

The impact of services liberalization on GVC participation

Topic: 516X Regional Trade Agreement and Trade Governance

Author: Woori LEE

This paper examines the role that services liberalization plays in allowing a nation to participate in manufacturing and services global value chains (GVCs). Using variations in measured services restrictiveness, we empirically test whether trade liberalization in services stimulates production fragmentation of both goods and services as existing theoretical literature suggests. When it comes to services GVCs, the link is quite direct. When it comes to manufacturing GVCs, the presence of local or imported services can facilitate GVC participation. This is because trade in goods almost always requires direct and indirect inputs from several services industries that makes international transactions easier. Going beyond the role of trade services such as transportation and insurance in stimulating trade, which has been more recognized in the literature, we consider a wider range of services that support a broader division of labor associated with the unbundling of production.

Measures of services trade restrictiveness are notably less developed than those for trade in goods, but some recent work has developed indicators of services liberalization. To examine the impact of services trade restrictiveness in GVC participation, we use the OECD Services Trade Restrictiveness Index (STRI) which measures the level of services trade restrictiveness in 18 sectors for 40 countries. As the dependent variable, we use indicators of GVC participation constructed from the OECD Trade in Value Added (TiVA) database which provides data for 57 economies, broken down by 18 industries.

This paper will contribute to the newly growing literature on the role of services trade in the GVC discussion. It expands on some existing work that studies the impact of services liberalization on downstream manufacturing performance.