



Conference on International Trade Education and Research

Managing Globalisation for Prosperity

26 and 27 October
Old Treasury Building
Melbourne

Conference sponsor:
Victorian Department of State and Regional Development

Services and Development

Alison Burrows

Conference organised by
Australian APEC Study Centre At Monash University
The Asian Economics Centre at the University of Melbourne
Department of Applied Economics at Victoria University

CITER 5

"MANAGING GLOBALISATION FOR PROSPERITY"

SERVICES AND DEVELOPMENT

Alison Burrows
Director, Services Trade and Negotiations Section
Department of Foreign Affairs and Trade

Part One - GATS Provisions for Developing Countries

I wish to begin by recalling key points about the General Agreement on Trade in Services and its provisions for developing countries (DCs):

- ❖ First ever set of multilateral, legally enforceable rules covering international trade in services.
- ❖ Important outcome of the Uruguay Round of multilateral trade negotiations.
- ❖ Like the GATT, the GATS is an integral part of the WTO.
- ❖ Entered into force on 1 January 1995, with a built-in mandate for the commencement of new negotiations by 1 January 2000.
- ❖ First special negotiating session held on 25 February 2000

The main objectives of GATS are the expansion of trade in services, achieving a progressively higher level of liberalisation through negotiating rounds, transparency of rules and regulations, and increasing participation of DCs. The central obligation of the GATS is providing most-favoured-nation treatment - granting to foreign services suppliers treatment which is no less favourable than that granted to any other country.

It is also worth noting what is **not** covered by the GATS. The GATS may affect DCs only in a limited way since its rules apply only if specific commitments are made. That is, unlike the GATT, Members are only subject to binding rules on market access and national treatment, if they have chosen to make specific commitments in a particular sector.

Under the GATS, DCs are given flexibility, especially for:

- ❖ Opening fewer sectors
- ❖ Liberalising fewer types of transactions
- ❖ Progressively extending market access in line with their development situation

Provision is also made for "increasing the participation of DCs" by:

- ❖ Strengthening their domestic services capacity.
- ❖ Improving their access to distribution channels and information networks.
- ❖ Liberalising market access in sectors and modes of supply of export.
- ❖ Setting up a system of contacts to facilitate the access to information.
- ❖ Giving technical assistance at the multilateral and international level.

In assessing the commitments DCs made during the Uruguay Round, it is important to recognise two things.

First, DCs can and do only make commitments in sectors of interest to them. The structure of the GATS is such that any Member can exclude entire sectors; and once they begin to cover a sector, they can exempt any restrictions as long as they list them (known as a 'positive list' or 'bottom-up' approach). According to Hoekman's assessment of Uruguay Round commitments,

Thus, ignoring horizontal restriction for modes of supply, only 25 per cent of all service activities have no limitations on market access or national treatment. In the case of major DCs, on average "free access" commitments were made for only 15 per cent of the services sector; smaller countries do not attain even this low level¹

We can expect this pattern to be repeated in the current negotiations, and DC groups have already alluded to it. The Africa Group made a submission to the Council for Trade in Services this month, which says,

The fact that commitments on market access and national treatment are subjects of concessions, provided under a positive list, is of great importance to DCs as it allows members to determine, in terms of their own national development strategy and policy, the individual service sector or transaction that they are willing to open up at a given time, under specific conditions and limitations.²

Second, commitments in the GATS are standstill, ie Members undertake not to impose new or more restrictive trade measures after a certain date. They rarely commit to actual liberalisation - they mostly offer to bind existing legislation. There are, however, real benefits in binding alone. One of the main barriers to which industry alerts us is inconsistent, nontransparent regulation. It is much easier to do business in a country, if its regulations are bound under the WTO. You know what requirements you will have to meet, and you know those requirements will not constantly change.

Part Two - DC Interests in the Services Negotiations

Over the last year, DCs have consistently raised in the Council for Trade in Services a number of issues of particular interest to them:

1. implementation of GATS provisions on technical assistance, transparency, assessment of trade and credit for autonomous liberalisation
2. temporary movement of professionals

3. the tourism sector
4. emergency safeguards mechanism.

Under **implementation**, DCs are calling for greater **technical assistance** in order to help them strengthen their domestic services capacity, including through access to technology on a commercial basis. Another key DC request is **transparency**, to give them information about commercial and technical aspects of the supply of services. **Assessment of trade** remains high on the list of DC priorities. They argue that notoriously patchy services statistics make it impossible for them to assess whether they have in fact benefited from earlier WTO services negotiations. They are calling for substantial work on statistics and assessment of the benefits to DCs before the market access phase begins. Another issue raised by DCs is **credit for autonomous liberalisation** - this is not as obscure as it sounds. The issue is whether countries should be given negotiating coin for having unilaterally liberalised their services sectors since the end of the Uruguay Round. You have only to think of the financial sector reforms in Thailand and Korea, following the East Asian crisis, to realise how relevant this is. Australia supports allowing trade-offs for countries in this position, as long as they are willing to bind their reform packages.

The debate on temporary movement for service supplies is known as the **Mode 4** debate. That is because the GATS categorises trade in services by 4 modes of supply, the fourth being "movement of natural persons":

Commentary on the Uruguay Round services negotiations often concludes that DCs were most interested in seeking commitments on mode 4 to allow their professionals and workers to work overseas. Developed countries, meanwhile, were most interested in seeking commitments on mode 3 (commercial presence) to allow their banks and companies to set up branches and joint ventures. This simple model is changing. With greater use of the Internet, Australian companies are increasingly telling us they are reconsidering whether to set up an office overseas. Many would prefer to be able to fly-in/fly-out to set up, and then complete the work back home. We also can't assume that developed countries will always be in the position of resisting temporary entry by skilled workers from DCs. Mattoo gives the example of the US policies towards software programmers. "In 1998, in response to mounting labour shortages experienced in the US IT sector, the annual visa cap was raised to 115,000 for both 1999 and 2000".³

Pakistan has raised a number of trade barriers to Mode 4 in a WTO paper of April 1999. These include:

- ❖ Economic needs tests (ENTs), which typically involve making market access conditional on a labour market or similar test by the relevant immigration authority.
- ❖ Difficulties in securing recognition of the qualifications and licences of professionals.
- ❖ Lack of transparency in some visa regimes.⁴

Australia is willing to work with DCs on these issues. We note that streamlining business temporary entry is an excellent way of facilitating trade. We have worked hard on this issue within APEC, including in establishing the APEC Business Travel Card scheme.

This year, there has also been substantive discussion of two DC proposals:

- ❖ **Tourism cluster.** Research has indicated the revealed comparative advantage DCs have in freight and travel.⁵ During the Uruguay Round, the sector on which most DCs made commitments was tourism. Against this background, the Dominican Republic, El Salvador and Honduras have formulated a proposal on tourism services. It takes as its starting point the need to focus on the tourism sector as a whole for the purpose of multilateral trade negotiations, to include travel reservation services, air and other transportation services and other travel-related financial services. They propose a separate Annex to the GATS on tourism, so that all the services associated with the tourism sector can be negotiated as part of a tourism cluster.⁶
- ❖ **ESM** - Thailand has been the leader within ASEAN in pushing for an emergency safeguards mechanism (ESM) for services, as an insurance mechanism for further liberalisation. Article X of the GATS calls for future multilateral negotiations to establish an ESM, based on the principle of nondiscrimination - but the ESM has not yet been created. An ESM would be designed to facilitate adjustment by slowing imports during times of crisis. While we need to examine closely our interests in the development of such a mechanism, we will be contributing constructively to discussions.

Part Three - Potential Benefits of Services Negotiations for DCs

IMF Balance of Payments statistics indicated that, in 1998, industrial countries had a 73 per cent share of world exports and imports in services, while DCs had a 27 per cent share⁷. There are a number of reasons for this imbalance, including the greater emphasis in the developed world over the last two decades on market-oriented microeconomic reform in key service sectors, including privatisation; the role of technology in facilitating internationally-competitive services exports; and the fact that the demand for services is naturally linked to the state of economic development in any country. Nevertheless, the imbalance is a significant issue, and one that will be addressed as a matter of course in the services negotiations.

Services are, however, not only important in terms of trade. A central consideration is that, "The developing countries have limited flexibility to offer less liberalization of services than developed countries but they are not allowed a free ride. The GATS is based on the argument that if the national governments have concern for economic efficiency, the optimal policies would be the same both for developed as well as developing countries."⁸

Over the last few years, there has been extensive research into this argument. To use a summary by Mattoo,

Many services are inputs into production and inefficient production of such services acts as a tax on production - - -Well functioning services industries

contribute to growth in different ways. An efficient financial sector allows resources to be deployed where they have the highest returns- -Improved telecom efficiency generates economy-wide benefits as telecommunications are a vital intermediate input and are crucial to the diffusion of knowledge. Similarly, transport services contribute to the efficient distribution of goods within a country, and greatly influence a country's ability to participate in global trade. Business services such as accounting and legal services are important in reducing transaction costs; education and health services are necessary in building up the stock of human capital, a key ingredient in long-run growth performance.⁹

An example which DFAT quoted in its 1999 publication on Global Trade Reform¹⁰ is that provided by a 1998 World Bank study about the rise in agricultural output in India following banking liberalisation:

Expansion of commercial bank networks and availability of financial services had a very substantial positive effect on private agricultural investment in India. Analysis of data from 85 districts in 13 Indian states revealed that expansion of commercial banks into rural areas increased both investment and productive output. Investment in tractors rose by 13 percent, in pumpsets by 41 percent, in milk animals by 46 percent, and in draft animals by 38 percent. Demand for fertiliser rose by about 23 percent, and aggregate crop output rose by nearly 3 percent.¹¹

It is worth noting how the landscape of services sectors has changed even in the last five years. Technological advances, and greater competition in the sector arising from the privatisation of former monopolies are contributing to this transformation.

The ability to collect, process and transmit information in real time has increased the possibility of introducing competition in many network-based infrastructure services, such as telecommunications, energy and transportation. It has made it possible to separate the management of the physical infrastructures such as telephone lines, electric power grids, and pipelines from the services provided through those facilities. Different service providers can use the same infrastructure, yet compete with each other in supplying the services involved to consumers.¹²

Commentators have noted the increasing trends towards privatisation of network-based services sectors, and the implications for competition and tradability. In the telecoms sector, Low and Mattoo have observed that, "For the most part, traditional state-owned monopoly suppliers have not been successful in providing low-cost, efficient or even widely available services in many countries".¹³ A study by the Norwegian Michelsen Institute, circulated at the Council for Trade in Services this year, indicated that "a comparison of prices on communication services show that Tanzanians pay 50 per cent higher connections charges and 11 per cent higher local call rates relative to the USA despite having less than 1 per cent of its purchasing power"¹⁴

In the APEC Group on Services this year, economies have exchanged information on the impact of liberalisation of services sectors, eg Thailand has indicated that it has

unilaterally increased market access to its commercial banking sector and increased foreign equity provisions.¹⁵ The Peruvian Ministry of Industry assessed the benefits of services liberalisation in financial and telecoms in particular as:

- ❖ More competition
- ❖ Introduction of new products
- ❖ Foreign investment
- ❖ Reduction in services prices.¹⁶

In short, services liberalisation can be beneficial to DCs in and of itself, since it reduces the costs of services inputs to other sectors of the economy, and thereby enhances allocative efficiency and international competitiveness.

Australia supports comprehensive negotiations; that is, we consider no service sector should be excluded from the negotiations. Like every Member, Australia has its own sensitive sectors, ours being audiovisual, and public health and education. But we believe every sector should be on the table, to allow open debate about the least trade-restrictive ways to defend our national interests. Sectors of interest to DCs, eg maritime, construction and tourism, will be paid due attention only through comprehensive negotiations. We recognise that, despite all the evidence that points to the advantages of reform and liberalisation, the nature of multilateral negotiations is such that DCs will require trade-offs. In multilateral negotiations, DCs have the capacity to form powerful coalitions and to hold out for packages of benefits..

Because of the substantial scope for productivity improvements in the services sector, liberalisation would be expected to result in big gains. Modelling commissioned by the Australian Government in 1999 indicated a substantial annual gain in world welfare of US\$250 billion if global distortions in the provisions of services were reduced by 50 per cent. All economies would stand to gain and, in proportion to the size of GDP, the gains would be spread fairly evenly. In this area, the modelling significantly understates the dynamic effects of services reform.¹⁷

The overall goal for services in the new WTO Round must be to maximise the benefits of efficient service sectors for all countries. Multilateral trade rounds allow the world economy to keep growing on a sustainable basis. The GATS negotiations are an important opportunity to underpin further expansion of services trade, generate intersectoral gains for the merchandise trade sector, and contribute to the economic and employment growth and technological innovation that improves people's lives.

-
- ¹ Hoekman, Bernard. 1996. "Assessing the General Agreement on Trade in Services", in Will Martin and L. Alan Winters (eds), *The Uruguay Round and the Developing Countries*. Cambridge: Cambridge University Press
- ² S/CSS/W/7
- ³ Mattoo, Aaditya. 2000. "Developing Countries in the New Round of GATS Negotiations: Towards a Pro-Active Role" in *The World Economy* Vol 23, Number 4
- ⁴ WT/GC/W/160
- ⁵ Chadha, Rajesh. 2000. "GATS and Developing Countries: A Case Study of India". Paper commissioned by the World Bank
- ⁶ WT/GC/W/372
- ⁷ IMF Balance of Payments Year Book, 1999
- ⁸ Chadha, 2000
- ⁹ Mattoo, 2000
- ¹⁰ Department of Foreign Affairs and Trade, *Global Trade Reform: Maintaining Momentum*. 1999.
- ¹¹ Binswanger, Khandker and Rosenzweig., 1993. World Bank, *Making Services an Engine of Growth*. 1998.
- ¹² Feketekuty, Geza. 1998. "Principles of Sound Regulation in Services: the Key to Long Term Growth in the New Global Economy", presented at the International Symposium on 'Trade in Services: China and the World'.
- ¹³ Low, Patrick and Mattoo, Aaditya. 1997. "Reform in Basic Telecommunications and the WTO Negotiations: the Asian Experience"
- ¹⁴ Hodge, James and Nordas, Hildegund, "Liberalization of Trade in Producer Services: the Impact on Developing Countries". Michelsen Institute
- ¹⁵ APEC Secretariat, Group on Services website <http://www.apecsec.org.sg/> 2000
- ¹⁶ APEC Secretariat, 2000
- ¹⁷ DFAT, 2000