Abstract Submission

Title: The trade effects of a potential agreement on services domestic regulation

Abstract In December 2021, a group of 70 WTO Members concluded the negotiation on a Joint Statement initiative on Services Domestic Regulation (SDR). The agreement focuses on improving the transparency and predictability relating to licensing requirements and procedures faced by foreign suppliers, as well as other technical standards affecting trade in services. In this paper, we explore the trade effects of the SDR by combining gravity estimation with computable general equilibrium (CGE) analysis.

We proceed in three steps. In the first step, we estimate a structural gravity model on a new SDR index created by staff at the WTO. This index assigns scores for a number of service sectors across different countries based on the extent to which SDR-related disciplines have already been implemented prior to the conclusion of the agreement. Relying on recent empirical development in the structural gravity literature, we adopt services trade data from the BaTIS dataset as well as construct domestic consumption of services using output data from the OECD and UNSD databases. The identification of the SDR index is achieved through interaction with a border dummy.

In the second step, we calculate a range of projected reductions in ad valorem equivalent (AVE) trade costs associated with the implementation of the disciplines included in the SDR Agreement. The calculations are based on the gravity coefficients estimated in the first step under different specifications and the projected changes in SDR Index scores.

In the third step, we employ the WTO Global Trade Model to make projections on the trade and income effects of the SDR Agreement. The model contains monopolistic competition and upward-sloping factor supply curves. In addition, its recursive dynamic feature further allows us to track the aggregate impacts of the SDR over time. The AVE trade costs reduction acquired from the second step is implemented in the CGE model as shocks to the iceberg trade cost.

Finally, by assuming an implementation period of 10 years, our simulations project that by 2032, there will be a modest increase in global real income and export. Moreover, our country-level analysis points to the distributional effects of the SDR as there are winners and losers both between and within countries. Finally, we have developed various hypothetical scenarios to highlight the full potential of SDR. We found that further gains can be realised by widening the participation of the agreement to include more developing countries.