OPENING MARKETS FOR TRADE
IN SERVICES

Trade in services is an increasingly important part of global trade and, as such, figures prominently in multilateral, regional and bilateral trade negotiations. In this volume of essays, academics, negotiators and experts from various international organizations explore the challenges, motivations and achievements of such negotiations. The contributions highlight issues in important services sectors, such as distribution, energy, finance, telecommunications, air transport and the postal and audiovisual sectors, as well as areas such as cross-border trade, the movement of natural persons and government procurement. Case studies look into the experiences of specific countries. The focus on sector analysis and country experiences sheds light on the state of services liberalization and the regulation of international trade in services at the beginning of the twenty-first century, making this an indispensable guide to ongoing and future international negotiations on this topic.
OPENING MARKETS FOR TRADE IN SERVICES

COUNTRIES AND SECTORS IN BILATERAL AND WTO NEGOTIATIONS

Edited by

JUAN A. MARCHETTI AND MARTIN ROY
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FOREWORD

Gone are the days when services used to be considered as non-tradables. Not only did trade flows in services change as a result of technological innovation and trade opening, but our own conception of trade was substantially modified by the WTO General Agreement on Trade in Services (GATS), which prompted us to view trade in services through a different lens – that of the so-called four modes of supply. We came to accept that trade, particularly trade in services, can take place not only on a cross-border basis but also through the movement of natural persons, or, indeed, companies. That new paradigm opened up novel and promising perspectives for trade negotiations; no longer was there any excuse to ignore services in trade negotiations.

Very few would have predicted that world services exports would have come close to $2.8 trillion in 2006. Even this large sum, however, underestimates the real size of services trade, since international trade statistics simply do not cover all trade in services as defined by the GATS. Moreover, it is not only the value of services trade that is impressive but also the pace of its growth. In fact, since the 1980s, world services trade has actually been growing more rapidly than world production and merchandise trade. Today, more than a half of annual world foreign direct investment (FDI) flows are in services.

The services revolution does not stop with the creation of new commercial opportunities in the services sector. Rather, services underpin virtually every economic activity needed in the production and distribution of other goods and services. Indeed, economy-wide gains from trade in manufacture and agriculture cannot be fully reaped if essential services do not support it; services are the speedy highways for trade. No company can function without a telephone, grow without finance, nor get its goods to a market without transportation. No modern enterprise can work efficiently without access to telecommunication, legal, accounting, computing, and other business services. No economy can prosper without an efficient services infrastructure. Additionally, an inefficient and costly
services infrastructure would not only prevent trade flows but also hamper overall economic growth. Agricultural producers would suffer if they did not have access to efficient logistic and transport services. Restrictions limiting competition in the wholesale and retail sectors would reduce consumer choice and increase prices of goods. Companies would face multiple delays and obstacles if communication networks and services were substandard. Manufacturers would not be competitive if they did not have access to the best and most affordable finance available. Indeed, one proposition arising consistently from a broad range of studies is that the gains to be achieved from the further opening of trade in services far exceed those from lowering barriers to trade in goods.

For all these reasons, it is no wonder that countries have rushed to negotiate the opening of trade in services on both the bilateral and multilateral fronts. It is not regionalism, or preferential trade agreements (PTAs), that should come as a surprise. After all, almost 300 of these preferential agreements have been negotiated in the last half-century. Rather, what is more noteworthy is the inclusion of services trade within those agreements. A casual look at the notifications to the WTO suffices to highlight the flurry of negotiating activity on services in this first decade of the twenty-first century.

I think it is only fair to acknowledge that the proliferation of preferential agreements, in services as in other areas of trade, is causing concern – concern about incoherence, confusion, the exponential increase of costs for business, unpredictability, and even unfairness in trade relations. I would not go as far as to say, however, that bilateral trade deals are all bad. On the contrary, some of them, particularly those achieved in the context of broader regional integration initiatives, have contributed to economic welfare and political stability.

To help improve our understanding of services trade negotiations, this volume brings together contributions from specialists in services trade from different regions and backgrounds: academics, negotiators, and experts from international organizations, including some from the WTO Secretariat. Two key concerns underlying this book are, on the one hand, the need to fully grasp the extent of services trade opening achieved in bilateral agreements, and how that interacts with multilateral negotiations at the WTO; and, on the other hand, the need to improve our understanding of the motivations, forces, and interests behind services
trade negotiations, including key issues in the WTO services agenda. In essence, it is a discussion about the political economy of bilateral and multilateral negotiations on trade in services.

One could say that the chapters in this book go from the general to the specific. The general chapters deal with the positive economics of services trade opening (to remind us of the benefits and challenges of services trade opening), with the political economy of preferential negotiations (to examine some hypotheses about countries' motivations to negotiate bilaterally), and with the achievements of bilateral negotiations in services (to show the concrete inroads made by these negotiations in the long and winding road of trade opening, and the intended or unintended challenges posed to the multilateral trading system).

More specific chapters assess market access issues at the bilateral and multilateral levels by focusing on sector and country experiences. On the one hand, various chapters review negotiating issues in such key sectors and areas as distribution, finance, telecommunications, energy, cross-border trade, and the temporary movement of natural persons. These contributions consider market access issues in a comprehensive manner, reviewing unilateral reform, assessing bilateral deals, and comparing the latter with achievements at the WTO so as to underscore future opportunities and challenges in multilateral negotiations. As such, they are not just surveys of the state of play but true guides to some uncharted land.

On the other hand, probably the heart of the volume, several case studies compare the experiences of a number of countries with bilateral and multilateral negotiations on services. The experiences of countries as diverse as Australia, Chile, Colombia, Costa Rica, the Dominican Republic, India, Singapore, South Africa, Thailand, and Uruguay have been addressed, with a view to shedding light on the political economy of these negotiations. Why and how do governments negotiate bilaterally and multilaterally? What forces and interests shape those negotiations? What kind of impact do bilateral negotiations have on multilateral negotiations? Finally, do these bilateral agreements on services really discriminate against non-parties? These, among others, constitute the key questions that the authors have addressed.

As I have already suggested elsewhere, I find the debate about whether regionalism is a good or a bad thing rather sterile. Whether we like it or
not, policy-makers are already into it. Rather, we need to better understand preferential trade agreements, to look at the manner in which they operate, and what effects they have on trade. And we definitely need to reflect on whether or not regionalism is causing harm to multilaterally based trading relationships. For example, it is now clear that a number of WTO members have entered into PTAs that contain significant improvements over their existing multilateral commitment in terms of the scope and depth of access granted. Moreover, these often go well beyond the offers that, by mid-2008, had been tabled in the Doha Development Agenda (DDA), and one wonders whether the ongoing preferential hyperactivity has not incited some members to make minimal DDA offers in services so as to have further negotiating chips to offer in other negotiating contexts. I would rather hope that those taking part in preferential agreements could lead the way and show support for multilateralism by narrowing the gaps between PTA commitments and GATS offers, thereby inspiring greater ambition. In any event, the benefits that members, especially developing country members, can get in return for their services commitments are much greater in the WTO than in bilateral deals. Together, the chapters in this volume provide valuable insights into all these issues, which are crucial not only to services trade policy but to trade policy in general at the dawn of this new century.

I could not end this foreword without a reflection on something dear to my heart – the Doha Development Agenda. At the time of writing, bringing the Doha Round to closure continues to be my priority. A successful round of multilateral negotiations would help governments refocus their attention on their broader global trade interests. It would also – I hope – significantly reduce the scope for discriminatory trade policy, not to mention all the other benefits from multilateral trade cooperation in terms of the global expansion of production and trade.

I hope readers will enjoy this book as much as I did.

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DISCLAIMER

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