

TRADE IN SERVICES AND DEVELOPMENT IMPLICATIONS

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Regionalism and Services Trade is the focus of our analysis and the deliberations of the Commission.

Recent economic trends show that services have gained in importance for growth and development of developing countries. Services account for over 70% of employment in developed countries and 35% in developing countries. And since 1990, the share of services in GDP has grown from 65 to 72% in developed countries and 45 to 52% in developing countries. World services trade has nearly tripled to \$ 2.4 trillion. Developing countries' services exports have grown at an average annual rate of 8% compared to 6% for developed countries.

Furthermore, developing countries' share of world services exports rose from 18 to 24 % between 1990 and 2005. However, only Asia's share of services exports has increased, while export shares of Latin America and the Caribbean, and Africa have been stagnant.

Developing country services exports are uneven. Over half of developing country services exports originate in only 6 countries, namely China, Hong Kong China, India, Singapore, Republic of Korea and Turkey. The top 15 developing country services exporter account for 80% of all developing country services exports. This raises the question of how can more developing countries use this potential to participate in world services trade

The background of the services economy has evolved. Services contribute to improved infrastructure; greater productivity; increased competitiveness and enhanced merchandise exports. FDI increasingly targets the services sector. An important share of services trade occurs regionally, including in RTAs (regional trade agreements). RTAs can strengthen developing countries' supply and export capacities in services and serve as a building block for the multilateral trading system. There is however need for mutually supportive interface between multilateral and regional services trade agreements.

Recent trends in RTAs indicate an important proliferation. There are various permutations of such RTAs including at bilateral, sub-regional, regional and inter-regional scales; and North-North, North-South and South-South in scope. Among the 153 RTAs operational today, 43 are economic integration agreements in services notified under GATS Article V.

Regional trends analyses show that RTAs can expand markets for trade in services. They have been a factor contributing to increased regional exports of goods, with impact that inter-regional goods trade generally grows faster than trade with the rest of the world. A recent study by OECD indicates that intra-regional services trade accounts for the vast majority of developing countries' South-South services trade. By extending the coverage to services, RTAs are expected to generate increased intra-regional services trade and trade in general. Moreover, it is striking that South-South services trade is mostly intra-regional, accounting for 71% in Latin America and the Caribbean, 94% in Asia and Oceania, and 57% in Africa.

The motivations for RTAs in term of possible advantages includes the following: (a) existing literature suggests significant welfare gains; (b) services agreements can be more easily negotiated between limited set of participants with similar levels of development, geographical proximity and cultural ties; (c) allows for regional specificity; (d) provides a greater degree of reciprocity; (e) potential to foster greater liberalisation of temporary movement of services suppliers; (f) include cooperative mechanisms for capacity building; (g) enable regions to attract higher levels of FDI; and (h) a facilitative transition to multilateral liberalization and helps strengthen indigenous supply capacities and regulatory effectiveness.

RTAs have adopted different approaches to services liberalisation. These include, in terms of scope, universal sectoral coverage with exclusion of certain sensitive sectors, with progressive phasing in of sectors over time. In terms of modalities for liberalisation, there are the negative or positive list approaches, and rules of origin that can exclude third country suppliers. In terms of depth of commitments, RTAs often entail deep commitment, helping to ensure effective market access. In regard to cooperative mechanisms, there apply to regional trade infrastructure, supply capacity, recognition and harmonisation of qualifications/standards, institution building, regulatory capacity, and R&D. Examples of cooperative mechanisms in RTAs include the following:

- Andean Community and ASEAN are in the process of concluding MRAs (mutual recognition agreements) for professional services;
- COMESA institutions build infrastructure initiatives such as the Bond Guarantee Scheme, COMESA Yellow Card Scheme, and PTA-Reinsurance Company;
- SADC institutions that target ICT, energy and tourism including the Telecommunications Regulators Association of Southern Africa, Regional Tourism Organization of Southern Africa, and Southern African Power Pool.

The variety of experiences of South-South RTAs on services in serving as an element of developing countries' development strategies can be garnered from the Andean Community, MERCOSUR, CARICOM, SADC and ASEAN. Key features include:

- In the Andean Community, initial negative list approach with transition period; full liberalisation of services adopted in 2006; and deeper than GATS and FTAA commitments.
- In CARICOM, progress towards a single market for services, free movement of capital and right of establishment, and deeper than GATS and FTAA commitments.
- In MERCOSUR, a staged positive list approach with remaining restrictions, and provisions for government procurement and transparency.
- In SADC, negotiating under a positive list approach, and substantial liberalisation of trade in services by 2015.
- COMESA is embarking on liberalisation of services trade."
- In ASEAN, a positive list approach with GATS plus commitments in air transport, business services, construction, financial services, maritime transport, telecommunication, tourism; and conclusion of MRAs for professional services

Current experiences also indicate that North-South RTAs increasingly integrate services. This is the case, for example, of the NAFTA model and other RTAs which US is negotiating with other countries. These agreements have led to considerable opening of developing country markets, favour negative list approach often with ratchet mechanism, and cover investment, government procurement and mobility of business persons. Other North-South RTAs with services components include EU Partnership agreements such the current ACP-EU negotiations of economic partnership agreements, the EuroMed agreements, and the South Africa-EU trade and development cooperation agreements. In these agreements, the

negotiation of services liberalisation is underway, based on a positive list approach, and which also offer capacity building through cooperative mechanisms.

The growing regionalism, including in services, alongside the multilateral trading system (MTS) has given rise to the need to more urgently and seriously address the RTA-MTS interface. A mutually supportive interface between multilateral and regional services trade agreements is needed. A number of issues are pertinent in this regard. Developing countries seek to maximise gains from their parallel participation in these regimes. RTAs can boost South-South trade and serve as a building block for the multilateral trading system. "Clarifying and improving" WTO rules on RTAs, while taking "into account the developmental aspects of regional trade agreements" should stress the need for improved special and differential treatment in North-South RTAs

In terms of ways forward, the following could be considered:

1. Adequate impact assessments of regional trade in services are needed to help developing countries design their integration strategies, regionally and multilaterally.
2. Additional research is warranted on the experience of developing countries in configuring an optimal, mutually-supportive balance of regional and multilateral services trade liberalisation.
3. Support is needed in building analytical, regulatory and institutional capacities of developing countries at the regional level, including by strengthening regional secretariats, and improving countries' gathering of trade data and related information regarding services

Finally, regional liberalisation of trade in services can yield economy-wide benefits. Issues to be addressed and discussed in this regard include what gains can be expected? Which national strategies and policies can maximise gains? What supportive international policies are required? Special attention should be given to examining RTAs' potential to allow greater liberalisation of temporary movement of services suppliers; existing cooperative mechanisms for capacity building and ways to improve them; and how the interface between regionalism and multilateralism can be managed?