000 in the 2008-09 academic year.

# Education Policy Changes

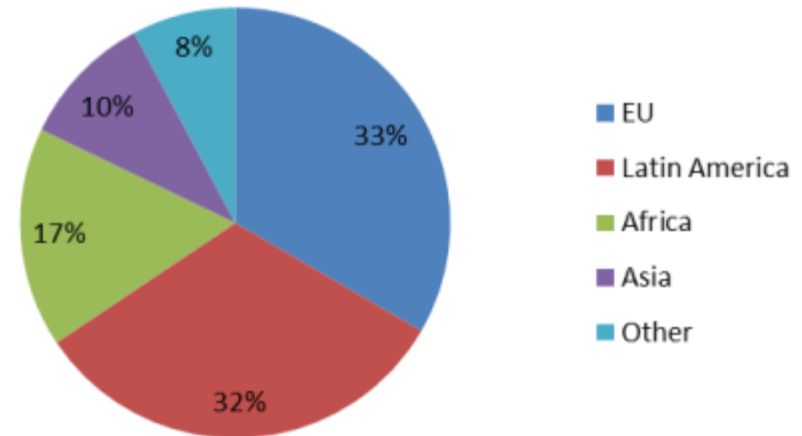
- Rich world:
  - lack of portability of final and intermediate educational qualifications.
- Developing world
  - barriers to foreign investment in higher education;
- Both worlds
  - restrictions on the mobility of students and teachers

# Shifting economic dynamism is creating new incentives for North-South flows

Total Emigration from Five EU Countries Worst Affected by the Crisis, 2002-2011



Total Emigration from Spain by Region of Next Residence, 2011 (percentage of total emigration)



Source: Mattoo and Subramanian (2013)

# Growing two-way flows

- **South-to-North mobility**
- Unskilled workers move for work, preferably on a temporary basis, to boost the productive base in North and improve the fiscal situation; with the proviso that they could be remunerated at levels below nationals of the host country;
- Students move for education, perhaps being charged higher for their education than the fees applicable to nationals in the host country;
- The high skilled and talented move to boost global innovation
- High skilled professionals (doctors and engineers) move to deliver medical and other services
  
- **North-to-South mobility**
- Students move to acquire at least the standardized components of skilled professional education;
- The sick move to acquire medical services, with the proviso that the fees that they are charged for services be higher than that for host country patients
- The elderly in response to reduced pension benefits move to enjoy better standards of living and perhaps even cheaper medical care

# A Pro-Active Approach to International Services Negotiations

Recognizing both

- the domestic development imperative for reform and
- opportunities offered by the changing global environment

Large developing countries would join the Trade in Services Agreement – **de facto multilateralization**.

Not grudgingly accepting existing standards, but setting **new levels of ambition**

- No new restrictions, especially on cross border trade in business services, and more open transport services
- Precommitment to reform, especially on FDI, and to greater regulatory cooperation and assistance
- Greater scope for two-way flows of individual service providers and consumers with source country obligations