Mobilizing Business for Trade in Services

International Trade Centre

EXPORT IMPACT FOR GOOD

The International Trade Centre (ITC) is the joint agency of the World Trade Organization and the United Nations.

Street address: ITC
54-56, rue de Montbrillant
1202 Geneva, Switzerland

Postal address: ITC
Palais des Nations
1211 Geneva 10, Switzerland

Telephone: +41-22 730 0111

Fax: +41-22 733 4439

E-mail: itcreg@intracen.org

Internet: http://www.intracen.org

MOBILIZING BUSINESS FOR TRADE IN SERVICES

Geneva 2013

ABSTRACT FOR TRADE INFORMATION SERVICES

ID= 43044 2013 S-15.00 SER

International Trade Centre (ITC)
Mobilizing Business for Trade in Services
Geneva: ITC, 2013. xiv, 142 p.

The book providing an analytical and practical explanation of the process and substance of services sector reforms - aims at assisting the business sector in developing countries to engage with governments on strategies for the development of the services sector, with a view to increasing competitiveness and trade; looks at how services can contribute to growth and development; the role of services in trade negotiations; and how business and governments in developing countries can work together towards common aims; reviews individual service sectors such a tourism, transport, communications, computer, audiovisual, business process outsourcing, professional and other business services, construction, distribution, cultural and recreational services; provides key statistical data in services trade; includes bibliographic references (p. 140).

Descriptors: **Trade in Services, Trade Liberalization, Developing Countries, Services.**

English, French, Spanish (separate editions)

ITC, Palais des Nations, 1211 Geneva 10, Switzerland (www.intracen.org)

P252.E/DCP/BTP/13-XI

ISBN 978-92-9137-412-0
United Nations Sales No. E.14.III.T.1

FOREWORD

When business leaders in developing countries are asked whether opening trade in services represents a threat or an opportunity, many see a real chance to grow their businesses. In fact many see it as a must.

This reflects the dynamism of the services sector for companies based in the developing world, both domestically and in export markets. More and more businesses are taking advantage of these openings, with services accounting for over 50% of gross domestic product (GDP) in many developing countries and over 45% in many least developed countries. Add to this that agricultural products and manufactured goods contain about 35% of value added through services.

On the trade front, developing countries' share in world services exports has trebled to more than 30%. Yet least developed countries only account for less than 0.6% of global services exports, compared with their 1% in world merchandise exports. Clearly, there remains much scope to expand services sectors, improve international competitiveness and increase cross-border trade. No country can be competitive without a vibrant, efficient services sector.

Tapping this potential depends on strengthened cooperation between business communities and governments. Opening markets to trade in services is complex, as it also involves domestic or regional regulatory reforms. Business-government cooperation is essential to strike the balance between costly over-regulation and the need to protect consumers and realize other national policy objectives through smart regulation.

Just as governments need to base their reform agenda on vision underpinned by strategy, so do businesses. Good policy and regulatory reform can minimize compliance costs, improve competitiveness and allow trade to grow. Government and business need to support each other to achieve the best outcomes for their countries.

This book aims to give business coalitions and trade negotiators a foundation to make informed choices, as they collaborate to shape trade in services accords and related regulatory reform. The book outlines how services contribute to development; explains issues specific to the services sector in trade negotiations; and addresses how business and governments in developing countries can work towards common goals.

In so doing, this book encourages business coalitions in developing countries to engage with governments on strategies to expand the services sector. By keeping legal technicalities to a minimum, the book enables businesses to improve their understanding of the trade negotiating process in services.

At the same time, it helps governments to see trade negotiations and regulatory reform of the services sector through the eyes of businesses in their own countries and regions.

This book is part of the work of the International Trade Centre (ITC) to promote the business voice of developing countries in policymaking. ITC fosters public-private dialogue to identify obstacles to export competitiveness and find customized solutions to remove them. We hope this book will contribute to mobilizing the business sector to use trade negotiations and regulatory reforms to expand developing country participation in the global opportunities afforded by the fast-moving services sector.

Arancha González
Executive Director
International Trade Centre

ACKNOWLEDGEMENTS

Malcolm McKinnon, former Head of Trade in Services at the United Kingdom's Department for Trade and Industry, and former Chief Executive of SITPRO Ltd, the United Kingdom's trade facilitation body, is the author of this book. He has based it on his 11 years as the United Kingdom's leading official expert on trade in services (1994-2005), as well as more recent consultancy projects on trade in services, especially in sub-Saharan Africa, and is entirely responsible for the views expressed.

This book has entailed much research and consultation with other experts in the field of trade in services. The author is particularly indebted to Hamid Mamdouh, Director of Trade in Services at the World Trade Organization, and his team, including Rolf Adlung, Peter Morrison, Hoe Lim, Dale Honeck and Antonia Carzaniga, as well as the authors of many WTO background documents that have helped with the sector summaries in the second part of the book; Pierre Sauvé, Director of External Programmes and Academic Partnerships, at the World Trade Institute, Berne; and Marta Soprana, a masters student at the World Trade Institute whose dissertation originally inspired ITC to commission this book.

Other current or former services experts who gave useful suggestions or whose papers have been particularly useful references included Julia Nielson and Additiya Mattoo, World Bank; Matthew Stern, DNA Economics, South Africa; Pascal Kerneis, Managing Director, European Services Forum, Brussels; John Cooke, Head of International, TheCityUK, London; Peter Dodd, Director of International Economics, Department for Business, Innovation and Skills, London; Dirk Willem te Velde, Overseas Development Institute, London; and Alison Hook, Hook International.

Rajesh Aggarwal, Chief, Business and Trade Policy Section, supervised the writing of the book, with Jean-Sébastien Roure, Adviser on Legal Aspects of Trade, Business and Trade Policy Section, ITC, acting as coordinator. Natalie Domeisen was responsible for editorial management and promotion, Julie Wolf acted as editorial consultant and desktop publishing was done by Isabel Droste.

CONTENTS

TABLES

FIGURES

BOXES

ABBREVIATIONS

Unless otherwise specified, all references to dollars ($) are to United States dollars, and all references to tons are to metric tons.

The following abbreviations are used:

BPO	Business process outsourcing
CPC	Central Product Classification
CSI	Coalition of Service Industries
EABC	East African Business Council
EAC	East African Community
EPA	Economic Partnership Agreement
EU	European Union
FDI	Foreign direct investment
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
ICC	International Chamber of Commerce
ICT	Information and communication technology
ITC	International Trade Centre
ITU	International Telecommunication Union
MDGs	Millennium Development Goals
MFN	Most favoured nation
MRA	Mutual recognition agreements
OECD	Organisation for Economic Co-operation and Development
ODI	Overseas Development Institute
NGO	Non-governmental organization
RIA	Regulatory impact analysis
SMEs	Small and medium-sized enterprises
TSI	Trade support institutions
UNESCO	United Nations Educational, Scientific and Cultural Organization
WTO	World Trade Organization

EXECUTIVE SUMMARY

For developing countries to tap into the vast potential offered by the growing services sector, their business communities must be fully involved in efforts to expand trade in services and tackle related regulatory issues. Business-government relations are at the heart of opening trade in services.

The expanding services economy, encompassing activities as diverse as tourism, communications and business processes, provides ample prospects for businesses in developing countries. There are growth opportunities in domestic markets as well as through increased trade with other countries, and these can reinforce economic development and poverty reduction.

A tool for business-government dialogue

Such progress depends on businesses and governments working together on the regulatory changes and trade agreements needed to foster competitive and internationally successful services industries. Greater cooperation helps governments to take into account the needs of companies providing services and allows business to understand the policies that drive government regulation in the services sector. Moreover, when business is involved in trade negotiations, it is more likely to be able to take advantage of ensuing export possibilities, while governments can address the trade barriers that matter most to business.

This book aims to help government and business to collaborate effectively, and can assist in training on trade negotiations and export strategies. It summarizes key arguments on the role of services in development, providing analysis and explanation of the regulatory reforms and trade negotiations needed for a vibrant services sector in developing countries.

The book brings together research on trade in services and development with specific examples of successful liberalization efforts. The first part covers the overall picture in services, trade and development, while the second half looks at individual service sectors.

Opportunities for developing countries

The contribution of services to gross domestic product (GDP) is growing in the developing world, accounting over 50% of GDP in many developing countries and more than 45% of GDP in many of the least developed countries. While trade in services represents only about 20% of developing countries´ total trade, if value added data capturing the many services embodied in goods are taken into account, the services content of trade is much higher, in some cases exceeding 50%.

Exports of services by developing countries also have weathered the financial and economic crisis. In the last decade, commercial services exports of India, China and Brazil have grown at an annual average rate of 28%, 22% and 16%, respectively, and India may soon export more services than goods.

While many developing countries are not in the position of India, China and Brazil, there is growing recognition of the importance of the service sector at the regional level. This is being reflected in regional trade agreements in Asia, the Americas and Africa, which often include services trade. A feature of economic development is that the share of services in GDP and employment rises as per capita income increases.

Particularly in finance, transport and business services, the possible gains for developing countries from reforming trade are probably larger than those from comparable liberalization of goods trade. In addition, services are increasingly factors in the production of goods, as more and more processes, from back office services to assembly, are outsourced. Businesses need access to efficient services to improve the competitiveness of the goods they produce.

Exploiting the openings arising from liberalized trade in goods will consequently also require better services, especially given the huge transport costs currently faced by exporters, such as those in the sub-Saharan Africa region. The World Bank calculates such costs as many times greater than tariffs imposed in industrial markets.

Addressing domestic regulation

For trade in goods, barriers operate mainly at the border; in services trade, most barriers relate to the way governments regulate services domestically. Handling regulatory change, therefore, is central to expanding opportunities for services companies, both at home and abroad.

Trade agreements negotiated between governments or at regional level have a direct impact on regulations in services. For business, it is essential to understand the mechanics of trade in services negotiations as well as the General Agreement on Trade in Services (GATS), the World Trade Organization accord governing international trade in services. To facilitate such understanding, this book provides an overview of services negotiations and the GATS.

Similarly, given the tie between services trade and regulation, it is necessary for business to comprehend the policies that drive government regulation. These include the need to guarantee essential services, protect consumers, correct market failure, ensure adequate competition and meet social objectives.

As well as businesses needing to appreciate such policies, governments should recognize the business drivers for domestic reform and factor them into domestic policymaking and national negotiating positions for trade agreements. The book therefore presents business objectives for services trade and considers what governments can do to improve their understanding of them, notably:

- How business selects and prioritizes export markets;
- How business can help to improve governmental understanding of its needs;
- The role of, and models for, consultation between governments and business;
- Weighing up business and government objectives.

As regulation imposes costs on business that would otherwise not be incurred, business groups tend to seek a regulatory environment where such costs are kept to a minimum. This does not necessarily mean deregulation, but rather better regulation. Regulation goes wrong from a business perspective if it is excessive, unnecessary, not transparent, discriminatory or if it is badly or unfairly administered.

International and regional organizations have developed methods to improve regulation. For example, regulatory impact analysis provides guidance on stages to follow when preparing policy options.

The order in which services markets are opened up to competition, known as sequencing, is also key to ensuring that governments can meet policy objectives while providing new opportunities to business. For example, it is particularly important that prudential regulation underpins the financial services sector.

In discussing regulation, it is necessary to address concerns about the potential negative impact of trade liberalization, whether on individuals or domestic companies. Governments and business need to understand such apprehensions and factor them into their own strategies. Moreover, international accords provide scope for governments to exempt certain public services from trade liberalization.

Main recommendations

- Improve cooperation and consultation between business and government on services trade negotiations and regulation.
- Ensure regulations are transparent, non-discriminatory and easy to administer.
- Adopt policies to encourage competitive services.
- Build business coalitions of services suppliers at national, regional and global levels.
- Mobilize business to help build capacity for services trade in developing countries.

Building coalitions

Trade negotiations can only be really effective if they suit both government policy objectives and business priorities. There is little point in negotiating market opening in sectors where business has little interest or competence. Business coalitions, both national and across borders, promote business interests and prevent trade negotiations from taking place in a consultative vacuum.

Underscoring the importance of business coalitions in the services sector, the book highlights a number of examples, including in Eastern and Southern Africa. Making such coalitions sustainable in the longer term is equally important. Steps to ensure viability include securing funding, identifying missions, aims and priorities and promoting the organization to members.

Existing services coalitions in developed countries have identified a number of negotiating priorities, such as improving regulatory transparency and investment protection. These positions tend to reflect the interests of leading services exporting countries, including developing countries such as India and those in South-East Asia, and may not fully represent the agenda of businesses in less developed countries. Nevertheless, they provide a useful checklist of issues that should be of interest to businesses around the world.

PART I

HOW LIBERALIZING SERVICES TRADE CAN HELP DEVELOPMENT

CHAPTER 1

THE CASE FOR LIBERALIZING SERVICES

THE CASE FOR LIBERALIZING SERVICES

This book begins with an assumption – that all countries seek economic development to improve the wellbeing of their people. This drives governments to pursue policies that allow businesses and individuals to prosper, and then redistribute some of this wealth to people less able to look after themselves. Economic development is achieved through growth, and growth is achieved through wealth creation.

At a micro level, wealth creation is also what drives individuals and businesses. Individuals seek to improve their living standards by increasing personal income through their own efforts, whether as employees or entrepreneurs. Businesses seek to create wealth through the collective efforts of their directors, managers and employees, and on behalf of their shareholders.

All commercial businesses create wealth by pursuing activities that generate profits. Some activities may involve trading with other countries, by selling products and services that buyers in other countries need or want. Some of these products may rely on imported raw materials, components or services. By adding value and charging an appropriate price, companies and exporters achieve profit. This is just as true for services as it is for merchandise.

Governments have a keen interest in the profits earned by businesses. They are an important source of revenue that, through taxation, is used to fund the socioeconomic goals of increasing prosperity and reducing poverty. In addition, there is a need to promote competition, to ensure that businesses do not abuse consumers in their quest for profit. Market corrections are needed, and this entails regulation.

At the heart of every economy, therefore, is a relationship between governments, businesses and consumers. Unless the right balance is struck, everyone may lose.

While this may seem to be straightforward economics, it bears repeating at the outset because some economic actors – and not just in developing countries – behave in a way that seemingly ignores these basics. Some businesses may try to maximize profit by delivering poor or expensive products and services, by cutting corners or inflating prices excessively. If so, intervention is needed to address market failures, protecting consumers and ensuring delivery of affordable products and services of a quality appropriate to their price. When consumers or governments call for wider aims such as environmental or social protection, there is an additional compliance cost to business that, in a free market, they might not choose to make and that rebounds back onto consumers, as governments try to achieve such outcomes through regulation that adds more costs and affects company profits.

These considerations are particularly relevant to trade in services, because services are especially susceptible to regulation. The more services are regulated without taking into account the impact that regulation may have on business, the more the aim of achieving wealth creation through trade in services may be frustrated.

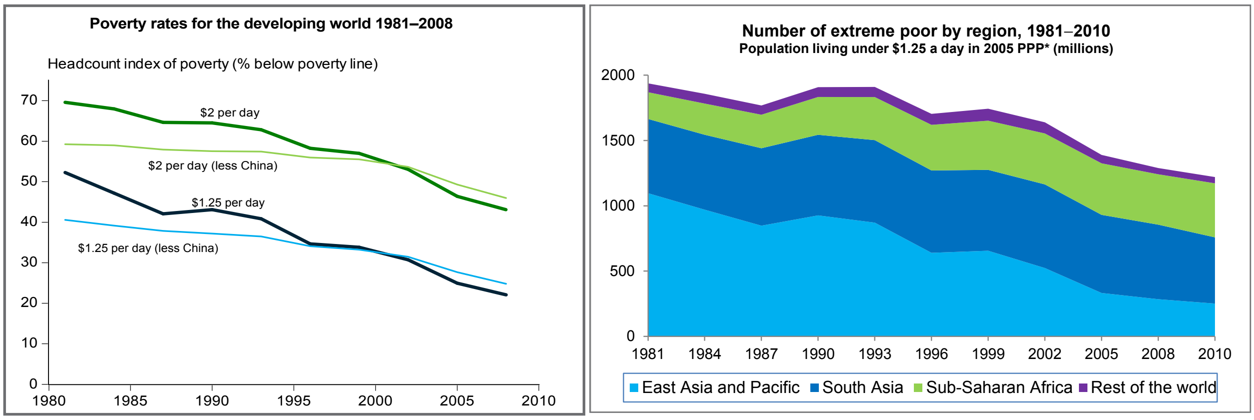
Dialogue is necessary between the different stakeholders, at every stage of a regulatory reform process, to ensure that respective aims can be balanced, as well as avoid unintended consequences.

REDUCING POVERTY THROUGH TRADE

Governments have pursued poverty reduction as a key development objective over the last sixty years. Yet progress has been relatively slow. The issue was brought sharply into focus with the setting of the Millennium Development Goals (MDGs) by the United Nations in 2000. In the trade-related arena, the goals of eradicating extreme poverty and hunger, and developing a global partnership for development, are especially relevant.

The Millennium Development Goals Report 2012 notes that despite high food and fuel prices and deep economic recession over the previous four years, global poverty rates have continued to fall. Provisional estimates for 2010 released by the World Bank indicate that the number of people living in extreme poverty (under $1.25 a day) fell to 1.22 billion, the equivalent of 20.6% of the population in the developing world, from 1.94 billion in 1981, or 52.2% of the population. Poverty remains widespread, however, especially in sub-Saharan Africa and Southern Africa, where four out of every five people in the world live in extreme poverty. This has an impact on labour productivity, a key measure of a country's economic performance.

Figure 1: Poverty rates and extreme poverty



Source: World Bank.

* PPP – Purchasing power parity

Although the benefits of economic growth are not distributed equally among a country's or a region's population, economists widely accept that economic growth assists poverty reduction. According to a study published by the World Trade Organization – WTO (Ben-David, Nordström and Winters, 1999 – see box 1), economic growth theory shows that when a country is poor in productive capital, the returns on investments are high. Empirical evidence suggests that major trade liberalization has coincided with movement to higher growth paths, from which the study concludes that open trade regimes facilitate economic growth.

Consequently, global efforts to help the poorest countries benefit from trade are highly relevant to poverty alleviation. The MDG Report notes that developing countries have performed particularly well in recovering economically from the global financial crisis. Preferential treatment and duty-free access granted by developed countries to developing and least developed countries have contributed to this economic recovery.

Box 1: WTO on trade and poverty reduction

- To alleviate poverty, developing economies need to grow faster, and the poor need to benefit from this growth. Trade can play an important part in reducing poverty, because it boosts economic growth and the poor tend to benefit from that faster growth.
- While living standards in some developing countries are not catching up with those in developed countries, in others this is certainly the case. What distinguishes the latter is their openness to trade, and the more open they are, the faster they are converging.
- Poor people within a country generally gain from trade liberalization. "Trade liberalization is generally a strongly positive contributor to poverty alleviation – it allows people to exploit their productive potential, assists economic growth, curtails arbitrary policy interventions and helps to insulate against shocks." This is consistent with a World Bank study that, using data from 80 countries over four decades, confirms that openness boosts economic growth and that the incomes of the poor rise one-for-one with overall growth.
- Some people do lose in the short run from trade liberalization. Some are well off, others not. The plight of the losers should not be ignored, but the right way to alleviate their hardship is through social safety nets and job retraining rather than by abandoning reforms that benefit most people.

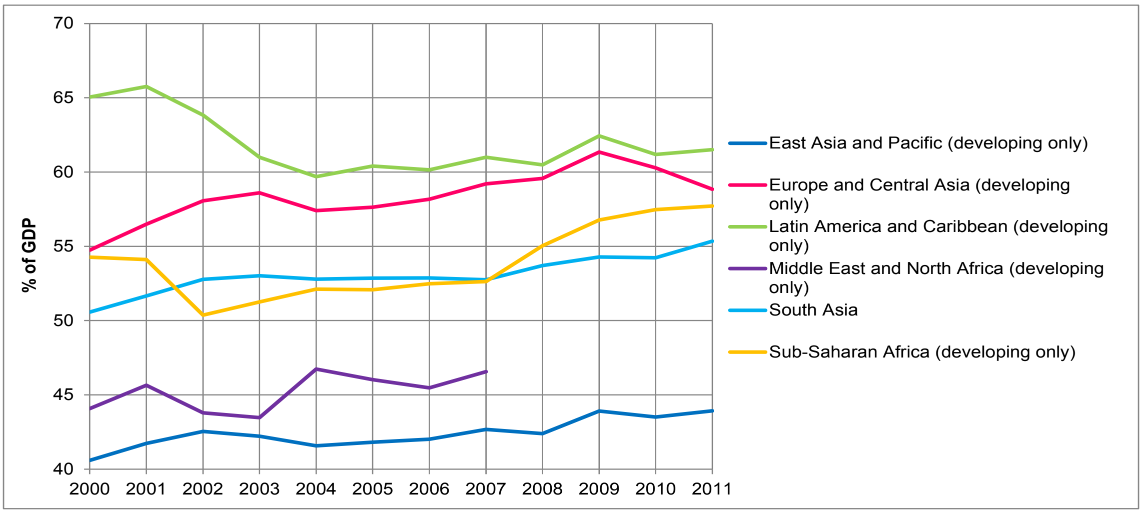
Source: Trade, Income Disparity and Poverty, WTO (1999).

SERVICES PLAY ROLE IN DEVELOPMENT

A significant omission from the MDG Report is any reference to the potential that services trade could bring to poverty alleviation. It does, however, mention the extraordinary rise in the number of mobile phone subscriptions between 1995 and 2011, bringing mobile cellular penetration levels to 87% worldwide and 79% in developing countries (50% in sub-Saharan Africa). The fall in information and communication technology (ICT) prices brought about by technological advances has allowed more than one third of the world's population to use the Internet. This offers huge potential for expanding cross-border services trade from developing countries.

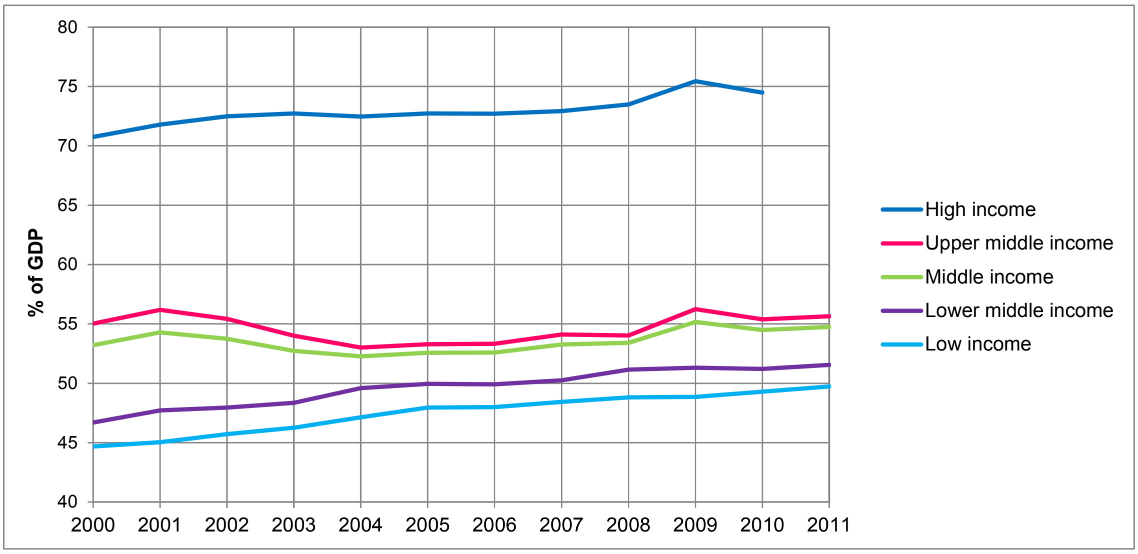
Given the conclusion that open trade regimes facilitate economic growth, what part does trade in services play? Much economic literature shows that the services sector plays an important part in the economic growth of developing countries. The World Bank notes that in the low-income countries, services now generate over 45% of GDP, while in high-income countries this rises to well over 70% (figures 2 and 3).

Figure 2: Services in developing countries, by region, 2000–2011



Source: World Bank.

Figure 3: Services in all countries, by income level, 2000–2011



Source: World Bank.

It is evident that exports of services have grown significantly in recent years, particularly from developing countries. Table 1 shows the 17 largest exporters of services among developing countries.

Table 1: Services exports, developing countries, 2005–2012 (balance of payments, current $ billion)

	2005	2006	2007	2008	2009	2010	2011	2012
China	89.15	113.85	147.51	165.99	144.19	171.49	184.76	196.30
India	52.18	69.44	86.55	106.05	92.89	124.06	137.33	n.a.
Russian Federation	28.85	35.72	43.86	57.14	45.80	49.16	58.04	62.69
Thailand	19.92	24.60	30.11	33.11	30.16	34.33	41.57	49.52
Turkey	27.82	26.09	30.01	37.04	35.76	36.45	40.97	44.20
Brazil	14.98	18.50	23.95	30.45	27.73	31.82	38.21	39.86
Malaysia	19.75	21.08	29.08	30.75	28.29	32.76	35.97	n.a.
Indonesia	13.54	11.58	12.56	15.40	13.25	17.01	21.84	23.66
Ukraine	10.44	12.18	15.24	19.29	14.95	18.33	21.27	n.a
Lebanon	10.86	11.67	12.76	17.64	16.91	16.16	19.81	n.a
Egypt	14.64	16.13	19.94	24.91	21.52	23.81	19.14	n.a
Philippines	7.05	8.72	11.79	11.25	11.82	15.46	17.86	18.60
Morocco	9.26	11.38	14.06	15.30	14.83	14.74	15.90	n.a
Argentina	6.46	7.84	10.14	11.84	10.68	13.46	15.46	15.09
Mexico	15.67	15.83	17.15	17.58	14.73	15.17	15.30	16.02
South Africa	11.30	12.21	13.82	12.81	12.02	14.00	14.82	n.a
Chile	7.13	7.83	8.96	10.82	8.49	10.84	13.13	12.63

Source: World Development Indicators, World Bank.

n.a. – not available

See appendix I for more detailed trade data.[1]

SERVICES, AN ECONOMIC BACKBONE

As the Overseas Development Institute (ODI, 2008) and others note, as well as being an important contributor to growth and employment, services are key inputs into most other areas of business. Such services include:

- Technology-based infrastructure services such as telecommunications, which are crucial for communicating orders and sales, and enabling electronic commerce via the Internet;
- Transport and logistics services, for moving raw materials, components and finished goods;
- Financial services, which provide access to finance and investment and are necessary to concluding payments and insuring the movement of goods;
- Health and education services, which are critical to ensuring a healthy and well-trained workforce;
- Professional services such as accountancy and legal services, which underpin a healthy market economy;
- Business services, which help to reduce transaction costs.

Indeed, even the assembly of components into finished goods may now be considered as services incidental to manufacturing when this is outsourced from a manufacturer who would otherwise have assembled the goods in-house.

Given that goods and services are becoming ever more interlinked, access to efficient and competitive services is a necessary business requirement in today's globalized world. Increasingly, liberalization of

1 Services trade statistics based on balance of payments (BOP) do not take into account Mode 3 (i.e. services provided through commercial presence, or foreign direct investment) as BOP only considers transactions between residents and non-residents, whereas Mode 3 captures transactions between residents.

industrial goods and agricultural products needs to be accompanied – almost seamlessly – by liberalized services to ensure that the benefits of liberalization can be realized in full, and not undermined by fragmented and uncoordinated barriers.

The case for liberalization of services is built around the benefits that competition can bring, by exposing countries to international best practice, better skills and technologies and investment capital (ODI, 2008). Opening markets to service suppliers from abroad ensures lower prices, greater choice, faster innovation and improved productivity. It also enhances a country's competitiveness by supporting development of a competitive domestic and regional services industry and ensuring access to global services.

Outsourcing, made competitive by the fall in international telecommunications prices and technological progress in Internet-based services, has become a significant new business activity. This ranges from back office IT support services to front office, direct customer contact services such as insurance and banking, from which developing countries have been the biggest gainers.

The benefits from services liberalization, however, do not fall uniformly on all developing countries. Some question the benefit of liberalization where domestic services are inefficient and non-competitive. Such cases could tempt the generalization that liberalization is of no benefit to developing countries. This would ignore the evidence that comparative advantage works just as effectively in the area of trade in services as for goods, particularly in relation to regional, or south-south trade. Countries that open up their markets have enjoyed faster growth than those that have kept their markets relatively closed.

EXPORT SUCCESS VARIES

A few developing economies, such as the Maldives and several Caribbean countries, depend almost exclusively on one service sector, tourism. Nonetheless, developing countries export a wide variety of services, from technology and skills-intensive services such as business process outsourcing (BPO) to labour and resource-intensive services such as travel services (Goswami, Mattoo and Sáez, 2011). Differences can also be seen within and between developing regions (South-South trade). For example, in Latin America services exports tend to require investment in commercial presence, whereas in South Asia services exports are mainly focused on cross-border supply and are directed primarily at developed countries.

Some developing countries have had success in exporting retailing and transport services (e.g. Chile and China), health and higher education services (e.g. Malaysia) and BPO services (e.g. India and the Philippines) but have not been as successful in exporting ICT-based services (e.g. Chile and Malaysia). Amin and Mattoo (2006) note that 'countries with better institutions have relatively larger and more dynamic service sectors'. Goswami, Mattoo and Sáez (2011), on the other hand, stress the central role that human capital plays in affecting the service exporting performance of one country compared to another and of one sector in comparison to another.

A SWOT[2] analysis summarized in table 2 shows that many factors should be taken into consideration in assessing the competitive potential of developing countries to become successful service exporters (Soprana, 2011). Strengths and weaknesses may vary according to the country, sector and mode of supply. Understanding which factors affect the competitiveness of a developing country in exporting services is crucial to determine the measures and actions that enterprises, institutions and policymakers should undertake to improve a country's exports competitiveness.

2 Strengths, Weaknesses, Opportunities, Threats. A SWOT analysis is a tool frequently used by organizations in the early stages of decision-making and strategic planning.

Table 2: SWOT analysis – developing countries as service exporters

Strengths	Weaknesses
▪ Comparative advantage in labour-intensive services ▪ Strong entrepreneurial culture ▪ Relatively low labour costs ▪ Historical and cultural linkages with potential target markets (especially important for BPO and education services) ▪ Abundance in historical, artistic, cultural and natural endowments (particularly important for tourism)	▪ Mediocre electronic and physical infrastructures ▪ Poor standards and inadequacies in domestic regulations (particularly disadvantageous for accessing foreign markets) ▪ Limited financial and administrative resources ▪ Lack of adequate instruments and methodologies for market intelligence ▪ Information deficits ▪ Political instability ▪ Low brand recognition and difficulties in establishing credibility with international suppliers ▪ Lack of or excessive fragmentation of regulatory institutions ▪ Burdensome business environment ▪ Service exporters not highly motivated to participate in government consultations ▪ Government resources still focus on promoting merchandise trade ▪ Weak enforcement of copyright laws
Opportunities	**Threats**
▪ Language skills (English for the Philippines and former British colonies, European languages for North African countries) offer opportunities in BPO, health and education services ▪ Geographical position (time difference) can provide opportunities in transport, financial and BPO services ▪ High demand for health and education professionals ▪ Large diaspora in potential target markets	▪ Increasing cost of business ▪ Increasing competition ▪ Increasing protectionist feelings in advanced economies towards offshoring of services ▪ Brain drain

Source: Soprana (2011) based on several sources.

SERVICES EXPORTS WEATHER CRISIS

The World Bank argues that services trade weathered the crisis much better than goods trade (Borchert and Mattoo, 2009). The Bank notes that developing countries such as India, which has specialized in business process outsourcing and information technology services, suffered much smaller declines in exports than countries such as Brazil and China, as well as many African countries, which have specialized in exports of goods, transport services or tourism services.

This is also supported by data from the WTO, which has noted that the crisis affected service sectors unevenly, with traditional services sectors such as transport, construction and financial services hit more severely than other sectors, such as information and communications technology services, and business process outsourcing. Transport exports recorded a 23% drop during the crisis, but rose by 16% in 2010 to reach world exports of $785 billion, with China recording a 45% increase and the Republic of Korea 33%. Construction, on the other hand, continued to decline by 1% in 2010.

In financial services, Europe struggled to recover, although the European Union's share of global exports in financial services still accounted for 49%. Japan's financial services exports also declined, by 25%. This contrasts with other parts of Asia, where the sector saw a strong recovery, with exports increasing by 31% in Singapore, 12% in Hong Kong, China and 64% in India. In the United States, the sector grew by 5%.

World tourism also declined significantly in 2009, with a 9% drop in world travel exports compared to 2008. By the middle of 2009, however, exports of tourism were already beginning to show signs of a rapid recovery and in 2010 these accounted for a quarter of world exports of commercial services, with receipts of $940 billion.

Table 1 also shows that developing countries were relatively resilient to the effects of the financial crisis in terms of services exports, which dipped only modestly in 2009, when exports still generally exceeded 2007 levels.

The World Bank suggests that this resilience may be due to delayed adjustment in some services sectors as well as demand for some traded services being less cyclical, and that services trade and production are less dependent on external finance than trade in goods (Borchert and Mattoo, 2009).

While, therefore, it is easy to see the lingering effects of the crisis, particularly in Europe, trade in services in other parts of the world has held up well. For business and policymakers the message is clear: the effects of the crisis were temporary, as was the case for the Asian financial crisis in the 1990s, and not systemic, and the case for liberalizing services is not affected by the crisis.

BALANCING REGULATION AND TRADE OPENING

The main barriers to trade in services involve the way governments regulate their services sectors. It is widely recognized that this is a very complex matter. On the one hand, regulation is necessary to ensure consumer protection, services standards and other public interest objectives; on the other hand, it can act as a significant restriction and can curtail the market access granted to foreign suppliers in trade agreements.

SEQUENCING

A key issue in services liberalization, therefore, concerns the way that services markets are opened up to competition. Governments will want to do this in a manner that maintains the central public policy objectives of existing regulation. Consequently, the benefits from services liberalization cannot be realized just by a mechanical opening of services markets. Governments have an important role to play in putting in place the preconditions for an efficient set of service industries – a process that is often referred to as 'sequencing'.

For example, it is particularly important that prudential regulation underpins the financial services sector, enforcing compliance with supervisory requirements designed to alert competent authorities of any impending difficulty that could affect depositors, investors or policyholders. This may lead countries to restrict the entry of foreign financial service suppliers until there is a regulatory framework that gives regulators confidence in their ability to supervise a more competitive market. This encourages, for example, restrictions on the level of foreign ownership of a services company established in the target market, the legal form a company may adopt (e.g. subsidiary, branch, representative office), the extent of a foreign company's operations, or the people it may use to provide services.

Some regulations reflect standards of compliance developed by international organizations, such as the accountancy standards of the International Federation of Accountants (IFAC) or the international regulatory framework for banks (Basel III), and will come as no surprise to service companies trading in the field concerned. Other regulations, however, may be deemed by business as excessive or unnecessary. While governments have the right to regulate to meet legitimate policy objectives, the key is to ensure regulations are not more burdensome than necessary.

Managing reforms therefore requires integrating trade opening with a careful combination of competition and regulation. Such sequencing involves making sure that market opening and regulatory reform are tackled in a step-by-step approach. As service sectors are not homogeneous, however, sequencing of liberalization may vary for different sectors.

ADDRESSING PUBLIC SERVICES

There is a grey area for countries to address the extent to which public services are included in trade agreements. Does liberalization of trade in services represent a threat to public services? Shedding light on this debate depends on what is meant by public services, and the perceived threats. Privatization by definition involves a transfer of ownership from the public sector to the private sector. The question is whether better services, i.e. more and better quality services, at an affordable price, can be supplied after privatization compared with existing services.

There can be no doubt that global privatization of the telecommunications sector resulted in considerable benefits, including the quality and reliability of mobile telephony, the widespread use of mobile phones, especially in developing countries, and the low cost of international telecommunications. Another example where similar expectations exist is the postal services sector, where the area traditionally reserved for public postal monopolies (e.g. basic letter post, which is usually accompanied by universal service obligations such as protecting services in remote or rural areas) is gradually being reduced.

Nonetheless, many countries view some services – for example, primary health care and education – as inherently supplied by the public sector, because of the social expectation that such services are universal and free at the point of delivery. Consequently, trade agreements tend to exclude 'services supplied in the exercise of governmental authority' from their scope. Two conditions are required to satisfy this exclusion:

- The service is not supplied on a commercial basis;
- The service is not in competition with one or more service suppliers.

(There are no legal interpretations of these criteria, a dispute panel may reach other conclusions than those given here.)

As regards the first condition, one dictionary meaning of 'commercial' includes 'pertaining to or having the characteristic of commerce', with an emphasis on 'sales leading to profit'. As mentioned earlier, a central objective of business is to make profits. This is not an objective of governments, although they may try to cover costs through the sale of some services. Thus, for example, patients may have to pay for health-care prescriptions provided by a doctor operating under a state health-care system, but these are unlikely to cover the full costs of the prescribed medicines, whereas a private clinic is likely to charge the full cost of treatment, including a profit element.

The second condition concerns competition. Again, governments do not generally compete with the private sector. They want to provide the best health care or education they can, but this is generally done against the background of a large taxpayer contribution to costs. The aim is not to maximize demand and, more often, governments supply services to consumers who do not want to pay for private services. On the other hand, private schools do compete with each other and with the public sector to attract pupils and good quality teachers, charging prices and paying salaries as appropriate.

The question of whether higher education is covered by the exclusion of services supplied in the exercise of governmental authority is less clear. State universities, which are often publicly-funded, compete with each other, with private universities and with alternative forms of higher education such as business schools. Most universities are keen to attract foreign students, and this is an important source of export trade earnings for a country.

Generally, countries are not against allowing market access for foreign higher education institutions, so long as they do not damage existing national public-funded institutions. This tends towards the assumption that they would in principle be covered by trade agreements, with public funding protected by reserving it only for national institutions. Against this background of legal uncertainty, those countries that have taken commitments have explicitly defined in their schedules that commitments are limited to private services.

Another sector that has attracted attention is water, which is highly sensitive because it is regarded as a fundamental requirement of life. Of course, commitments would focus on the access given to companies to offer environmental services in the form of water management services.

The scale of investment in improving the supply and quality of water in many parts of the world, particularly those stricken by drought, is usually beyond the capacity of governments in the countries concerned. Investment in water purification and supply is often only achievable through the involvement of private companies which, in exchange, may be granted a return on investments through the sale price they can charge to consumers for the service of delivering the water. This can be interpreted as the charge for the water itself. Privatization of the water system in the city of Cochabamba, Bolivia, was reversed after protests against price rises of 200% to 300%. This could, however, have been avoided if privatization had been accompanied by regulation limiting price rises or promoting competition, or both.

Both higher education and water provide important lessons for liberalization in developing countries. In general, liberalization has often been pursued because the public sector could no longer afford to meet rising demand and expectations.

Table 3: Pros and cons: liberalization in sectors with 'public service' aspects

Pros	Cons
▪ To send signals to private investors	▪ Unclear or incomplete regulatory framework
▪ To facilitate technology transfer and improve know-how	▪ Concerns about capacity to regulate private providers
▪ To strengthen national policy reforms	▪ Desire to experiment with policy reforms
▪ To gain commitments in areas of export interest	▪ Political sensitivity

Source: Author.

CHAPTER 2

WHAT DOES TRADE IN SERVICES MEAN?

WHAT DOES TRADE IN SERVICES MEAN?

SERVICES ARE INTANGIBLE … AND MORE

There used to be a very simple rule of thumb defining services as 'anything that you cannot drop on your foot'. This was probably intended to mean that trade principally comprises goods, services and agricultural products; and services are anything that is not a good (goods being both agricultural and industrial products). The reality is more complex. Intangible (or invisible) trade also covers broader items such as foreign direct investment (which can relate to goods as well as services), intellectual property rights and royalties (which are received as exports from selling a country's services abroad).

Wolak, Kalafatis and Harris (1998) suggest that services can be defined by four characteristics, in that they are:

- Intangible – 'anything that you cannot drop on your foot' – as described above;
- Inseparable – simultaneous delivery and consumption, often with the supplier and consumer both present (even via the Internet), which enables consumers to affect or shape the performance and quality of the service;
- Heterogeneous – high variability in service delivery, which can allow a degree of flexibility and customization that can give businesses a real advantage over competitors;
- Perishable – although they can be pre-ordered, services cannot be stored and carried forward to a future time period, which makes them 'time dependent' and very perishable (with no need for inventory management as there is with the supply of goods).

Various international organizations define services differently. Not even the WTO has a definition of what constitutes a service. Rather, it defines trade in services as the supply of a service by one of four so-called modes of supply (see below). To understand what constitutes a service, it may be helpful first to understand the range of service sectors that can be traded.

A WIDE VARIETY

The WTO classifies service sectors on the basis of the United Nations Central Product Classification (CPC). The version used is the Provisional CPC, because commitments under the GATS were negotiated and bound legally before a definitive version of the CPC had been adopted. (The latest version of the CPC, version 2.0, uses a different numbering system, which is used in United Nations statistics but not so far in trade agreements.)

The full classification is set out in appendix II. It is known in WTO circles as 'W/120', the abbreviated reference number for the WTO document[1] that contains the classification of service sectors adopted by the WTO for commitments under the GATS. It sets out 12 broad categories of service sectors, and gives a more detailed breakdown of 166 sub-sectors. Box 2 provides the broad classification headings.

Custom and practice in trade agreements has developed on the basis of the modes of supply and the W/120 classification. It is not compulsory to use this nomenclature, but most preferential, regional or other free trade agreements do. It has therefore become the default standard, and the basis on which trade agreements covering services are negotiated, as explained later in this book.

1 MTN.GNS/W/120, dated 10 July 1991.

Box 2: WTO services sector classification (W/120)

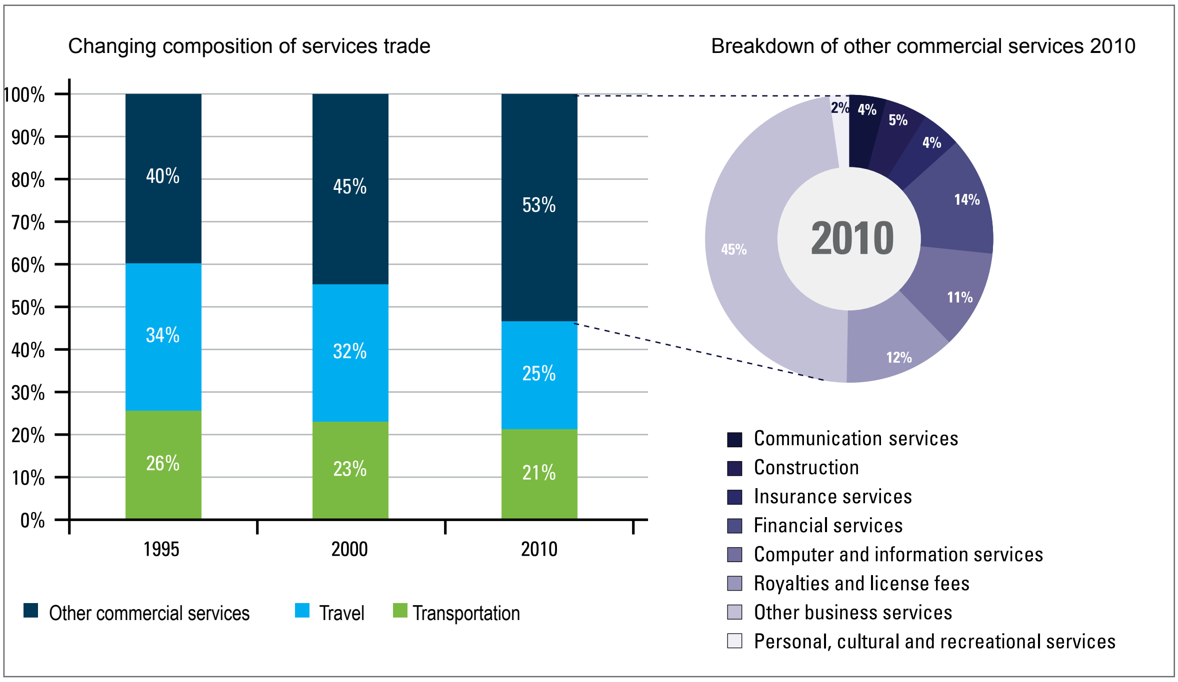
- Business services (e.g. professional, such as legal, accountancy, architectural and engineering; computer services)
- Communication services (e.g. postal, courier, telecommunications, audiovisual)
- Construction and related engineering services
- Distribution services (e.g. wholesale, retail)
- Educational services
- Environmental services
- Financial services (e.g. insurance, banking)
- Health-related and social services
- Tourism and travel related services
- Recreational, cultural and sporting services (e.g. entertainment, news agency)
- Transport services (e.g. sea, air, road, rail, ancillary)
- Other services

Source: WTO.

CHANGING COMPOSITION

In the past, services trade consisted mainly of tourism services and transportation. In 1995, these two sectors represented 60% of world services trade. By 2010, this proportion had dropped to 46%. The other largest sectors now include other business services, financial services, computer and information services, and royalties/license fees. The WTO International Trade Statistics 2012 shows that this trend continued in 2011, with travel receipts and other business services now accounting for more than 50% of services exports.

Figure 4: Changing composition of services trade



Source: World Trade Organization, Time Series on International Trade, adapted from Sáez, 2011.

FOUR MODES OF SUPPLY

As well as the sectoral classification, most trade agreements also follow the four modes of supply defined in the GATS, which form the basis for categorizing the supply of services. While this categorization is not necessarily how businesses define what they do, it helps to visualize the different types of service that may be possible, and also to view the conditions for (and restrictions against) accessing foreign markets. The four modes of supply are defined in table 4:

Table 4: The four modes of supply of services

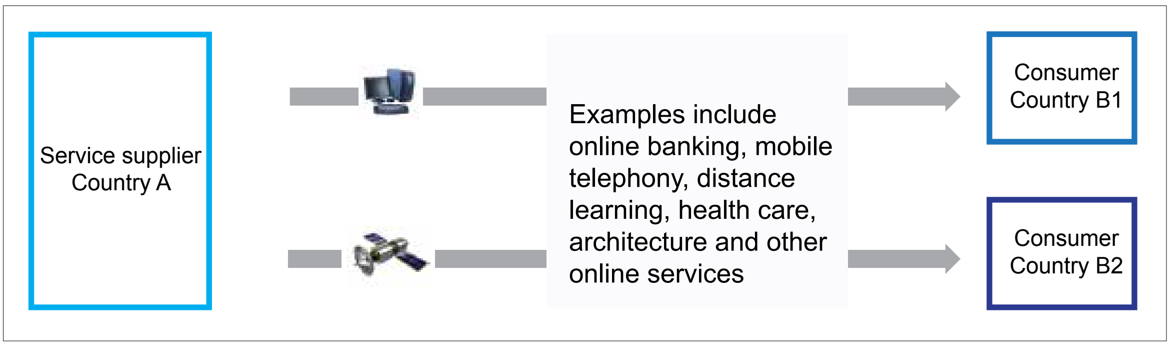
Mode	Short description	GATS definition	Examples
1	Cross-border supply	From the territory of Country A to the territory of Country B	Electronic commerce or Internet trade, international communications
2	Consumption abroad	In the territory of Country A to the service consumer of Country B	Tourism (e.g. travel, health, education related)
3	Commercial presence	By a service supplier of Country A, through commercial presence in the territory of Country B	Physical presence through subsidiary, branch, representative office, joint venture or other legal entity
4	Movement of natural persons	By a service supplier of Country A, through presence of natural persons of Country A in the territory of Country B	Use of people skills, e.g. intra-company transfers, business visitors, independent professionals

Source: Author.

This chapter will look at each of the modes of supply and consider the issues they raise for business. Each mode of supply gives rise to different potential trade barriers.

Measurement of services trade by mode of supply is not an exact science. The Manual on Statistics of International Trade in Services (MSITS 2010) provides an internationally agreed framework for compiling statistics on international trade in services.[2] According to the Manual, service transactions recorded in a country's balance of payments broadly cover Modes 1, 2 and 4, whereas Mode 3 data comes mainly from sales or outputs by foreign affiliates, such as subsidiaries or branches, as explained earlier.[3] Mode 1 trade takes total service transactions less travel, which is deemed to correspond to Mode 2, and minus government services, which are not covered by GATS.

Mode 1 – cross-border supply



Mode 1 describes a situation in which the consumer and service supplier are located in different countries. The service supplier provides services from Country A without having a physical place of business (e.g. a legal entity such as a subsidiary or branch) in the consumer's country (Country B). Reflecting the 'inseparable' characteristic of services that sees provision and consumption of the service taking place

2 World Trade Organization (2010). *A Review of Statistics on Trade Flows in Services – Data Compilation and Availability*, Council for Trade in Services, Note by the Secretariat, S/C/W/329, 22 December 2010, p. 1, footnote 3. Geneva.

3 *Ibid.*, p. 17.

simultaneously, Mode 1 is a service supplied remotely, typically (although not exclusively, as modes of supply are 'technologically neutral') a service provided electronically, e.g. via telecommunications or the Internet. Examples include Internet banking, mobile telephony and distance learning.

When the GATS was first drawn up, the Internet was barely in its infancy, so Mode 1 was considered more as a communications channel for the provision of services – mainly telephony and services that could be provided using telecommunications technology such as fax. Many services were not thought to be technically feasible, and countries excluded them from their specific commitments for that reason. The advent of the Internet brought the age of electronic commerce and allowed a whole new raft of services to be provided via Mode 1.

Architects can now offer their services via Mode 1, sending drawings over the Internet and holding discussions using channels such as web conferencing. This enables more services to be provided electronically that previously relied on the movement of architects to the country of the consumer (and the inherent difficulties that businesses faced under Mode 4).

For health care, electronic diagnostic services are now possible, offering cross-border services making use of different time zones and real time data transfer. Thus, a hospital in Europe can send a patient's data electronically to the Far East for analysis during the European night, allowing for faster diagnostic results. A specialist consultant surgeon based overseas can now supervise via video links live operations that previously required either the surgeon or the patient to travel.

Electronic commerce also enables consumers to order goods electronically or download software online that were previously only bought at shops or ordered by telephone from mail-order companies. Almost anything can now be ordered through online distribution services. Forrester estimates that e-commerce sales in the United States exceeded $200 billion in 2012, while in the United Kingdom Internet trade was estimated at £100 billion in 2010 (Boston Consulting Group, 2010).

Box 3: Mode 1: mobile phone banking

An example of Mode 1 concerns mobile phone banking. In sub-Saharan Africa, most people have no access to banking services, and few have bank accounts. The enormous growth in mobile telephony has encouraged financial services providers and mobile phone service providers to find new methods of bringing financial services to such people using mobile phones.

Mobile banking is proving to be an important way to serve the huge numbers of people worldwide who have a cell phone but no bank account. The African Development Bank notes that the mobile phone can serve as a virtual bank card where customer and institution information can be securely stored on the phone's SIM card to perform the same functions as the bank virtual card. The mobile phone may also serve as a point of sale terminal to pay for goods or services at the store, as a cash collection and distribution point and as an Internet banking terminal.

This has been especially successful in Kenya, where only 19% of the adult population in Kenya has access to a formal bank account, and South Africa, the country where mobile banking is most widely used in Africa and the most important emerging market in terms of mobile banking potential.

Source: Ondiege (2013).

Another significant development in services offered via Mode 1 involves the rapid expansion of business process outsourcing (BPO). This has become economically viable because of the fall in international telephony costs due to liberalization of the telecommunications sector, and developing countries such as India and the Philippines have been particularly successful in BPO. Many banking and insurance services have been outsourced in this way, with consumers contacting their own domestic service supplier and receiving service from an outsourced facility. Other BPO services include back office services and technical IT support. A Yankee Group study identified the main criteria for choosing a location for BPO services as service quality, labour costs, language, communication skills and an open, competitive ICT environment.

Box 4: Mode 1: business process outsourcing

India

Thousands of call-centre jobs have been transferred from the United Kingdom to cities in India, notably in Bangalore, Hyderabad, New Delhi and Pune. This partly reflects the traditional ties between India and the United Kingdom. British Airways began moving its back office processes to India in 1996. British Telecom opened its first large call centre in India in 1999; in 2009 it employed about 5,000 staff in India. Several United Kingdom banks and insurance companies moved their call centres to India in the mid-2000s – some have moved back to the United Kingdom. From 2010, National Rail Enquiries have been handled by Indian call-centre agents.

Philippines

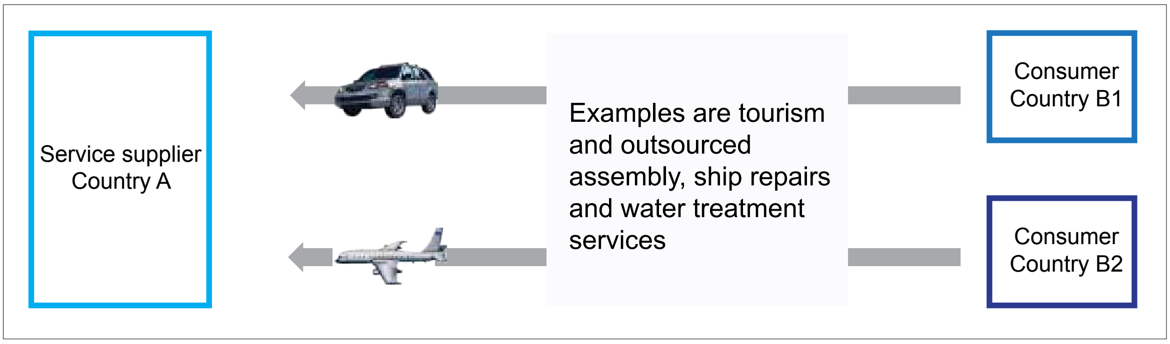
Manila in the Philippines is the largest BPO centre in the world. Due to historical ties with the United States, the English spoken by Filipinos works well for American customers. Revenues from BPO have grown to $7.2 billion in 2009 and to $9 billion in 2010, providing jobs for about 500,000 people. Despite the global slowdown, the industry grew by 20% in 2009. Major corporations such as ChevronTexaco, American Express, Proctor & Gamble and Accenture use Filipino contact centres.

Other emerging IT-BPO centres

Egypt, Indonesia, Jordan, Poland, Malaysia, Morocco, Thailand and Viet Nam.

Sources: Author and International Trade Centre.

Mode 2 – consumption abroad



Under Mode 2, the consumer of one country (Country B) obtains services in the country of the service supplier (Country A). The sector that most typifies this mode of supply is tourism. For example, the service provider may be a tour operator, tour guide, hotel or restaurant. The consumer consumes services by staying in the hotel or booking a tour with the local tour operator. Mode 2 also includes what some refer to as health tourism, where the consumer in Country B travels to Country A to obtain treatment (e.g. at private clinics) that may not be available in their own country. Higher education is another important service provided via Mode 2, in which foreign students travel to study at a university or business school where a particular course is offered.

While these examples suggest that the consumer moves physically to the country where services are supplied, this is not a requirement for services supplied under Mode 2. A student could also study for a degree or professional qualification by distance learning.

Other examples of Mode 2 supply include:

- Assembly services (referred to in W/120 as 'services incidental to manufacturing'). If a manufacturer decides to outsource assembly of parts and components (e.g. of a car or machine) to a foreign assembler, the parts and the finished product remaining owned by the manufacturer, the foreign assembly company is merely providing an assembly service (perhaps in a free zone). The manufacturer is therefore consuming assembly services abroad, and this would fall under Mode 2. This is also an example of the blurred distinction between goods and services.

- Ship repair services.
- Waste treatment services – shipment of radioactive and other waste for treatment.

Under Mode 2, the service represents an export on the balance of payments of the country of the service provider. Countries generally want consumers to visit their countries, because this raises revenue and poses the least risk to domestic suppliers as the issue of foreign service supply does not arise, except to the extent that foreign service suppliers have established a commercial presence (under Mode 3, where separate restrictions may apply).

A point of confusion relates to whether commitments relate to inward consumer movements. The WTO scheduling guidelines adopted in 2001 clarify that a feature of this mode is that the service is delivered outside the territory of the Member making the commitment. However, activities such as ship repair abroad, where only the property of the consumer moves, or is situated abroad, are also covered. In other words, a Member may only be able to impose restrictive measures affecting its own consumers being able to take up activities outside its jurisdiction, not those of other Members.

INTERNET BLURS BOUNDARIES

The growth of Internet business may challenge some classification assumptions. For example, if a university offers distance learning services, does this fall under Mode 1 or Mode 2? While this may not seem to matter to business, the way services are classified affects what restrictions are allowed by trade agreements. Seen from the perspective of the university offering the service, the service would fall under Mode 1 and the limitation on market access would be if the student's country (Country B) prevented such services from being offered. If, however, Country B imposed limitations on the student procuring the service, this would be seen as Mode 2. Much would depend upon how the measure was drawn up.

In another sector, financial services, a similar distinction can be drawn between active and passive services. The rules drawn up by the European Union for the cross-border provision of life insurance aim at taking account of the differing needs for the protection of policyholders. The basis chosen has been the way the contract was concluded:

- Active services are where the insurer takes the initiative to conclude a contract with prospective policyholders but must comply with the laws of the policyholder's country (the host state); this seems to be an example of Mode 1;
- Passive services are where the policyholder takes the initiative to seek insurance abroad rather than in his/her home country, with the insurer taking a passive stance to the conclusion of a contract. The EU rules assume that the policyholder has chosen not to be covered by his national law but by the law chosen by the insurer (home state law). If EU rules were to prevent the policyholder from procuring insurance in another Member State (which they do not), the measure would be a limitation under Mode 2.

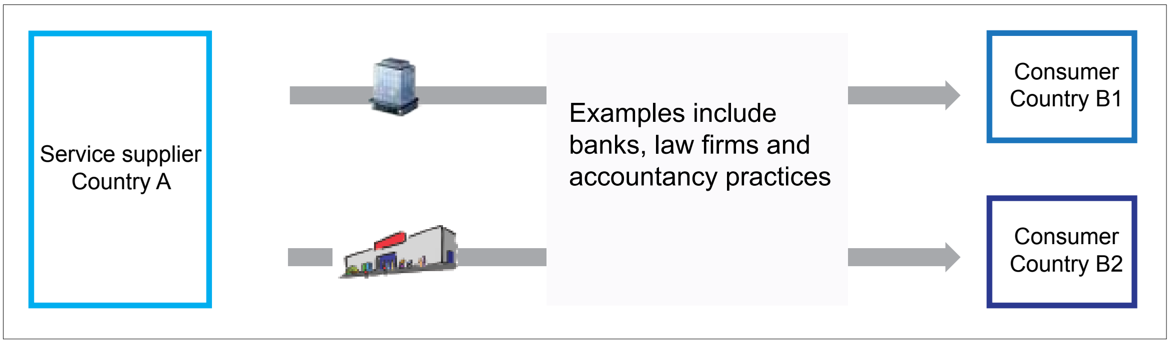
Applying these principles to the Internet, it could be argued (although so far WTO Members have not done so) that active services may fall under Mode 1, whereas passive services may be covered under Mode 2. Again, it turns on whom the measure is aimed at.

An important and complex WTO dispute settlement case under the GATS, known as the *United States Gambling case* (see also chapter 6, box 22), touched on this issue, albeit briefly. The case concerned a dispute over United States restrictions on online gambling services. The WTO Dispute Panel noted that the WTO Council for Trade in Services had reported a particular difficulty in making a distinction between supply under Modes 1 and 2. Neither the WTO Panel nor the subsequent Appellate Body report carried out an analysis as this distinction was not at issue in the dispute.[4]

4 The case looked at the dispute from the perspective of the *supply* of cross-border services, and defined 'remote supply' as 'any situation where the supplier, *whether domestic or foreign*, and the consumer of gambling and betting services are not physically together.' It concluded that the supply of online gambling services fell under Mode 1, but did not go on to consider whether *consumption* of online services by Internet could therefore be seen to fall under Mode 2.

The distinction therefore remains blurred. From a business perspective, it may not seem to matter much – after all, trade continues regardless of how other people try to classify it. But it does matter if trade restrictions apply to one mode and not another. In the case of insurance services, it also matters to business if the law applicable to the contract is different depending on the mode of supply. The important point is that the trade rules are not always clear-cut, but it is in the interest of business to have the rules made as clear and simple as possible. In the case of Internet-based services, business has argued for making market access conditions under both modes of supply the same.

Mode 3 – commercial presence



Mode 3 is the main way in which services are traded internationally. It has been estimated to account for between 55% and 60% of trade in services (Magdelene and Maurer, 2008). It is also referred to as Foreign Direct Investment (FDI) in services, and accounted for in trade statistics as trade transactions by foreign affiliates.

Under Mode 3 a service supplier sets up a commercial presence in the country where services are to be offered (also known as the host country). This could take the form of a subsidiary, branch office, joint venture or a representative office. The choice of form depends on local regulatory requirements. Some countries allow freedom to establish in whichever form suits the business seeking a commercial presence. Others may restrict the freedom of establishment to require a service supplier to set up an entity legally incorporated in the host country.

Typical Mode 3 businesses are banks, law firms and accountancy practices. Types of services that need physical proximity to consumers have a greater requirement for commercial presence through the right to establish branches (including direct branches).

While for many developing countries services exports via Mode 3 are comparatively small, inward FDI is often very significant. Inward FDI benefits developing countries by enhancing competition and entrepreneurship, transferring knowledge and technology, upgrading management skills, creating jobs, improving productivity and contributing to the eradication of poverty. To attract inward investment a country needs an attractive business environment, efficient infrastructures, adequate inward investment policies, a good reputation in terms of business partnership reliability, a stable political system and a sound economy (Soprana, 2011).

There are therefore strong links between a country's Mode 3 commitments and its foreign investment rules. Despite this, restrictions on Mode 3 activity are frequently found in trade agreements.

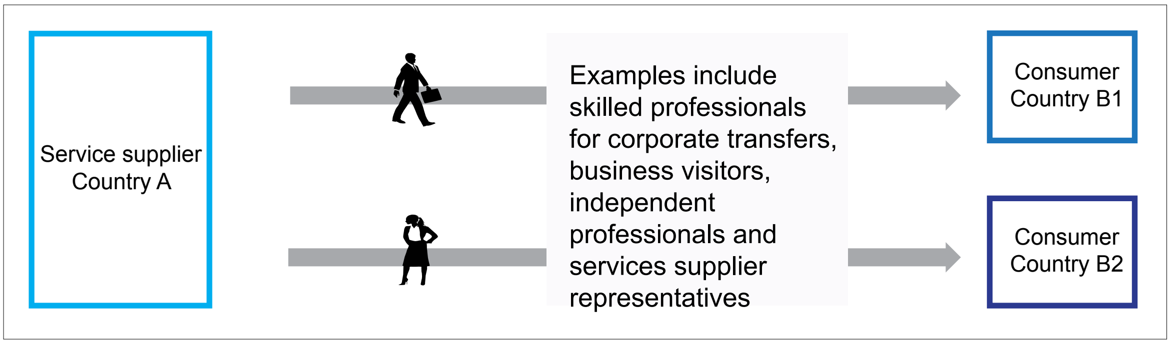
Typical trade restrictions include:[5]

- Limitations on the number of service suppliers;
- Limitations on the total value of service transactions or assets;
- Limitations on the total number of service operations or the total quantity of services output;
- Measures which restrict or require specific types of legal entity or joint venture through which a service supplier may supply a service;
- Limitations on the participation of foreign capital.

5 GATS (Article XVI).

It is understandable that in services trade, governments may want to create legal entities that fall under local jurisdiction, to provide legal protection for service consumers. Branches and representative offices are not legal entities, so countries that are less experienced in regulating services are often reluctant or unwilling to grant such establishment rights, even if this is the normal way for service suppliers in certain sectors to carry out business. Some of this hesitation can be overcome with more regulatory experience. Countries may, however, require a period of transition to achieve this, and these transitional periods are often found in WTO commitments.

Mode 4 – movement of natural persons



Mode 4 involves the temporary movement of personnel (natural persons) to another country to provide services there. For example, a company may wish to transfer certain members of its personnel to the country where it seeks to provide services (Country B). There may be various reasons for this. The company could be establishing a new commercial presence, and need key personnel knowledgeable of the company's business and objectives to set up the office. Other companies that already have a commercial presence may wish to transfer key personnel to manage the operation, or to train managers in the market conditions of the country concerned. Other reasons for moving personnel may be to negotiate new sales, or to provide services pursuant to a contract won by the company. Mode 4 may also include self-employed independent professionals. Table 5 sets out the examples most widely used in trade agreements.

The key point about Mode 4 is that it concerns the temporary movement of people to the territory of another country for the purpose of supplying a service.[6] They do not have access to the employment market of the country where services are or are to be supplied and are expected to return once they have supplied the service. Personnel remain employed by the service provider. Given the cost advantage that developing countries usually have when it comes to human resources, many view Mode 4 is seen as a key development issue. Skilled labour from developing countries can relocate temporarily to export markets, generating income that can be repatriated as remittances as well as further developing skills through experience abroad.

Typical trade barriers include:

- Limitations on skill levels – countries generally impose tighter restrictions on lower skilled people than on those who are highly skilled or have specialist knowledge;
- Economic needs tests – a restriction widely used in Mode 4 that gives a country discretion to change entry permits according to skills needs and shortages;
- Visas and work permits;
- Quotas on the number of people who may be granted entry by a country;
- Limitations on length of stay.

6 The GATS Annex on the Movement of Natural Persons notes that the GATS does not apply to measures affecting natural persons seeking access to the employment market of a Member, nor to measures regarding citizenship, residence or employment on a permanent basis.

Table 5: Categories of temporary movement of natural persons providing services under Mode 4

Category	Description of activity	Typical examples of permitted length of temporary stay found in WTO schedules
Intra-corporate transferee	A natural person* falling within one of the following categories who is an employee of a foreign-owned or controlled firm that provides services into the importing country through a branch, subsidiary or affiliate established there. Such persons have been in the prior employment of their firm outside the importing country for at least one year immediately preceding the date of application for admission or transfer: ▪ Executives (who primarily direct the management and policies of the service supplier, exercise wide decision-making and who receive only general supervision from higher-level executives, the board of directors or shareholders) ▪ Managers (who supervise or control the work of other employees, and who have the authority to hire and fire or other personnel actions) ▪ Specialists (who possess knowledge at an advanced level of expertise and proprietary knowledge of the service supplier's products, services and operations)	2-3 years (some countries may allow longer periods, or grant extensions up to 4-5 years)
Business visitor (sometimes also referred to as service seller)	A natural person of another country who represents a service supplier and stays in the importing country without acquiring remuneration within that country and without making direct sales to the general public or supplying services. Such a person may seek temporary entry to: ▪ Participate in business meetings ▪ Make business contacts including negotiations for the sale of services ▪ Prepare for establishing a commercial presence	Some countries limit this to 90 days, others to 6 months, while others limit it to 6 months in any 12-month period and may be renewable
Independent professional	A natural person seeking to engage, as part of a services contract obtained by a service supplier of another country, in the activity at a professional level and who possesses the necessary academic and professional qualifications	90 days, or the time necessary to complete the contract
Contractual service supplier	A natural person that is an employee of a service supplier of another country engaged in substantive business in the importing country but without having a commercial presence. This person provides a service as a professional under a contract between the service supplier and a customer in the importing country, and has been employed by the service supplier for at least one year prior to entering the importing country	Cumulative period of not more than 3 months in any 12-month period or for duration of the contract, whichever is less

Source: Author.

* Black's Law Dictionary defines a natural person as 'a human being, naturally born, as opposed to a legally generated "judicial person"' [such as a corporation, trust, partnership, joint venture, sole proprietorship or association].

Despite the conditions imposed, Mode 4 is a sensitive issue. Depending on how temporary movement is managed, it can raise concerns about immigration, labour market protection and social security. While these tend to be viewed as developed country concerns, they are also issues of concern to and between developing countries, especially when viewed in a regional context. This is exacerbated by extensive confusion in both the private and public sectors about what the rules are and how they operate. For example, some countries confuse rules on the temporary movement of people with the free movement of workers (some guiding principles drawn from regional discussions about the East African Community (EAC) Common Market Protocol are set out in table 6).

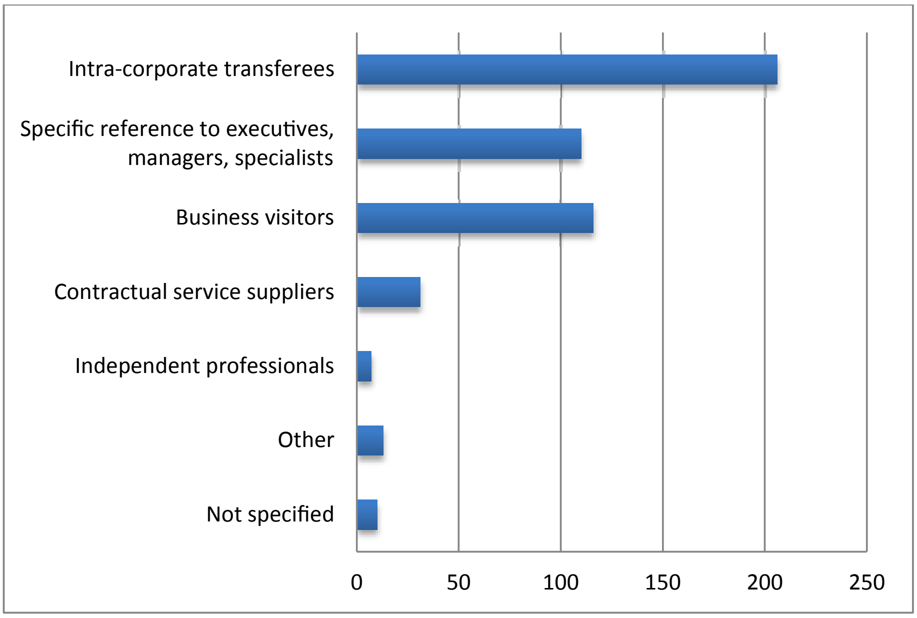
Table 6: Free movement of workers and freedom to provide services – guiding principles for the EAC Common Market Protocol

Principle	Free movement of workers	Freedom to provide services through Mode 4
Basic right	Entitled to apply for and accept employment	Right to provide services
Aimed at	Individuals	Companies/self-employed professionals
Basis of movement	Permanent	Temporary
Length of stay	Indefinite	Depends upon category (table 5)
Visa/work permit requirements	Work permit may be required, e.g. for periods of more than 90 days or 3 months, and some countries may require to see contract of employment at immigration	Work permit may be required, e.g. for periods of more than 90 days or 3 months
Access to labour market	Yes	No
Access to social security benefits	Yes	No
Right to remain	Yes	No (Some countries may grant entitlement to apply to remain if temporary entry period is extended to, say, five years)
Spouse and dependants	Right to be accompanied by spouse and dependent children	No

Source: Author.

Figure 5 shows the scale of commitments made by WTO member countries, and thus indicates a relative willingness to maintain open markets, according to different categories of personnel. The most liberal category by far is intra-corporate transferees, whether referred to as a broad category or sub-divided into executives, managers and specialists. The next highest category is business visitors, reflecting the existence of business visa procedures and a general lack of a need for work permits to enter for short periods of stay.

Figure 5: Mode 4 commitments by category



Source: WTO Secretariat (2009).

RELATIVE IMPORTANCE OF THE MODES OF SUPPLY

The relative importance in trade terms of the four modes bears little resemblance to their importance in trade negotiations. For example, Mode 4 is viewed as very important in trade negotiating terms, yet accounts for less than 5% of services sales. As the Commonwealth Secretariat notes, service suppliers in developing countries are mainly interested in Mode 1 and Mode 4, yet many liberalization commitments in trade agreements are also linked to Mode 3. Indeed, Mode 3 is by far and away the most important in trade terms.

Table 7: Sale of services by GATS modes of supply, 2005

Mode of supply	Estimated share
Mode 1 – cross-border supply	25%–30%
Mode 2 – consumption abroad	10%–15%
Mode 3 – commercial presence	55%–60%
Mode 4 – movement of natural persons	Less than 5%

Source: Magdelene and Maurer (2008).

THE FOUR MODES OF SUPPLY ARE LINKED

Much as the modes of supply help to explain and visualize trade in services, most business is not conducted in such a compartmentalized way. In many cases, trade encompasses more than one mode. Financial services exemplify the link between Mode 1 and Mode 3. Many banks seeking international business will conduct their operations both through subsidiaries or branches in the consumer's country, allowing face-to-face transactions to take place. Increasingly, e-banking is gaining rapid ground in international financial services. An effective business strategy for market entry requires market access through both approaches. While in trade agreements it may be convenient to separate out the modes, in reality business integrates them.

Mode 3 and Mode 4 are also closely linked. Businesses that pursue a strategy requiring a commercial presence in an export market also often have a need, as explained above, to send key personnel to the country where the commercial presence is being established, either to negotiate the terms for the establishment, to set it up, or to run it temporarily. A local office may well be necessary to oversee construction projects and the management of the skilled personnel needed to fulfil the construction contract. Allowing a company to establish a commercial presence without allowing, even temporarily, the entry of key personnel could frustrate the sought business opportunity.


tual Recognition Agreement

CHAPTER 3

MANAGING REGULATORY REFORM

MANAGING REGULATORY REFORM

TRADE BARRIERS: MAINLY REGULATORY

Services are widely subject to domestic regulation. This partly reflects key differences between the nature of goods and services. If, for example, a consumer buys a television that doesn't work, depending upon local consumer protection laws he or she can take it back to the shop where it was bought and have it replaced, or perhaps receive a refund. But as services are supplied and consumed simultaneously, poor quality services cannot be taken back to the supplier.

One example to illustrate this could involve building construction or refurbishment, where the service provided results in a change that cannot be restored to the position before the service began. Another is a transport service on which the consumer relies to deliver an item by a certain date or time, but the service supplier delivers late or not at all. The consumer may refuse to pay for the service, but the supplier cannot undo the service provided.

The effects for the consumer may result in a temporary shock or set back, but they can also be devastating. In a service such as hairdressing the impact could be upsetting, if only temporarily, but in cosmetic surgery poor services could affect a person for life. The service supplier may claim that the service was provided according to the contract, and that it is the consumer who may be at fault, perhaps for having unreasonable or unrealistic expectations, or being imprecise about what they want.

As poor service can lead to a dispute between the consumer and the service supplier, regulation seeks to prevent this happening in advance of the service being provided ('*ex-ante*' regulation), by setting standards of service and defining safety nets if things go wrong. For example, regulation may require professional service suppliers, such as lawyers, accountants or architects, to meet certain professional qualification standards, to demonstrate professional competence. Construction companies are often required to meet building regulations for health and safety reasons. Regulation of insurance services exists to give regulators advance notice of possible insolvency of the insurer, allowing the insurance company concerned time to adjust under closer supervision than normal. It also provides policyholders with a safety net if insolvency does occur, for example, through compensation schemes funded by a levy on the insurance industry.

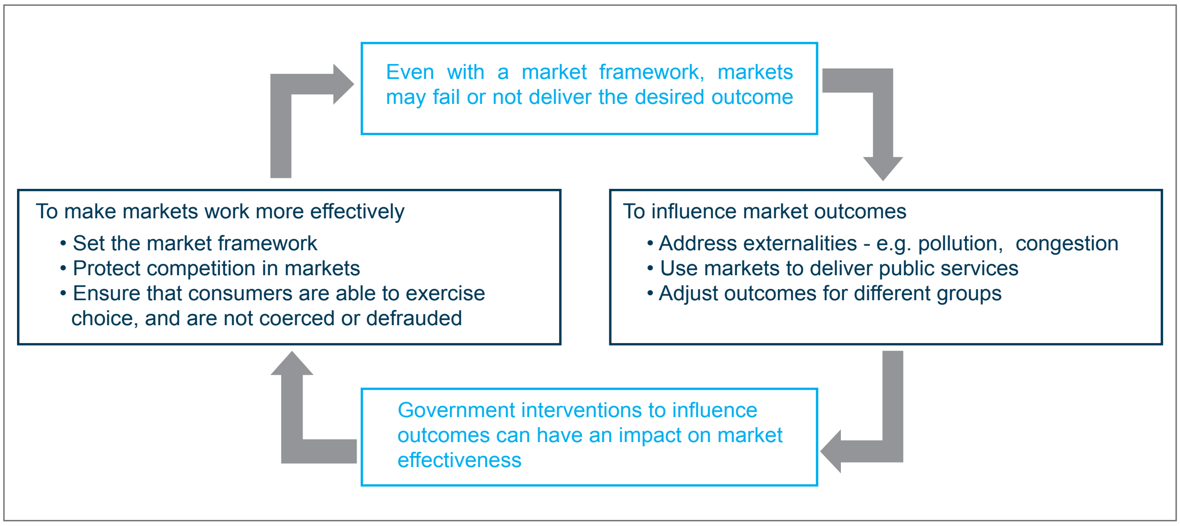
There is nothing inherently wrong with regulation. What does go wrong from a business perspective is excessive, unnecessary, non-transparent or discriminatory regulation, or regulation that is badly or unfairly administered.

REASONS TO REGULATE

Regulation is the means by which governments intervene in markets to achieve a number of objectives. These could include:

- Correction of market failures – situations where markets do not function properly to deliver the goods or services that consumers want;
- Social objectives – such as poverty reduction, improvements in living standards, or standards of health care;
- Control of market power – through the application of competition law, to ensure that market power is not abused by stronger suppliers;
- Change in consumer behaviour – such as limiting the availability of socially undesirable products or services;
- External reasons – such as environmental protection.

Figure 6: Why governments intervene in markets



Source: Office of Fair Trading, United Kingdom.

From a regulatory authority's point of view, regulation needs to address the whole picture, not just part of it. For this reason, when a situation arises that requires a regulatory response, the temptation may be to introduce as much regulation as possible to address the issue, rather than as much regulation as necessary. Options that governments may pursue are set out below.

Table 8: Types of government intervention

	Traditional instruments	Market-based approaches
Providing public services	Direct provisions	Competitive tendering User choice
Influencing private markets	Regulation Taxes and subsidies	Trading schemes Self-regulation

Source: Office of Fair Trading, United Kingdom.

BETTER REGULATION, NOT DEREGULATION

As interventions by government work against the natural processes of markets, they impose a cost on business that would not be present in the absence of regulation. Some of these costs are necessary to achieve outcomes in the general good and may outweigh the benefits of market freedom. Others can be seen as excessive or unnecessary to achieve the policy objectives set. Liberalization aims to increase exports, thus contributing to poverty reduction. If additional regulatory costs reduce the competitiveness of services, they can have a detrimental effect on development objectives. For governments, there is a complex balance to be weighed. For business, the impact of regulation is much clearer – compliance requirements increase costs and reduce profits, which will often be passed onto the consumer in the form of higher prices.

Services liberalization is often equated with deregulation; and deregulation is often seen as undesirable for consumers. Liberalization and deregulation are not synonymous, however. Liberalization concerns the access granted to new entrants to a market, while deregulation refers to the regulatory reform process. Of course, in services trade the two are linked, because trade barriers are mainly regulatory. In practice, however, the notion of deregulation conjures up the prospect of regulation being removed wholesale, when what is really required (and indeed may be intended) is what has become known as better regulation. Countries such as the United Kingdom that once established government 'deregulation' units have now rebranded them as 'better regulation' units.

This is as it should be. While liberalization facilitates market access for new entrants, domestic regulation applies to all suppliers, both new and existing. Liberalization of trade in services often requires changes to regulations, but this does not mean the removal of regulations that protect the public interest. In many instances, liberalization requires the introduction of new regulations to govern the sector or activity.

Take the example of liberalization of telecommunications services. Liberalization has resulted in the introduction of new telecommunications legislation and regulations to promote consumer interests. These cover issues such as competition, inter-connection, cost-based pricing for services and independent regulators. The result is a liberalized, more competitive sector with new, sometimes innovative services. The combination of liberalization and technological advances has resulted in the enormous growth in mobile telephony coupled with a dramatic fall in international telecommunications prices. This has had a major impact on developing countries, which have been able to expand consumer usage by bypassing fixed line infrastructure and going straight to mobile networks, bringing communications within reach of many people who could not previously benefit from or afford access.

IMPACT ASSESSMENT TEMPERS EXCESS

Many governments regulate to achieve perfectly legitimate objectives. The means of achieving those objectives, however, may not be the most efficient from the point of view of business. Regulatory impact analysis (RIA) is a tool for assessing the socioeconomic impacts of regulatory proposals by comparing them with other options for achieving the same goals. Business has a part to play by contributing to the impact analysis. Indeed, it is generally in business' interests to do so.

RIA works by setting a number of logical steps to follow when preparing policy options. It sets out the evidence for and against policy options by analysing their possible impacts. A number of governments carry out RIA as a matter of routine, because it offers a defence in public scrutiny of policy proposals and identifies unintended consequences of regulating in a particular way. Guidance from the European Commission suggests that RIA should carry out the analytical steps set out in table 9.

Table 9: Regulatory impact analysis

Identify the problem	Describe the problem, the key players affected, the drivers and underlying causes, and develop a baseline scenario including a sensitivity and risk assessment.
Define the objectives	Set objectives, both general and specific, that are relevant to the problem and its essential causes; use SMART (Specific, Measurable, Achievable, Realistic, Time-dependent) analysis.
Develop the main policy options	Identify policy options, distinguishing between substance and options for delivery; check that the options are proportionate to the problem; narrow the range of options through screening for technical and other constraints; measure for effectiveness, efficiency and coherence.
Analyse the impacts of the policy options	Identify the economic, social and environmental impacts of each option; identify who is affected; analyse the impacts against the baseline scenario; assess the administrative burden and simplification benefits; consider risks and uncertainties in each option, including obstacles to compliance.
Compare the options	Weigh up the positive and negative effects of each option; show aggregated and disaggregated data; compare impacts on each affected stakeholder group; identify a preferred option.
Outline policy monitoring and evaluation	Identify indicators of success and an outline of future monitoring and evaluation arrangements.

Source: European Commission (2009).

Dialogue with stakeholders and interested parties is an important, indeed essential, part of the process. By consulting first and then acting, governments minimize or avoid altogether the risk of taking action that leads to disagreement or dispute. Business therefore needs to position itself to provide objective, evidence-based contributions to the decision-making process. This book discusses consultation in chapter 7.

FOLLOWING INTERNATIONAL BEST PRACTICE

When trade negotiators developed rules governing international trade in services, they included a set of principles reflecting best practice for domestic regulation. Article VI of the GATS provides for Member States to:

- Ensure that measures 'of general application' affecting trade in services in sectors where there are specific commitments are administered in a reasonable, objective and impartial manner;
- Maintain judicial, arbitral or administrative procedures which provide for the prompt review of administrative decisions affecting trade in services;
- Inform an applicant that is required to seek authorization to supply a service, within a reasonable period of time, of the decision concerning the authorization application in sectors where commitments have been taken.

It also directed Member States to 'develop any necessary disciplines' relating to qualification requirements and procedures, technical standards and licensing requirements, to ensure that they do not constitute unnecessary barriers to trade in services. The purpose of such disciplines was to ensure that such requirements are:

- Based on objective and transparent criteria, such as competence and the ability to supply the service;
- Not more burdensome than necessary to ensure the quality of the service;
- In the case of licensing procedures, not in themselves a restriction on the supply of the service.

To date, disciplines have been developed for the accountancy services sector, but general principles with a broader scope are still under discussion in the WTO.

MUTUAL RECOGNITION AGREEMENTS

Another article, Article VII, addresses regulatory requirements for recognition of qualifications, an issue that is of particular relevance to professional services. Recognition of qualifications aims at creating procedures in the host state that would allow professionals to operate there on the basis of the qualifications obtained in their home state.

In most countries there are some products and services that cannot be automatically placed on the market without receiving prior authorization, licensing or certification to indicate that they meet a certain standard (Hook, 2013). The justification for such requirements can usually be found in a public interest test, of which each country has its own interpretation. As far as services are concerned, this is commonly justified on a combination of consumer protection and other public policy grounds (e.g. lawyer independence from the state). Typically, the services are likely to be professional services, such as accountancy, legal and architectural services.

When such services are traded across international borders, market access for foreign suppliers can be achieved, without requiring duplicate authorization processes or the undermining of domestic public policy, through the use of mutual recognition agreements (MRAs). Such agreements are intended to provide a framework that permits the acceptance of authorizations acquired by the professional services supplier in the supplying country. 'Mutual' implies that these arrangements are reciprocal, although that does not necessarily mean the requirements on either side are identical. In the field of professional services, there are a number of different types of MRAs that have been used over time and these can broadly be characterized into three main types:

- **Harmonizing MRAs**, which seek to promote the convergence of processes leading to authorization on a broadly common, if not identical basis.
- **Competency based MRAs**, which focus on quality assurance rather than the process of authorization, accepting that the same outcome might be reached in different ways.
- **Managed MRAs**, which embed any recognition agreement in a clearly defined and proactive framework for market access.

The key characteristics of an MRA are:

- **Governance.** The governance arrangements in any MRA usually define the bodies responsible for authorization. They will also outline arrangements for dispute resolution and for deepening the extent of recognition or harmonizing approaches.
- **Scope of authorization.** An MRA will also need to set out the scope of the practice being permitted to any foreign qualified persons authorized under the terms of the agreement. These will often take their lead from the United Nations Central Product Classification (CPC), which are also frequently used by countries in scheduling market access commitments under the GATS or in bilateral trade treaties.
- **Eligibility.** MRAs will usually set out the minimum requirements that a professional in one country has to fulfil before they can use the MRA to access the market in another country. These minimum requirements may range from detailed specifications about the content of prior training and experience to eligibility to use the MRA on the basis of a professional title or qualification acquired in another country.
- **Equivalence.** Eligibility under an MRA, on its own, does not necessarily provide the basis for accessing the market. A foreign qualified professional who is 'eligible' under an MRA may simply be offered the opportunity to bypass part of a recognition process required in order to provide services in a host country. The foreign qualified professional may still need to undertake further training or tests in order to achieve "equivalence" and access the market. An MRA will therefore often give parties the option to impose 'compensatory measures'[1] to help the foreign licensed professional achieve equivalence and obtain full market access.
- **Automaticity.** The level of automaticity offered by any MRA will determine how easy it is for a professional to access the market once their eligibility has been established. Is licensing, on the basis of whatever scope is offered to a foreign lawyer, automatic on the basis of satisfactory evidence being presented, or is some discretion involved?
- **Post approval conditions.** Once recognition has been granted under an MRA, the agreement may also specify whether there are ongoing conditions attached, such as regular submission of home state approval documentation, proof of indemnity insurance cover, or compliance with continuous education and training requirements.

PRO-COMPETITIVE REGULATION

During WTO negotiations on liberalization of basic telecommunications services, Member States realized that liberalization of market access would not be sufficient without commitments to introduce regulations promoting competition. Participants took the view that, without competition, liberalized services could result in the conversion of formerly public monopolies into rent-seeking newly privatized monopolies. Competition would be needed to accompany liberalization to prevent or limit this effect. Article VI of GATS provided general principles, but these did not deal directly with anti-competitive behaviour such as restricting access to essential infrastructure or facilities. Negotiators believed something more specifically related to the sector was needed and developed a Reference Paper of pro-competitive regulatory principles to encourage competition and prevent monopoly abuse.

The telecommunications Reference Paper led to a broader debate on the design of pro-competitive regulatory principles that could apply to other services sectors, particularly network services such as energy, which were less well-developed internationally than basic telecommunications but had similar characteristics.

From a business point of view, this was welcomed. Business recognized the right of governments to regulate their domestic services, but noted that some of the ways governments acted to ensure the fundamental objectives of consumer protection and guaranteed supply of services would be more restrictive on competition than others, would discriminate between foreign and national service suppliers, and would limit the range of available services.

1 Such as measures to compensate for the differences between actual qualifications or the competences they represent. These measures may include tests, courses, further training periods or supervision requirements etc.

Table 10: Pro-competitive regulatory principles advocated by business

Aim	Comment
▪ Enforce the basic principles on domestic regulation contained in GATS Article VI	▪ Domestic regulation should be administered in a reasonable, objective and impartial way.
▪ Emphasize the importance of regulatory transparency	▪ Governments should be transparent in their decision processes and adopt the least trade restrictive option in new regulation to achieve market liberalization.
▪ Be able to react to new domestic rules and be consulted in advance	▪ Existing and future regulations should be made public and available to consumers and businesses with adequate time for comments before the rules are adopted.
▪ Favour the development of new products and services	▪ Companies should be allowed to innovate by introducing new products; government control or prior-approval procedures should be fair and not restrict consumers' access to new products.
▪ Establish reasonable qualification procedures and standards	▪ Regulatory enforcement should ensure quality of service and avoid restrictions on the supply of services.
▪ Ensure licensing requirements are objective and necessary	▪ Licensing should not be introduced unless it is justified by an objective and clearly identified need which cannot be satisfied otherwise; complex, time-consuming, arbitrary or discriminatory licensing requirements should be avoided.
▪ Enhance the role and status of regulatory authorities	▪ The status and the role of regulatory authorities should be clearly defined and rationalized to avoid unjustified procedures and burdensome requirements, with independent regulatory authorities in some sectors in order to develop objective and transparent decision mechanisms.
▪ Reform the regulation of monopolies	▪ Remaining monopolies should be regulated to ensure fair competition with new market entrants competing in liberalized areas and be prohibited from cross-subsidizing competitive services with revenue obtained from monopoly activities.

Source: European Services Forum (1999).

ENCOURAGING COMPETITIVE SERVICES

A number of studies show that the main feature of services trade liberalization is a rise in the level of domestic productivity (Sáez, 2011). There is a strong link between the degree of openness to trade and investment in the services sector and achieving international competitiveness in services. As a result, economies with more open regimes for services are more likely to do well in global services markets. Sáez (2011) argues that developing economies are adopting a variety of strategies to expand their services sector built around the following main determinants of services competitiveness:

Fundamentals	▪ Infrastructure ▪ Entrepreneurship and human skills ▪ Institutions ▪ Endowments
Domestic policies	▪ Policies affecting trade, investment and labour mobility in services
Targeted policies	▪ Special Economic Zones ▪ Incentives ▪ Export promotion policies

IBM (2006) takes a similar approach and agrees with the Organisation for Economic Co-operation and Development (OECD) that government strategies for economic development and competitiveness need to include policies to foster employment, productivity, innovation and growth in the services sector (see box 5).

Box 5: Policies to encourage competitive services

1. Develop skilled human resources	▪ Education – high schools and universities; incentives for business to invest in training
2. Promote entrepreneurship, industry clusters and small and medium businesses	▪ Facilitate creation of new businesses; regional economic development and innovation
3. Adopt flexible labour laws	▪ Facilitate adaptation and reallocation of human resources to more productive and innovative areas
4. Create a tax environment to support the services sector	▪ Ensure tax laws that do not hinder service export development
5. Enable competition in deployment of ICT infrastructure and services	▪ Competition in ICT infrastructure, network services, value-added services
6. Open markets to trade and investment in services	▪ Developing countries should have a competitive advantage in many services
7. Create innovation policies for the service economy	▪ University and R&D programmes should support the service sector
8. Create new metrics for the service sector	▪ An improved basis could help policymakers and investors

Source: IBM (2006), based on OECD analysis.

In the 1990s, the OECD conducted 20 country reviews, based on which OECD ministers endorsed a set of policy recommendations for regulatory reform in 1997. Their purpose was to guide member countries to improve their regulatory policies and tools, strengthen market openness and competition, and reduce regulatory burdens. Ten years later, these recommendations were re-examined and updated. The revised principles are summarized in box 6.

Box 6: OECD guiding principles for regulatory quality and performance

1. Adopt at the political level broad programmes of regulatory reform that establish clear objectives and frameworks for implementation.
2. Assess impacts and review regulations systematically to ensure that they meet their intended objectives efficiently and effectively in a changing and complex economic and social environment.
3. Ensure that regulations, regulatory institutions charged with implementation and regulatory processes are transparent and non-discriminatory.
4. Review and strengthen where necessary the scope, effectiveness and enforcement of competition policy.
5. Design economic regulations in all sectors to stimulate competition and efficiency, and eliminate them except where clear evidence demonstrates that they are the best way to serve broad public interests.
6. Eliminate unnecessary regulatory barriers to trade and investment through continued liberalization and enhance the consideration and better integration of market openness throughout the regulatory process, thus strengthening economic efficiency and competitiveness.
7. Identify important linkages with other policy objectives and develop policies to achieve those objectives in ways that support reform.

Source: Organisation for Economic Co-operation and Development (2005). OECD Guiding Principles for Regulatory Quality and Performance. Paris. Available from http://www.oecd.org/fr/reformereg/34976533.pdf.

SEQUENCING REGULATORY REFORM

There has been much debate about sequencing, or the order in which regulation and liberalization should occur. It is clear from experience that services should not be liberalized in developing or developed countries unless adequate underpinning domestic regulations supported by effective regulatory institutions are in place. In practice, however, this is precisely what has happened in some markets, especially in relation to new services. Under the pressure of negotiations, countries have agreed to liberalize sectors without working out a regulatory framework. This is what leads some to argue against any liberalization at all.

As the ODI (2008) points out, based on case studies in various countries of sectors ranging from finance, tourism and health to energy and ICT services, there are some risks to market opening in services. These may include:

- 'Crowding out' domestic providers;
- Excessive profits made and repatriated by private/foreign providers;
- Negative impacts on access by consumers to services, especially in the infrastructure or utilities sectors;
- Sector specific risks such as damage to the environment from excessive tourism, financial sector instability,
- Brain drain due to opening markets for the movement of professionals or people with specialist skills.

All these risks can be mitigated, however, by properly sequenced regulation. The ODI research findings show that liberalization can still bring benefits as long as there is an appropriate regulatory environment.

Box 7: Complementary measures and sustainable impact assessment

There is growing awareness of the need to consider the social and environmental impacts of trade liberalization alongside the liberalization process. Whether in the field of agriculture or services, liberalization does not bring benefits to all. Improving efficiency among producers or service suppliers will inevitably lead to inefficient companies being 'weeded out'. Economically, it makes little sense to maintain inefficiencies, which add costs, undermine a country's competitiveness and erode its comparative advantage. Efficiencies improve consumer choice and reduce the cost of products and services.

One way to offset negative impacts of liberalization is through the process of sustainable impact assessment (SIA). EU countries and the United States have used this for some years as part of long-term economic policymaking. In the assessment process, complementary measures (also referred to as flanking measures) can be developed to reduce potential problems. SIA methodology involves conducting a study of measures that would mitigate the potential negative effects and enhance the positive effects of the consequences of trade liberalization. It also takes into account the concerns and considerations of the public. By conducting transparent policy formulation, it ensures that decision-making bodies, stakeholders and the public are included when complementary measures are considered and introduces greater accountability in the system.

Examples of complementary measures could include strengthening the rule of law, improving the general business climate, combating corruption and reinforcing the internal authority of the competition policy regime.

Source: Author.

In considering its negotiating position for the Doha Round services negotiations, Pakistan's Centre for Management and Economic Research conducted a stakeholder consultation on how liberalization might affect Pakistan's competitiveness in five sectors – construction, architectural, engineering, energy and environmental services (CMER, 2007). It analysed the opportunities and risks from liberalization and considered options for regulatory reform and other flanking measures.

The study concluded that the extent and pace of liberalization in the construction sector should depend upon the country's preparedness for liberalization and the speed with which regulatory reforms could be introduced, as well as the willingness of other countries to open opportunities for Pakistani construction workers through Mode 4.

However, for architectural and engineering services, easing of restrictions on cross-border supply would be in Pakistan's interest, given the ability to supply designs via the Internet. Liberalization of environmental services would also be in Pakistan's interest, given the scope for waste collection and recycling, excess demand in local markets and a shortage of qualified environmental engineers.

BUSINESS CONCLUSIONS

Government-business dialogue is essential. It is important for business to understand why governments need to regulate in particular circumstances, but it is equally important for governments to understand the impact on business of proposed domestic regulation. A key way of achieving this is dialogue and consultation. Governments may not fully appreciate the reach of proposed regulation. Consultation may identify impacts that were not intended. Partnership with business may lead to better regulation and higher levels of compliance. This book looks in more detail in chapter 7 at the reasons for consultation and effective consultation models.


Thursday
Week 15
Wednesday
FEBRUARY
MARCH
APRIL
MAY
JUNE
8
9
14
15
16
21
22
23
28

CHAPTER 4

THE BUSINESS AGENDA FOR LIBERALIZATION

THE BUSINESS AGENDA FOR LIBERALIZATION

It is no surprise that business seeks a reforming agenda for the regulation of services, given the analysis in chapter 3 that excessive regulation imposes costs on business and reduces competitiveness. It is difficult for governments to promote regulatory reform in other countries if they are not themselves prepared to reform their own markets. Governments should begin the regulatory reform process by looking at their own domestic regulatory frameworks; this will also strengthen their hand in persuading other countries to do the same. As these frameworks are under national control, they are also the easiest for business to influence.

Some countries have positively embraced regulatory reform to attract new business. Rwanda has pressed ahead with a strategy to make it one of the easiest countries in which to do business, an achievement that has been acclaimed by the World Bank in its *Doing Business* reports (see box 8).

Some governments ignore the benefits that could come from unilateral liberalization, in favour of negotiated liberalization through trade agreements. They believe the negotiated liberalization gives them bargaining leverage to achieve the outcomes they need.

In practice, this may be an illusion, as FTAs (in relation to trade in services at least) tend mainly to capture what has been achieved unilaterally, rather than generating new liberalization. Nevertheless, such negotiations offer an opportunity for business to press for locking in existing levels of market access in those countries, and if possible further market opening.

Box 8: Rwanda and the *Doing Business* report

Rwanda has been reforming its commercial laws and institutions for more than a decade, according to the World Bank's annual *Doing Business* survey, which ranks 185 countries against each other in terms of the ease of doing business. In 2010, Rwanda was ranked as the world's top reformer, and has since risen to be the 45th easiest country in the world in which to do business (2012 ranking) compared to 143rd in 2009.

Under the coordination of a regulatory reform committee reporting directly to the president, Rwanda has achieved a broad and sustained approach to regulatory reform in areas such as land and judicial reforms; corporate, insolvency, civil procedure and secured transactions laws; and streamlined and remodelled institutions and processes for starting a business, registering property, trading across borders and enforcing contracts. In 2009 it introduced a new company law that simplified business start-ups and strengthened minority shareholders, under which a new business can now be started in three days. Reforms have also included measures to speed up trade and property registration. Delays at the borders were reduced through the introduction of longer operating hours and simpler requirements for documents.

As a result, Rwanda has challenged other countries in the region by attracting interest in businesses seeking to expand as a result of its regulatory reforming strategy.

Source: World Bank, *Doing Business* reports, 2010-2013.

BUSINESS PRIORITIES FOR TRADE TALKS

Governments may want to realize the benefits that liberalization aims to bring, but business is the principal player contributing the additional wealth that may come from liberalization. Since liberalization from increased services exports relies on regulatory reform in target export markets, it is essential that governments listen to and take account of business ambitions and negotiating priorities. Business is usually best placed to know the changes businesses would want to secure in other countries that would benefit their trade the most.

That said, relatively little has been published by business associations on their priorities for trade in services liberalization.

Below are the views of the ICC and two major services coalitions regarding business priorities for trade talks related to services.

Box 9: International Chamber of Commerce: negotiating priorities

The International Chamber of Commerce (ICC), which represents business interests in developing as well as developed countries, set out in 1999 (prior to the start of the WTO Doha negotiations) its views on business priorities for global services negotiations. These were:

- To expand the number and improve the quality of countries' commitments on market access and national treatment under the GATS, including in the key sectors of basic telecoms and financial services, where important progress has already been made;
- To further liberalize maritime transport services, including the free establishment of maritime and related services, provided liberalization is substantial and there is no acceptance of 'grandfathering' restrictive practices;
- To liberalize air cargo handling services;
- To liberalize postal and express delivery services;
- To develop legally binding multilateral disciplines on the domestic regulation of professional services;
- To treat the movement of natural persons as a priority issue in trade negotiations, given how the crucial to business is need to move professional, technical and managerial personnel across national boundaries for purposes linked to international trade and investment;
- To liberalize government procurement of services, as it would open up a vast potential market to international competition;
- To develop pro-competitive regulatory principles for trade in services generally, using the precedent of the Reference Paper that accompanied the 1997 WTO Agreement on Basic Telecommunications Services.

In September 2012, the ICC issued a more general statement of priorities reflecting the difficulty that countries have so far experienced with multilateral negotiations under the Doha Round, which expressed a desire for negotiators to find other solutions to trade in services agreements. The statement recommended that countries 'make concrete progress on the liberalization of trade in services through alternative negotiating approaches, including plurilateral approaches* and approaches focused on particular sectors, such as, for example, the Agreement on Basic Telecommunications Services or the Agreement on Financial Services. These approaches should be pragmatic, results-oriented, consensus-based, transparent, as inclusive as possible, and should lead to multilateral outcomes across all modes of supply.'

Source: Author.

* See chapter 5 for explanation.

Box 10: European Services Forum: negotiating priorities

This reflected the trade negotiations agenda at the time. More recently, the European Services Forum (2011) identified a similar set of priorities for European business in the area of trade in services, suggesting that the business agenda remains focused on the same issues. These were:

- Binding existing levels of liberalization and further market access.
- Improved regulatory transparency including commitments to:
  - Propose regulations in draft form and provide interested parties the opportunity to comment on such draft regulations;
  - Make publicly available the requirements that service suppliers must meet;
  - Enforce laws and regulations according to fair and transparent criteria;
- Greater transparency and market access to government procurement.
- Improve national treatment in all services sectors, providing the same business opportunities for foreign service suppliers as exist for national suppliers.
- Wider levels of cross-border commitments in trade in services, i.e. full Mode 1 and 2 opening across all sectors.
- Removal of restrictions on establishing commercial presence in the region (Mode 3):
  - Remove or reduce obligations to enter the market through joint ventures;
  - Remove or reduce the restrictions on foreign capital ownership (at least up to 51%).
- Adoption of EU requested categorization in Mode 4 and ambitious level of commitment to allow temporary inward movement of key personnel in all sectors.
- Provide a high level of post-establishment investment protection.

Source: Author.

Box 11: Australian Services Roundtable: negotiating priorities

Other business associations such as the Australian Services Roundtable have identified similar priorities, including:

- Competitive neutrality – state-owned enterprises should not have competitive advantages;
- Freedom of cross-border data flows;
- Guaranteed rights to commercial presence;
- Improvements in rules to free up the movement and regulation of business people in the service sector, including professional recognition;
- Development of a set of principles providing best practice regulation for services;
- Opening up of government procurement of services;
- Disciplines in subsidies in services.

Source: Author.

While these positions tend to reflect the interests of leading services exporting countries, including developing countries such as India and those in South-East Asia, they may not fully represent the agenda of businesses in less developed countries, such as those in sub-Saharan Africa. Nevertheless, they do provide a useful checklist of issues that should be of interest to businesses around the world.

TRANSPARENCY AND PREDICTABILITY

Business priorities begin with having a clear picture of a target country's existing rules. Yi and Stephenson (2002) note that transparency serves as an essential tool to service providers by identifying all the regulatory requirements they face, whether discriminatory or non-discriminatory, in a particular market. In addition, transparency involves explaining the rationale behind regulatory decisions, together with procedures for administering, implementing and enforcing regulations. Transparency ensures that service suppliers, both national and foreign, can see the requirements placed on them and have the opportunity to be fully compliant. Lack of transparency implies regulatory secrecy and could hide or disguise unfair requirements.

WTO rules (Article III and VI of the GATS) recognize the importance of transparency by providing that Member States:

- Publish promptly all relevant measures of general application which pertain to or affect trade in services;
- Promptly inform the WTO Council for Trade in Services of the introduction of any new, or any changes to existing, laws, regulations or administrative guidelines which significantly affect trade in services covered by its specific commitments under the WTO;
- Respond promptly to all requests by any other Member for specific information on any of its measures of general application or international agreements;
- Establish one or more enquiry points to provide specific information to other Members on all measures affecting trade in services.

The aim of transparency principles is to ensure that information is provided fully and accessibly, and not in a way that merely pays lip service to the publication requirements, to help service suppliers comply with regulation. Some businesses have gone further and requested binding obligations for countries to publish their regulatory requirements on the Internet. While publication on the Internet may impose costs on competent authorities, it seems an appropriate method for modern business practices.

Predictability relates to the business need for a stable regulatory environment. The International Telecommunication Union (ITU) notes in its toolkit for ICT regulation that a successful market that attracts investors requires a predictable regulatory process. This applies not only to regulations, but also to the behaviour of regulators, which is predictable if they adhere to the rule of law. ITU argues that most important elements of regulatory predictability are:

- **Respect for precedent.** Regulators should not reverse policy decisions unless there is evidence that those decisions have led to significant problems or that new circumstances warrant a change in the rules;
- ***Stare decisis.*** This legal principle requires that cases with the same underlying facts be decided in the same way each time.

If a regulatory authority sticks to these principles, it enhances confidence and credibility. It also reduces regulatory risk, which is especially important for potential investors. This, however, requires effective institutions.

EFFECTIVE INSTITUTIONS

Much has been said about the positive impact that effective and efficient regulatory frameworks have on economic development, as discussed in chapter 3. Yet the benefits of these frameworks can be undermined unless there are effective and efficient regulatory institutions. This is just as important for business as it is for governments.

Given that most services operate within a framework of regulation, it is essential that such frameworks provide confidence to business that regulations will be focused on what is necessary to achieve their objectives, and that they will be administered transparently and fairly by competent regulators. Regulatory institutions therefore play a pivotal role in overseeing what the World Bank has described as the 'rules of the game' for business and other stakeholders (World Bank, 2010) and can improve the climate for investment (World Bank, 2005). For this reason, effective institutions are an important part of the business agenda for reforming the services sector.

Box 12: Regulatory reform in Kenya

The Kenyan Government embarked on a comprehensive licensing reform that strengthened the capacity of institutions to carry out regulatory reform. In 2007 the Government created a Business Regulatory Reform Unit within the Ministry of Finance to be responsible for coordinating the reform process. Since its creation it has been involved in implementing licensing reform, drafting a regulatory reform strategy for Kenya, introducing regulatory impact assessments and coordinating reforms arising from the World Bank's *Doing Business* reports.

Source: World Bank (2010).

MARKET ACCESS AND INVESTMENT

Another way of increasing predictability and reducing regulatory risk is through the negotiating process in trade agreements; indeed, this goes to the heart of the guidance in this book. If a country makes a binding commitment to maintain a certain level of market access or national treatment, the foreign provider of services can factor that predictability into its assessment of country risk. The more that countries can bind their regulatory regimes, the more likelihood there is for a service provider to invest in the market, for example by making efforts to establish markets for cross-border services (Mode 1), or through the establishment of commercial presence (Mode 3).

In Mode 1, businesses are increasingly using the Internet to promote their services, and in an electronic environment it is also more difficult to control, or even justify controls on, service suppliers and Internet services providers (except to support public policies such as to protect public morals, etc.). While there are risks to using the Internet for transactions, the right approach is to heighten consumer awareness about how to avoid such pitfalls, and there is no *prima facie* reason to exclude foreign services.

In Mode 3, businesses look for stable inward investment regimes in which to set up commercial presence, with freedom to establish according to the business model preferred by the company, whether through subsidiaries, joint ventures, branches, representative offices, etc. Business knows that regulators restrict the terms of investment, and these are scheduled as limitations to sector commitments. The balance to be struck is to meet legitimate regulatory objectives while giving businesses as much business freedom as is reasonable.

Alongside this, business wants to be treated fairly compared to other foreign suppliers. This is why the most favoured-nation (MFN) principle is so important. It is also understandable that business will have a similarly strong interest in national treatment. While countries may want to protect their local industries, at least until such time as they are able to compete with foreign suppliers, foreign businesses want to be given the same opportunities to compete as domestic suppliers. National treatment commitments provide the transparency and predictability that allow business to plan.

BUILDING CAPACITY

Business experience in understanding the opportunities for and from liberalization is uneven. While some businesses are well informed, others are not. An example of the latter relates to businesses in East Africa. In preparing for trade in services negotiations at both the regional level and with the European Union in negotiations for an Economic Partnership Agreement (EPA) in 2009, the East African Business Council (EABC) noted a number of challenges for the development of business interests. These included:

- Lack of information on legal and regulatory framework in services in all the East African Community (EAC) partner countries;
- Consequently, a difficulty in developing liberalization objectives in services markets in those partner states or in the Member States of the EU;

- Uneven participation in the negotiating process – some business involvement at the regional level, but limited involvement at national levels;
- Difficulty in developing a harmonized private-sector position for the negotiations across the EAC region, due to uneven information and differentiated and uncoordinated business interests – there was said to be a need to agree on priority sectors at a regional level, including agreement on sensitive sectors;
- Lack of readiness of the private sector to compete, even in sectors that are liberalized, due to skills shortages and a lack of micro level research to identify the factors that make firms uncompetitive and the measures needed to address them.

This last concern is particularly problematic, as it suggests that even if liberalization were to be achieved, business lacked the information and skills to exploit new market opportunities. This suggests a need not only for technical assistance and capacity building for government officials, but also for the private sector.


Ministerial
Conferencia
Conférence
GENÈVE
WTO
OMC
11
15 - 17 décembre

CHAPTER 5

TRADE AGREEMENTS AND BUSINESS

TRADE AGREEMENTS AND BUSINESS

Many governments prefer to liberalize as part of the conclusion of trade agreements. While economists tend to argue in favour of unilateral liberalization, policymakers tend to lean towards reciprocity (Bhagwati, 2002). The choice between unilateral liberalization and reciprocal liberalization is often down to the size of the countries concerned and the extent to which they may be able to influence world prices. In that sense, unilateral liberalization tends to be favoured by countries that are too small to have any appreciable effect. Large countries that have the power to do so tend to negotiate reciprocal agreements.

Much of this explanation concerns behaviour relating to trade in goods.

For trade in services, according to the World Bank (Borchert, Gootiiz and Mattoo, 2011), most liberalization *has* in fact been undertaken unilaterally. From a survey of WTO Members' trade commitments made in the GATS during the Uruguay Round, the World Bank concluded that these were on average almost 2.5 times more restrictive than currently applied policies. This suggests that services sectors are more open than countries admit to in trade agreements, or that trade agreements are not particularly useful to open up services trade.

There are also other reasons. Governments have been hesitant to make binding commitments because of fears that this may remove their freedom to regulate, despite the right to regulate being enshrined in such agreements. Alternatively, regulatory frameworks may not be able to handle unrestricted foreign competition or there may not be the regulatory preconditions for allowing increased trade, according to these authors.

The history of multilateral negotiations under the WTO GATS shows a patchy approach to liberalization commitments. Developed countries have on the whole made wide-ranging commitments, with relatively few sectors excluded, although many developing countries view commitments in Mode 4 (of particular interest to developing countries endowed with exportable skilled labour), as rather limited. On the other hand, many developing countries have made limited market access commitments in fewer sectors, even though in some cases their service sectors are relatively open to foreign competition.

NEGOTIATIONS ADD CREDIBILITY

Trade agreements can act as drivers for domestic regulatory reform and export performance. The World Bank is clear that the reciprocal exchange of liberalization commitments can help in achieving reforms that increase competition in domestic services markets. While the benefits that come from creating more efficient domestic services industries may be the bigger prize, trade agreements can bring gains in terms of greater services exports.

Governments that are hesitant to introduce unilateral reforms to open up domestic service markets to competition may rely on trade agreements to provide the necessary incentives. This is potentially dangerous. Properly sequenced regulation and effective regulatory institutions must accompany service sector reform, requiring deliberate and coherent national policy development. Trade agreements cannot therefore be the sole driver. However, by adopting commitments to introduce regulatory reform in the future, such as through transitional periods, governments send signals of their policy intentions and allow businesses to plan accordingly.

Trade agreements are also useful to lock in levels of market access, which in turn provides more stable guarantees for regulatory reform programmes, as well as incentives to attract foreign direct investment. To that extent, therefore, they remain important instruments to interest business. They also provide governments and business with opportunities to obtain reciprocal benefits (albeit not necessarily in the same sector), even if the offering country often sees such commitments as a form of concession. In fact, as discussed earlier, concessions may well be reforms that would benefit the offering country, but by making them part of trade agreements the offering country can obtain a double gain in the form of concessions offered by the other partner country or countries.

THE INFLUENCE OF BUSINESS COALITIONS

Business has supported attempts in the WTO Doha Round to achieve greater commitments on trade in services. This is evident in the many statements of support issued by national and regional business associations, particularly coalitions of service industries, including the European Services Forum, as well as the ICC. At the same time, business has been under no illusion about the slow speed with which these negotiations can bring about meaningful reform, and has accordingly followed other strategies while maintaining support for the multilateral process.

In whatever context trade negotiations may take place, they can only be really effective if they suit both government policy objectives and business objectives. There is little point in negotiating market opening in sectors where business has little interest or competence. In too many countries, however, business feels that it lacks influence; government negotiators conduct negotiations in a consultative vacuum and businesses express views that are often ignored.

Box 13: Global Services Coalition

In September 2010, the Global Services Coalition, representing services coalitions and forums from Australia, Barbados, Canada, Europe, Hong Kong, Japan, New Zealand, Chinese Taipei, the United Kingdom and the United States, as well as the Financial Leaders Group, called on 'all countries to support the case for fostering services development and for services liberalization'. The statement highlighted 'the vital role of the "infrastructure" services sectors including financial services, information and communications technology, express delivery, retail services, and energy and environmental services'.

Source: Global Services Coalition (2010).

Boxes 14-17 illustrate the degree of business involvement in services liberalization in Eastern and Southern Africa, where currently a number of regional agreements are being negotiated, all of which include chapters aimed at expanding trade in services.

Box 14: East African Community

(Burundi, Kenya, Rwanda, United Republic of Tanzania, Uganda)

The most advanced negotiations are those under the East African Community Common Market Protocol, which came into force in July 2010. Under the Common Market, the five EAC Partner States have committed to liberalize trade in services progressively. To date, Partner States have made liberalization commitments in seven services sectors: business, communication, distribution, educational, financial, tourism and travel, and transport services.

Commitments focus on Modes 1-3 of the GATS and the services schedule largely follows the GATS approach. Commitments under Mode 4 (movement of personnel) are subject to a separate Free Movement of Workers schedule. Having negotiated commitments to each other, Partner States are now reviewing their domestic regulations to allow for implementation, although the negotiating process has been suspended pending a review of concerns relating to the linkage of services commitments under Mode 4 with the movement of workers.

Business groups are active in relation to EAC trade developments. The East African Business Council (EABC) coordinates the views of business and developing business positions to lobby and influence governments at both regional and national level. The EABC is supported by national private sector foundations or federations in Burundi, Rwanda, the United Republic of Tanzania and Uganda: the Burundi Chamber of Commerce and Industry, the Rwanda Private Sector Federation, the Tanzania Private Sector Foundation and the Private Sector Foundation of Uganda. The Kenya Private Sector Alliance and sector business associations such as the Kenya Manufacturers Association represent Kenya. A position paper by the EABC has recently supported delinking Mode 4 commitments from the movement of workers, demonstrating private sector interest in advancing the negotiations.

Source: Author.

Box 15: Common Market for Eastern and Southern Africa

(Burundi, Comoros, Democratic Republic of the Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia, Zimbabwe)

The Common Market for Eastern and Southern Africa (COMESA) has been a free trade area since 2001 and a customs union (with a three-year transitional period) since June 2009. A working party on trade in services was formed in the late 1990s but a Framework for liberalizing trade in services was not adopted until 2009. It includes Regulations on Trade in Services and an Annex on temporary movement of persons.

A Committee on Trade in Services was formed to oversee negotiations. Seven priority sectors were chosen and negotiations have commenced in four of them: communication, financial, tourism and transport services. Negotiations on the other three sectors – business, construction and energy services – will commence when sufficient progress has been made in the first four.

Business interests are represented and promoted at a regional level by the COMESA Business Council, a member-based organization established in 2009 and mandated by the COMESA Treaty to represent the private sector. Its objectives focus on 'private sector development, including the visibility of women in business and facilitation of private sector participation in regional trade related policy dialogue'. A Board from the chambers of commerce and private sector associations of Burundi, Egypt, Malawi, Mauritius, Uganda, Zambia and Zimbabwe run the institution, while Djibouti has the honorary chairmanship. The other 12 countries are members of the Council.

Source: Author.

Box 16: Southern African Development Community

(Angola, Botswana, Democratic Republic of the Congo, Lesotho, Madagascar, Malawi, Mozambique, Namibia, Seychelles, South Africa, Swaziland, United Republic of Tanzania, Zambia, Zimbabwe)

The Southern African Development Community (SADC) Protocol on Trade (1996) mandated Member States to 'adopt policies and implement measures in accordance with their obligations on terms of the World Trade Organization's General Agreement on Trade in Services, with a view to liberalizing their services sector within the Community'. In 2009, a draft Protocol on Trade in Services was drawn up which sets out the rules for liberalization of services on a basis very similar to the GATS. Six sectors were identified as priorities – communication, construction, energy-related, financial, tourism related and transport services – but negotiations have barely started.

The main business group within SADC is the Association of SADC Chambers of Commerce and Industry. Membership comprises the 18 national chambers of commerce and industry, confederations of industries, trade associations and employer organizations in Angola, Botswana, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, United Republic of Tanzania, Zambia and Zimbabwe. The business group's stated aim is 'to ensure that there is a strong and unified voice to support private sector growth and the development of a free market economy system in the SADC region'.

Source: Author.

Box 17: Tripartite Free Trade Agreement

The first Tripartite Summit in Kampala in 2008 adopted a proposal to combine COMESA, EAC and SADC, to harmonize the trading arrangements between the three regional economic communities by creating a tripartite free trade area among the 26 member countries concerned.

The aim is to improve market integration, industrialization and infrastructure development. Draft Article 3 states that one of the objectives of the Tripartite Free Trade Agreement is to 'create a large single market with free movement of goods and services and business persons, and eventually to establish a customs union'. Draft Article 4 reaffirms that one aim is to 'liberalize trade in services and facilitate cross-border investment and movement of business persons'.

A second summit in Johannesburg in June 2011 launched negotiations and a road map to complete negotiations on trade in goods within three years, an ambitious timetable. The first phase includes negotiations on movement of business persons, including business visitors, traders and investors, professionals, and intra-corporate transferees. Negotiations on trade in services are to follow in a second phase. Draft Annex 12 provides that 'Tripartite Member States shall facilitate the provision of trade related and trade facilitation services within the Tripartite Member States, including those relating to insurance, freight, transportation, banking, customs procedures, warehousing and communication.'

While the Trade Law Centre for Southern Africa notes (Tralac, 2012) that the private sector in the region is not in general actively involved in regional integration matters, the draft text makes clear that 'Tripartite Member States shall formulate and implement trade development policies in close cooperation with the private sector' (Draft Annex 12, Article 2).

Source: Author.

UNDERSTANDING TRADE AGREEMENTS

To influence negotiations on trade in services, business needs to have a good grasp of the principles that underlie trade agreements, as business can invoke infringements through their governments. Most agreements reassert the right that governments have to regulate services in order to achieve national policy objectives. The key principles in services trade agreements are:

- **Non-discrimination** – countries that are members of a trade agreement should be treated equally, either by giving all foreign 'like' services and service suppliers the same treatment as each other (the most-favoured-nation principle – or MFN), or treating foreign services and service suppliers the same as 'like' services and service suppliers of the importing country (national treatment);
- **Transparency** – laws and regulations affecting trade in services should be published and accessible;
- **Objectivity** – measures relating to qualifications, technical standards and licensing in committed sectors should be based on objective and transparent criteria, while those measures affecting trade in services in committed sectors should be administered in a reasonable, objective and impartial manner;
- **Proportionality** – this is an unresolved area in the WTO, with negotiations under way on possible disciplines regarding measures in committed sectors that deal with qualifications, technical standards and licensing, and that are more 'burdensome than necessary'.

NON-DISCRIMINATORY ACCESS AND TREATMENT

The basic premise behind trade agreements is that all the countries that are members, contracting parties, partners or other forms of signatory should be treated equally. In services agreements, two forms of equal treatment form the basis for a country's commitments: most-favoured-nation treatment and national treatment.

MOST-FAVOURED-NATION TREATMENT

> '….. each Member shall accord immediately and unconditionally to services and service suppliers of any other Member treatment no less favourable than it accords to like services and service suppliers of any other country.' [GATS Article II]

The MFN principle aims to ensure that a member country treats all foreign services and service suppliers that are alike from other member countries the same. Thus, under the GATS the European Union, for example, could not discriminate against a service supplier from, say, China in favour of a like service supplier from, say, the United States. It would not matter whether the EU had taken specific commitments in a particular sector or not. The MFN principle applies regardless of specific commitments. The main ways in which MFN would not apply are:

- If the EU had taken an MFN exemption at the time the WTO entered into force in favour of certain countries for a particular purpose, e.g. to promote cultural diversity;
- If the EU was party to an economic integration agreement such as a free trade agreement (provided the conditions of GATS Article V were met – see below); or
- If the agreement was a 'plurilateral' agreement.

Economic integration agreements

In an economic integration agreement, MFN would apply between the parties to that agreement. For example, under the ASEAN Free Trade Agreement, Malaysia could not in principle discriminate against service suppliers from, say, Thailand by giving preferential market access treatment to a service supplier from, say, Viet Nam.

To qualify for exemption from MFN under GATS Article V, an economic integration agreement would need to satisfy the following conditions, for example that it:

- Has substantial sectoral coverage[1], and
- Provides for the absence or elimination of substantially all discrimination, in the sense of GATS Article XVII [national treatment], between or among the parties.

Plurilateral agreements

In a plurilateral agreement, MFN would also in principle apply only between the parties to such an agreement. The WTO Government Procurement Agreement is one such accord. Currently discussions are taking place among a group of WTO Members on a possible plurilateral approach to the negotiation of commitments on trade in services.

The group's aim is to negotiate an agreement that is ambitious in nature, would complement the GATS, cover essentially all sectors and modes of supply, include commitments that reflect existing market access and national treatment, and be capable eventually of being made multilateral. The group has also proposed to address other issues such as developing disciplines on domestic regulation. Should such an approach gain support, the group has suggested that the MFN principle be suspended until a critical mass of WTO Members has signed up to the plurilateral agreement, at which point it would be extended to other WTO Members.

MARKET ACCESS

> 'With respect to market access through the modes of supply, each Member shall accord services and service suppliers of any other Member treatment no less favourable than that provided for under the terms, limitations and conditions agreed and specified in its Schedule.' [GATS Article XVI]

The market access provisions of the GATS are a form of conditional MFN, in that a member may make a full or partial commitment in a given sector. Where the member wishes to make a binding commitment that falls short of a full commitment, it may do so by listing the sector concerned in a 'Schedule of Specific Commitments' together with any terms, limitations or conditions that apply.

1 This condition is understood in terms of number of sectors, volume of trade affected and modes of supply. To meet this condition, agreements should not provide for the *a priori* exclusion of any mode of supply.

The terms, limitations or conditions represent the extent of the bound commitment, and in principle apply on an MFN basis, even if the actual terms of market access may be more liberal. For example, a member may wish to limit its commitment in relation to the maximum shareholding that a foreign supplier of services may hold in a joint venture company to say 49%, even though in practice it may allow a majority shareholding or even up to 100%. This difference between the bound commitment and actual practice is sometimes due to further liberalization since the commitment was made, or it may be used to provide policy space. The importance of MFN is that, using this example, it applies both to the 49% bound commitment and the 100% actual practice.

MFN is not uniformly understood. It is an important principle for business, as there are frequent examples of discriminatory treatment that a business might be eligible to challenge.

Box 18: Where market access may be limited under GATS Article XVI

- Limitations on the **number of service suppliers** whether in the form of numerical quotas, monopolies, exclusive service suppliers or the requirements of an economic needs test;
- Limitations on the **total value of service transactions or assets** in the form of numerical quotas or the requirement of an economic needs test;
- Limitations on the **total number of service operations or on the total quantity of service output** expressed in terms of designated numerical units in the form of quotas or the requirement of an economic needs test;
- Limitations on the **total number of natural persons** that may be employed in a particular service sector or that a service supplier may employ and who are necessary for, and directly related to, the supply of a specific service in the form of numerical quotas or the requirement of an economic needs test;
- Measures that restrict or require **specific types of legal entity or joint venture** through which a service supplier may supply a service;
- Limitations on the **participation of foreign capital** in terms of maximum percentage limit on foreign shareholding or the total value of individual or aggregate foreign investment.

Source: WTO.

NATIONAL TREATMENT

> 'In the sectors inscribed in its Schedule, and subject to any conditions and qualifications set out therein, each Member shall accord to services and service suppliers of any other Member, in respect of all measures affecting the supply of services, treatment no less favourable than that it accords to its own like services and service suppliers.
>
> [National] treatment shall be considered to be less favourable if it modifies the conditions of competition in favour of services or service suppliers of the Member compared to like services or service suppliers of any other Member.' [GATS Article XVII]

The national treatment principle works in a similar way to MFN, except that it provides for the elimination of discrimination between comparable (or like) foreign and national services and service suppliers. The aim is to allow foreign and national services and service suppliers to compete on the same terms in the importing country.

In much the same way as market access commitments, national treatment can be offered on a conditional basis, and may be full or partial, with limitations inscribed in the Schedule of Specific Commitments. For example, a country may wish to allow private companies to run certain health services. If this involves having access to some public funding and the country wishes to limit this form of subsidy to its own national service suppliers, it can include this limitation in its national treatment commitments.

It is clearly in the interest of foreign businesses to keep discrimination in the form of national treatment to a minimum, if an aim of liberalization is to enhance export opportunities.

READING A GATS SCHEDULE OF COMMITMENTS

How does a business find out what the conditions for market access and national treatment are in a country of interest? There are many sources of market information, but one source is what is contained in trade agreements, which are invariably published. Every GATS schedule can be obtained from the Services Gateway on the WTO website (www.wto.org). However, these trade agreements need to be interpreted. The following is an example from a GATS schedule to show hypothetical commitments in tourism and travel-related services in Country X dating from 1995:

Table 11: Excerpt, GATS Schedule of Specific Commitments for tourism sector

Sector	Market access limitations	National treatment limitations
9. Tourism and travel-related services		
Hotels and restaurant services	1) Unbound	1) Unbound
(CPC 641-643)	2) None	2) None
	3) Subject to foreign equity ceiling of 51%; limited to hotels in excess of 50 rooms	3) None
	4) Unbound except as indicated in the horizontal section	4) Unbound except as indicated in the horizontal section
Travel agency and tour operator services	1) Unbound	1) Unbound
(CPC 747)	2) None	2) None
	3) Subject to foreign equity ceiling of 51%	3) None
	4) Unbound except as indicated in the horizontal section	4) Unbound except as indicated in the horizontal section

Source: WTO, Services Gateway, www.wto.org

The following observations can be made about the above example:

- The columns indicate the sector in which a commitment has been made, together with the market access and national treatment conditions that have been guaranteed, or bound;
- The sector is described by reference to both the WTO classification and the CPC Provisional classification (see appendix I) – this provides a shorthand for the sector description on which the CPC Provisional classification expands;
- Under each of the columns, the four modes of supply are separately listed;
- Against each mode of supply the limitations on market access and national treatment are specified;
- None indicates no limitation has been scheduled, equalling a full commitment;
- Unbound indicates no commitment has been made, leaving the country free to introduce new, perhaps more restrictive regulation than currently exists. In this example unbound indicates that cross-border hotel and services are not feasible as customers need to be physically present, although this reflects commitments from 1995 that pre-dated the current ability to pre-book hotels and restaurants online;
- In this example, Mode 1 (cross-border supply) is shown to be quite restrictive; however, Mode 2 (consumption abroad) is fully committed, indicating that there are no restrictions on the country's own nationals engaging in outbound tourism;
- The Mode 3 entries show two types of limitation that could apply to commercial presence: in this example, the commitment is restricted to allowing market access for operators of large hotels with more than 50 rooms (implying protection for smaller, local hotels), and in all cases to a foreign capital limit of 51%;
- Under Mode 4, there is a reference to commitments separately listed in a horizontal section, a quite normal way of showing conditions for the movement of natural persons, as the rules are usually general and not sector specific.

While this is quite technical and perhaps unnatural to business, many if not most trade agreements tend to follow the same structure. And it is normally business that identifies infringements to its basic rights.

OBJECTIVE, TRANSPARENT REGULATION

> 'The challenge which services regulation poses for trade opening should not be seen simply in terms of having less regulation, but more in terms of achieving better regulation – that is, regulation which more effectively achieves public policy objectives with the least distortion of trade.' (*World Trade Report 2012,* p. 216)

Other features of trade rules for services concern domestic regulation that in theory complements the principles of and limitations to market access and national treatment. This area is not defined, but GATS (Article VI) states that, in sectors where commitments are taken, 'each Member shall ensure that all measures of general application affecting trade in services are administered in a reasonable, objective and impartial manner'.

This emphasis on administration of regulations aims to ensure due process for parties affected by measures, including a review and, where appropriate, remedies. The fact that this provision applies only where commitments have been taken should not imply that it is only in such cases where best practice principles of reasonableness, objectivity and impartiality for the administration of regulations should apply. Quite the opposite, best practice suggests that these principles should feature regardless of commitments. The difference is that these cannot be enforced through the GATS.

Yet administration is only one aspect of better regulation. An equally important consideration is whether regulations themselves are unduly burdensome and over-costly. WTO Members have for many years been discussing the development of disciplines involving qualifications, technical standards and licensing to ensure domestic regulation in these areas is objective, transparent and necessary. Some WTO disciplines were developed and agreed in 1998 for the accountancy sector, and the debate since then has been whether to generalize them to all sectors.

The basic aim of such disciplines is to ensure that qualification requirements and procedures, technical standards and licensing requirements are, *inter alia:*

- Based on objective and transparent criteria such as competence and ability to supply the service;
- Not more burdensome than necessary to ensure the quality of the service;
- In the case of licensing procedures, not in themselves a restriction on supply.

Many WTO Members have been seeking to establish transparency rules requiring not only publication in national gazettes or other official journals, but also publication on websites. This is of course highly desirable, but not altogether without problems. For example, which language to use – local, English or other languages with an international reach. What about countries where the Internet is not well developed? Other important issues include information on competent authorities and activities regulated, the rationale behind measures in relation to legitimate objectives, and a best endeavours commitment to provide opportunity for prior comment before adoption of new measures.

Then there is the necessity test. The underlying principle is that governments are always entitled to meet their legitimate national policy objectives. At issue is the particular measure chosen to achieve this objective. The aim is to ensure that such a measure is not more trade-restrictive than necessary to fulfil the legitimate objective, e.g., protection of consumers, quality of services, professional competence and the integrity of the profession. As stated earlier, this should be a key business aim, given the cost that regulation imposes on business. It is often better to have an independent, or quasi-independent national process for reviewing the need for the measure (see the earlier section on regulatory impact assessments).

In at least one sector – telecommunications – WTO Members supported their market access and national treatment negotiations with additional commitments to introduce pro-competitive regulation, including access to networks and independence of the regulator. More detail about this is given in Part II.

EXCHANGING REQUESTS AND OFFERS

The usual basis for negotiating on trade in services within an existing agreement (whether multilaterally under the WTO, regionally or even bilaterally) is the exchange of requests and offers. This has become known as the request/offer process. Whether the negotiation involves progressive liberalization based on previous rounds of negotiations, or whether a country is negotiating to join as a new member of the trade agreement (known as accession), negotiations tend to begin with an initial offer. That is, the country tables an offer to form a basis for negotiation; it rarely, if ever, represents the final offer. Other member countries consider their own interests in the country making the offer, and how far the initial offer goes in meeting those interests.

On the basis of these reflections, interested member countries table requests of the offering country, either in the form of clarifications or for additional commitments to those that have been offered. The countries may then meet, usually bilaterally, to discuss the initial offer and requests, following which the offering country will reflect on what has been discussed before tabling a revised offer. The bilateral process continues until the offering country and the requesting country are satisfied. Both countries may need to compromise to reach agreement, and in the process some requests may only be met partially or even not at all. The overall negotiation ends when the offering country and all the requesting countries have reached agreement.

In negotiations involving existing member countries, each member country is expected to table an offer and has a right to make requests of other members. So a country can be both an offering country and a requesting country. In accession negotiations, only the acceding country makes an offer.

Since typically no one ministry or agency takes the lead in services reform, this poses institutional challenges (Marconini and Sauvé, 2009). Generally speaking, the trade ministry and relevant regulatory authorities work together to draft an offer of commitments, which usually implies some sort of regulatory reform, or at least this is what should happen. Trade officials are not always as well versed in the detail of the way a sector is regulated as a regulatory authority, while regulators do not always appreciate the drivers for change stemming from trade negotiations.

It is therefore vital for achieving trade negotiations of real value and regulatory coherence that trade officials and regulators work together as a sector-based team. Too often this is not the case. Uninformed or uninvolved regulators, protective of their area of competence, may stubbornly resist reforms that trade negotiators have agreed to in negotiation. As a result, agreements cannot be implemented, frustrating the aims of liberalization intended to benefit the reforming country. Dialogue and coordination between the two should improve understanding and the effectiveness of both trade negotiation and regulation.

THE GOVERNMENT-BUSINESS NEXUS

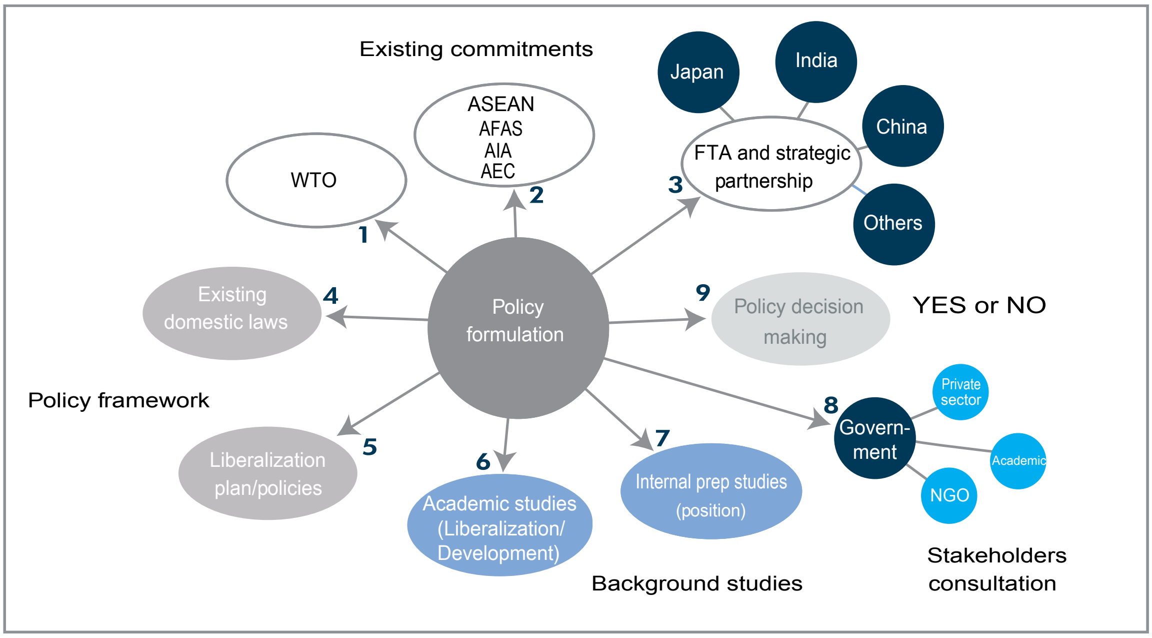
Business clearly has an interest in whether and how a market is opened up to foreign competition; so business has an interest in offers for liberalization commitments, both by its own government and by other countries.

Within the national market, some businesses may be concerned about the prospects for more inward foreign competition, while others may be positively enthusiastic about it. Much depends upon whether the business is a service supplier or a user/consumer of services; the quality of services already provided in the country; or whether the supply of services in the sector is strong and competitive already, or weak and seeking protection. Either way, business will have a view and should be consulted.

In relation to other countries, business will often be in the best position to identify priorities that fit in with its business strategy, as well as the trade obstacles that it would like to see tackled in negotiations. When governments formulate requests for liberalization, it makes sense for them to focus their requests on sectors where business sees its own priorities and target markets, as well as the government's own export strategy. There is little point in expending negotiating effort to improve market access in a market or sector that a country's own business is unable to exploit. Consequently, there is good reason for governments to consult business closely in the process of making liberalization requests and evaluating the offers made in response.

At the same time, business needs to understand the other drivers and constraints that lie behind its own government's position. In some cases, governments may not completely follow the business agenda as they try to balance other stakeholder or policy interests. Figure 7 illustrates one example of the different policy considerations faced by government negotiators.

Figure 7: Trade policy formulation in Thailand



Source: Marconini and Sauvé (2009), citing Vonkhorporn (2008).

An understanding of these drivers and constraints can often be improved through dialogue – in many countries, public-private dialogue is promoted through various forms and forums. Business should not be confined to dialogue with trade negotiators, but should also hold discussions with regulators.

Whatever a government may eventually decide, best practice argues in favour of prior consultation with business. Indeed, many business groups may be keen to submit position papers of their own. How this is or can be done is the focus of chapter 7 on consultation processes.

BUSINESS ROLE IN NEGOTIATING STRATEGY

It is not the aim of this book to discuss in detail how a country should develop its negotiating strategy – that has already been documented elsewhere. However, suffice it to say that negotiations should not take place without a strategic plan for national services development. When governments embark on services negotiations they should first be clear at a domestic level of their policy objectives (Marconini and Sauvé, 2009). There should also be clarity over the boundaries between public and private interests, such as in the context of public-private partnerships in infrastructure services and services such as health and education. In addition, the main challenges for business in key export markets should be understood. Box 19 suggests a number of key questions that should inform the preparation for negotiations – some of the questions are best answered by business, which has a vital role to play in contributing towards objectives and outcomes of negotiations.

Box 19: Questions for preparing services negotiations

- **Strategy.** Is there a national or sector development strategy for services that should inform preparatory work for negotiations? Has thought been given to the place of reform in the development of the domestic service market and the relationship of that reform to international trade negotiations?
- **Coordination.** Is the coordinating authority, agency, or ministry fully in place and ready to operate?
- **Capacity building.** Have capacity-building needs been identified for the overall approach to liberalization and trade agreements – i.e. readiness to liberalize, strategies to adopt in negotiating liberalization and advantages from negotiating access to foreign markets? Are other priorities in related international forums clear to all participants in the preparatory process – for example, positions and commitments taken in the context of bilateral agreements? Is there a reasonable understanding among participants and the coordinating entity as to what measures affect trade in services under international trade agreements? In the case of sector ministries and agencies, how should the capacity-building exercise best be pursued?
- **Inventory of measures.** Does an inventory of measures affecting trade in services already exist at the horizontal and/or sectoral level? Is the information gathered in such inventories also being used to underpin domestic dialogue with key regulatory agencies and external stakeholders and as a means to promote regulatory review and reform processes? Once an inventory of regulatory measures exists, what is the basis to determine which regulatory requirements are in need of change?
- **Timing.** Where regulatory change appears necessary, can or should changes be contemplated within the timeframe of ongoing international negotiations? Should these changes be part of the country's negotiating offer?
- **Offer.** What is the criterion to choose measures and/or modes of supply to determine which sectors should be offered as bound, partially bound or unbound? Has a clear distinction been established between defensive and offensive interests? How does the government establish its negotiating red lines, i.e. points beyond which it is not prepared to engage or commit?
- **Export interests.** Are offensive interests able to take advantage of the negotiations, or is there need for additional capacity-building, in particular for private-sector supply? Have export-market studies been conducted within government or by the private sector? Has all relevant information (public, private, international) regarding export interests been compiled, analysed and circulated among the preparatory group?
- **Consumers/users.** How significant is the voice of consumer/user groups in the formulation of service sector policy? Should technical assistance be directed at nurturing such voices or sustaining their development?
- **Consultation.** Has the coordinating entity managed to organize the consulting process with relevant stakeholders in the public and private sectors, including trade unions and non-governmental organizations? Is the consultation process with stakeholders broad enough to be truly representative?
- **Decision-making.** Does the decision-making process seek to achieve a proper balance between sectoral, individual corporate and economy-wide objectives (both offensive and defensive)?

Source: Marconini and Sauvé (2009).

CHOOSING PRIORITY MARKETS AND SECTORS

Countries use many methods and criteria to select their priorities for trade negotiations, but most boil down to an assessment of a country's strengths and weaknesses – and thus preparations are based on a SWOT analysis. Common elements may include:

- **Sector GDP contribution.** The share of GDP contributed by an individual sector is a strong indication of its importance.
- **Balance of trade.** An assessment of whether a country has a positive or negative trade balance in a sector. A net positive balance suggests a comparative advantage in the sector and an offensive interest in making requests of other countries that could expand further a country's exports in the sector. A negative balance suggests a weak or under-developed sector, or heavier domestic consumption than the country can provide for itself. Whether this should form the basis for an offer depends upon whether the country wishes to protect the sector or improve the sector through opening up to foreign suppliers.

- **Strategic development of the sector.** A country's development strategy may identify a certain sector as a future area of export growth where the country could gain comparative advantage. This could form a basis for a country's requests for liberalization so that when the sector has developed, barriers to exports will already have been removed.
- **Ease and speed of developing an export capability.** Some sectors could produce quicker export gains than others. Those sectors offering the quickest wins are arguably those in which a country already has or could develop endowments that could attract foreign consumers into the country, as this does not involve action by others to remove barriers to trade.
  - Examples include tourism, assuming a country is blessed with suitable tourist attractions, extensions of tourism such as health tourism and education tourism, assuming a country has well regarded and desirable standards of services for foreign patients and students, and IT and business process outsourcing services, for which a country could aim to become a service hub.
  - A second group of sectors could include professional services, where a country could develop professional human skills in accountancy, legal and other professional services and create an export capability by enhancing those skills to international standards.
  - A third group could involve related services such as financial and retail distribution services.
  - A fourth could be infrastructure services such as telecommunications and transport.
- **Business inputs.** Business will itself have its own strategic priorities in line with global developments or corporate interests. Some of this will be influenced by government initiatives to pursue trade and investment agreements, which could lead to improved access to key markets, or by access to trade promotion and development support, or access to technology and capital.
- **Requests from other countries.** Countries may make requests for liberalization either because they have an underlying business interest, are pursuing global reforms in the sector, or are trying to create a critical mass of countries supporting a particular policy direction. Clearly, a country is unlikely to obtain a positive reaction to requests it makes of other countries if it is also not prepared to respond positively to requests made of it.

Box 20: SWOT analysis – Nepal's tourism sector

STRENGTHS	WEAKNESSES
▪ Natural assets ▪ Cultural diversity ▪ Religious sites ▪ Four World Heritage Sites ▪ Acquired image as an adventure and cultural theme tourism destination ▪ Good service, hospitable nature of the Nepalese people ▪ Expanded air access to major markets ▪ Government promotion of sustainable tourism ▪ Wide array of ecotourism offerings	▪ Lagging capacity expansion ▪ Rural infrastructure limitations: utilities, telecommunications, water treatment ▪ Road network limitations/traffic congestion ▪ Limited capacity of Kathmandu airport ▪ Moderate levels of leakage ▪ Foreign-based local businesses do not repatriate profits towards Nepal ▪ Lower quality service provided by small restaurants, guesthouses, taxis ▪ Limited access to new investments and financing ▪ Inadequate safety regulations
OPPORTUNITIES	**THREATS**
▪ Strengthen intersectoral linkages ▪ Strengthen community-based tourism ▪ Restored political stability, safety and security ▪ Improved tourism/transportation infrastructure and service ▪ New tourism themes: health-care and educational tourism, business and conference tourism	▪ Environmental degradation in high-traffic areas ▪ Increasing theft and violence targeting tourists ▪ Global economic crisis ▪ Overdevelopment may damage image ▪ Land competition: tourists vs. local needs

Source: UNCTAD National Services Policy Review of Nepal.

From this analysis, it is possible to develop scorecards to help rank sectors and barriers and develop priorities for negotiations. The Centre for Policy Dialogue (CPD) in Bangladesh has suggested several types of scorecard. Tables 12 and 13 set out two examples, the first based on GDP and balance of payments and the second based on requests received from interested countries.

Table 12: Scorecard – liberalization priorities

Services sector	GDP Share	Export	Import	Score	Rank
Transportation	3	2	1	6	1
Tourism	8	3	2	13	2
Communication	6	4	6	16	3
Educational	4	8	4	16	4
Construction	2	9	5	16	5
Distribution	1	6	9	16	6
Financial	7	7	7	21	7
Health and social	5	12	10	27	8

Source: Centre for Policy Dialogue (2005).

Table 13: Scorecard – requests from other countries

Sector of interest to requesting countries	Sectors of export interest	Sectors of import interest	Mixed interests	Sectors needing priorities	Rank
Business services	Computer and related	R&D, rental/leasing services		Professional services	Not ranked
Communication services			Audiovisual, telecoms, courier		3
Construction services			Construction and related engineering services		5
Distribution services	Distribution services			Commission agent services, wholesale and retail services	6
Educational services		Educational services (except primary and secondary)		Primary and secondary services	4
Environmental services				Environmental services	Not ranked
Financial services	Life, accident and health insurance		Non-life insurance, reinsurance, banking		7
Health and social services		Hospital services	Other human health services	Social services	8
Tourism and travel-related services		Hotels and restaurants	Travel agencies and tour operators	Tourist guide services	2
Recreational, sporting and cultural services		News agency services	Personal, cultural and recreational services, entertainment services, libraries and museums, sporting services	Other	Not ranked
Transport services	Maritime transport services, pipeline transport, transportation of other goods	Air transport services, services auxiliary to all modes of transportation	Rail and road transport services	Internal waterways transport	1

Source: Centre for Policy Dialogue (2005).

LINKING SECTORS, GOODS AND SERVICES

As well as an assessment of individual sectors, it is important to view liberalization of services in terms of related sectors. For example, many tourists these days require ready access to cash and e-mail. Liberalization of tourism will have only limited impact therefore if tourists are unable to access currency from automatic teller machines (ATMs) or use the Internet. Transport, logistics and distribution are closely linked, as are business process outsourcing, IT and financial services. Indeed, most services are tied to others in some way. In identifying requests for liberalization, it makes sense to recognize these connections. The views of service providers and users or consumers need to be taken into account in drawing up a coherent negotiating strategy that pursues interests in related sectors.

Similar arguments exist in relation to the link between trade in goods and trade in services. As argued above, the boundary between goods and services has become increasingly blurred. Consequently, it is important to recognize the connections with relevant services when liberalizing trade in goods, e.g. financial or communications services. Likewise, there is little point in negotiating market access for distribution services if related trade in goods is restricted.

A negotiating strategy must therefore take a broad, holistic approach.

BUSINESS ON STAND-BY

Having prepared thoroughly, governments and business need to work closely throughout the period of negotiations. While governments negotiate, business needs to be an adviser to the negotiating team and may need to be consulted as negotiations proceed. Once a government has responded to initial requests, subsequent rounds of requests may go deeper into liberalization or regulatory reform of particular sectors than anticipated at the outset. Indeed, as negotiations draw to a close in what is known as the end game, the speed with which the negotiating team needs to respond becomes ever more urgent.

If business has followed the negotiations at each step, it makes the task easier, and the context more understandable, to provide urgent responses to any questions from the negotiators. Business therefore needs to marshal itself in such a way that it can respond at a moment’s notice. Chapter 7 looks at ways in which this can best be done.

CHAPTER 6

MAKING TRADE AGREEMENTS WORK

MAKING TRADE AGREEMENTS WORK

MARKET ENTRY CONDITIONS

The negotiation and conclusion of trade agreements only goes so far. The post-negotiation phase affects business interests in three important ways:

- **Implementation.** Business has two roles to play here: first, in working with the home government to ensure the implementation of national commitments in a way that minimizes the regulatory impact on business and avoids unintended consequences; second, in monitoring the implementation by other countries (as it is likely that business will be the first to see or experience the results of implementation).
- **Promotion of new export opportunities.** Governments need to work with trade support institutions (TSIs) to publicize the new business opportunities that trade agreements create. Sometimes the TSIs are part of the government itself, while others may be agencies of government or even private organizations such as chambers of commerce or sector associations. Whichever model is followed, it is important that the results of trade liberalization in other countries are well known if a country is to benefit from reforms arising from trade negotiations,
- **Enforcement.** Importantly, business also has a role to play in enforcing trade agreements. There may be instances when a country fails to implement a trade agreement properly, for example, where trade barriers that agreements were expected to remove or simplify are retained, or where implementation is dilatory. This is one of the key reasons why it is important for businesses, or their associations, to understand what has been agreed, by being able to read and interpret commitments that have been made in trade agreements, and understanding the tools that may be available to enforce their rights.

BUSINESS ROLE IN IMPLEMENTATION

While governments are responsible for implementing what they have agreed, business has a key role in monitoring this implementation, given that business is the primary beneficiary of opening markets. In relation to their country's own commitments, businesses can offer advice on the way that regulations are created, by offering their experience on ways of obtaining less intrusive and costly regulation, as well as taking more responsibility for compliance with their legal obligations. The more that business demonstrates a good track record of compliance, the lighter touch regulations may have on their businesses, including the possibility of self-regulation by the industry.

In the other direction, business will often be the first to experience any failure by another country to implement commitments under trade agreements. An individual business is less likely to have influence on a country's implementation failure than the industry sector as a whole, so it makes sense for businesses to work with associations to report implementation failures to their governments. After all, trade agreements are between governments, and enforcement is ultimately a matter for governments too. The book discusses business associations and coalitions in more detail in chapter 7.

ROLE OF TRADE SUPPORT INSTITUTIONS

While interested businesses and business organizations may follow the negotiations closely, most service suppliers, particularly small and medium-sized businesses, will be unaware of the detail, and consequently unaware of new opportunities that should flow from opening up export markets. Indeed many producers in developing countries have little knowledge of the export potential of their business. The role of trade support institutions is therefore vital to ensure that export opportunities are publicized widely and that appropriate help and support is given to businesses.

TSIs can come in a range of forms. Some are large, powerful bodies such as a country's principal chamber of commerce and industry, while others may be much smaller. Some may be sector specific. But they all tend to have certain activities in common:

- Trade advocacy and export promotion;
- Trade advisory and support services;
- Market information and awareness;
- Skills development through awareness seminars or training.

To be effective on behalf of a country, there needs to be strategic coherence between the policies of governments and the aims and interests of business. Ideally, TSIs should use experts from the private sector who can bring business experience with them, as they can identify with the issues faced by small or inexperienced businesses and use this experience to solve business problems.

While most TSIs will tend to focus on trade in goods, they should be developing an expertise in trade in services. The United Kingdom Government's trade development organization, UK Trade and Investment, has a number of sector teams responsible for trade development of services sectors, from financial and professional services, to business and consumer services. UKTI works with chambers of commerce, trade associations and other membership organizations to help businesses to export abroad or invest in the United Kingdom.

Box 21: United Kingdom trade support institutions assist accountancy sector in Mexico

The Institute of Chartered Accountants for England and Wales (ICAEW), active in South America for many years, decided that the industry needed to expand into Mexico. ICAEW contacted the national government trade promotion body, UK Trade and Investment. First it consulted the UKTI website for information on the Mexican market, then it joined a UKTI trade mission to Mexico to explore the market.

During the mission, the ICAEW met accountancy officials, bodies, representatives of financial regulatory bodies and key people from universities and leading financial firms. UKTI also organized a seminar at which ICAEW could present and showcase the certificates it has to offer, and explain their benefits. The aim was to be ready to help non-financial services companies on the Mexican stock exchange prepare their financial statements.

Source: UKTI.

BUSINESS MAY NEED TO ENFORCE RIGHTS

Business may need to enforce rights that have been agreed to market access and national treatment. Trade agreements may or may not provide for this. Those that do not are often described as agreements with no teeth that rely on peer pressure, as they otherwise have no binding force. Where they do, rights are enforced through provisions for settling disputes.

Business does not normally have direct recourse to dispute settlement processes, as the trade agreements that provide for this are between governments. Consequently, business needs to work with its own governments to discuss whether an apparent breach of an agreement should be pursued. Should a decision be taken to go ahead with a dispute procedure, business will normally be involved in helping to determine the facts.

The GATS, along with other WTO agreements, includes such provisions. A number of cases have been brought, ranging from distribution of certain goods (which can also call into question a Member's commitments under distribution services), to methods of payment as a form of financial services. Most attention has focused on two particular dispute cases under the GATS: Mexico – Telecoms, and United States – Gambling (see box 22).

The South Centre has observed some important lessons for developing countries from these cases (South Centre, 2005):

Box 22: Two key WTO GATS dispute settlement cases

Mexico – Telecoms (2003)

The United States complained that Mexico's domestic laws and regulations governing the supply of basic public telecommunication services were anti-competitive and discriminated against cross-border supply into Mexico by United States suppliers. The Panel found that the services at issue, whereby United States suppliers link their networks at the border with those of Mexican suppliers for termination within Mexico, are services supplied cross-border, and that the Reference Paper of additional (pro-competitive) commitments in basic telecommunications applies to the interconnection of cross-border services into Mexico. The Panel concluded that Mexico had violated its Reference Paper commitments, as well as its obligations under the GATS Telecommunications Annex because:

- Mexico had not ensured that the interconnection rates charged by Mexico's major suppliers to United States suppliers were 'cost-oriented' as they significantly exceeded the cost rate for providing the interconnection to the United States suppliers;
- Mexico had failed to provide United States suppliers access on 'reasonable terms' when it charged United States suppliers rates significantly in excess of a cost-oriented rate;
- Mexico had failed to maintain appropriate measures to prevent anti-competitive practices since by law it required all Mexico's telecommunications suppliers to charge a uniform interconnection rate to foreign suppliers;
- Mexico had failed to ensure that United States commercial agencies present in Mexico had access to private leased circuits that they could interconnect with foreign public telecommunication transport networks and services to supply international telecommunication services.

US – Gambling case (2003)

The Caribbean island state of Antigua and Barbuda complained that United States measures relating to gambling and betting services prevented them from supplying cross-border services through Mode 1, contrary to the United States Schedule of Specific Commitments. The United States denied that its Schedule included commitments on these services, but argued further that even if it did the measures were exempted from GATS disciplines since they were necessary 'to protect public morals or to maintain public order'.

The dispute Panel and Appellate Body found that the entry 'other recreational services (except sporting)' in the United States Schedule did include specific commitments on gambling and betting services and that the United States prohibition on cross-border supply of gambling and betting services was prohibited by GATS Article XVI (market access). The Appellate Body agreed, however, that the United States had shown that the measures were necessary 'to protect public morals or to maintain public order' within the meaning of GATS Article XIV(a) (public morals), as Antigua and Barbuda had not been able to identify any alternative measures that might reasonably be available.

Nevertheless, the Appellate Body agreed with the Panel that the United States measure appeared to authorize domestic operators to engage in the remote supply of certain betting services relating to horse racing, and as a result the United States had not demonstrated that its prohibitions on remote gambling applied to both foreign and domestic service suppliers in a manner consistent with Article XIV.

Source: WTO.

- First, both cases involved the defending country proving that the domestic regulatory measures were necessary (the necessity test); in the Mexico Telecoms case, Mexico failed to do so, while in the United States gambling case the United States was more successful, although this is partly because Antigua and Barbuda were not able to identify a reasonable alternative.
- Second, the United States gambling case showed the need for schedules of commitments to be clear as regards the scope of sector definitions – the W/120 classification (see appendix I) can be used to interpret commitments even if CPC codes are not used.
- Third, the Mexico Telecoms case demonstrated how far a Panel could interpret the scope of anti-competitive practices, and the importance of countries implementing commitments in basic telecommunications according to the Reference Paper to have effective competition laws for this sector.

- Fourth, as regards flexibility for developing countries, the Panel in Mexico Telecoms effectively ruled that developing countries do not have *carte blanche* on measures introduced for development reasons, and that there is an obligation on developing countries to show that any such measures are reasonable and necessary to meet those objectives.

TRADE ACCORDS MODELLED ON THE GATS

Many regional or bilateral trade agreements follow the principles and structure of the GATS, including schedules of specific commitments. For example, the European Union's bilateral free trade agreements with Mexico, Chile and others very closely follow GATS type schedules, but include extra commitments that are not extended to other WTO Members, given the aim of making these agreements 'GATS-plus'. Indeed, GATS-plus is an important and logical principle. Such agreements cannot be less than what has been agreed under the GATS, especially if the partner to the free trade agreement is also a WTO Member (as most are), because GATS commitments would still be enforceable, while commitments equal to GATS would not justify negotiation of a separate free trade agreement (unless other non-services areas provided the justification).

In Africa, SADC very closely follows the GATS, both in terms of the provisions of the Trade in Services Protocol and the way specific commitments will be scheduled, although negotiations have barely started. The East African Community also follows the modes of supply approach, although there are separate chapters covering the right of establishment and the free movement of workers, while the schedule of commitments is rather more broadly based.

The GATS approach, which has been followed by the EU and others (e.g. New Zealand-ASEAN Free Trade Agreement), is known as a 'positive list' approach. This means that the party is committed only to the extent of the sectors listed and the limitations applied to those sectors. Sectors or sub-sectors that are not mentioned are unbound. The advantage of this approach is that each commitment is a deliberate decision to bind, but on the other hand it encourages countries not to offer bound commitments, and therefore to protect sectors that may be seen as relatively less important.

Some free trade agreements, such as the North American Free Trade Agreement (NAFTA) and the Australia-Chile Free Trade Agreement, go further by taking a 'negative list' approach. This means that sectors are liberalized unless they are listed. Countries that follow this approach make an assumption that limitations would apply only in sectors that are deliberately deemed to have sensitivities. The Australia-Chile accord lists specific laws or regulations that the countries agreed to maintain. Negative lists are therefore seen as more liberal than positive lists.

Either way, the important test, legally, is whether both parties to a free trade agreement have 'substantial sectoral coverage' within the meaning of GATS Article V. Ultimately, this would be for a WTO Panel to determine.

CHAPTER 7

WORKING TOGETHER ON BUSINESS GOALS

WORKING TOGETHER ON BUSINESS GOALS

BENEFITS OF BUSINESS-GOVERNMENT CONSULTATION

For business to play a full role in reform of the services sector, not only must governments consult it, but business must also have the capacity to perform effectively in such discussions. Consultation serves the interests of governments and business. Because there are challenges for business, this chapter outlines how businesses can group themselves to keep abreast of developments and respond to consultations. It identifies successful examples and draws lessons for business in developing countries.

Consultation is a process, both formal and informal, for getting stakeholder views on issues. It seeks opinion on proposals and evidence to decide on policy options. There can be significant practical benefits. On the one hand, it exposes government decisions to public scrutiny; interested parties help a government to develop effective solutions, minimize the risk of unexpected consequences and discover better implementation methods. On the other, increases trust and engagement with stakeholders, by promoting transparency, improving awareness and understanding and encouraging public ownership of the policy.

Engaging stakeholders gives governments access to experts and other opinion holders, and helps to understand key concerns, explore the impact of proposals and understand where there is agreement and where compromises may be necessary. Consultations may include publishing draft documents, holding focus or consultative groups and using online methods.

Business challenges

Many business groups complain about being disenfranchised from policy processes, and that governments tend to make decisions without listening to those affected. However, there is also an onus on businesses to organize themselves properly to be able to respond effectively. International Lawyers and Economists Against Poverty (ILEAP) have identified a number of challenges in relation to consultations on trade in services where formation of services associations or coalitions could help (ILEAP, 2012):

- **Fragmentation of the services sector.** Given the diversity of different service sectors, but the similarity of issues faced in the international liberalization of services trade, there is a strong argument for the different sectors to come together to collect and analyse data in order to influence the direction of liberalization.
- **Lack of understanding of the services framework.** The principles behind services liberalization, which have been explained in this book, generally are not well understood, particularly by business in developing countries.
- **Differences between the services sector in developed and developing countries.** Service suppliers in developed countries engaged in international trade tend to be larger businesses, whereas the majority of service suppliers in developing countries are small or even micro businesses; hence each will have different strategic interests.
- **Competitiveness, information and credibility.** The focus of interest for service suppliers in developing countries will tend to be on skills enhancement and development; once achieved, this will improve competitiveness, encourage interest in information about export markets, and improve the credibility of businesses engaging in international trade.
- **Weakness of associations in developing countries.** In general, some service sector associations tend to be weaker in developing countries and not actively engaged in influencing government efforts towards freer trade.
- **Access to finance and government support.** It appears that service companies in developing countries find it more difficult to raise finance, and obtain government support, than traditional sectors.

The logic of this suggests that service suppliers would be better working together in coalitions supported by secretariats that understand how the services sector works and the needs of businesses in this sector.

BUILDING SERVICES COALITIONS

Although the first services coalition was formed 30 years ago, it is still seen as a new concept. The United States was the first country to recognize the importance of opening up services trade, as it prepared for the Uruguay Round of trade negotiations from 1987–1993. At the time, trade policy emphasized trade in goods. Yet the United States, then (and still now) the world's leading exporter of trade in services, led proposals to include trade in services in the Uruguay Round. This eventually let to the creation of the GATS.

Part of this preparation included the formation in 1982 of the US Coalition of Services Industries (CSI), a model that other countries have followed, at least in principle. The United Kingdom (the second largest exporter of services) had also formed its Liberalisation of Trade in Services (LOTIS Committee) in 1981, part of what was then called the Committee on Invisible Exports and is now known as TheCityUK. Both were private sector initiatives funded as membership organizations. These bodies contributed to the pioneering thinking in the 1980s about the nature of trade in services and the eventual development of the GATS.

Moves to expand the concept, however, waited until after the conclusion of the Uruguay Round. One of the unfinished areas of negotiations concerned the financial services sector. Global financial businesses organized themselves to contribute advice to the negotiations through the creation of the Financial Leaders' Group. The success of this initiative led to the creation in 1998 of the European Services Forum. A further initiative by the USCSI in 1999 to hold a Coalition of Services Industries Summit became the inspiration for similar coalitions around the world. The 2001 Summit in Hong Kong provided the platform for the launch of the Hong Kong CSI. ILEAP estimates that there are now about 30 coalitions or related organizations that are active, many of which are in the Caribbean (box 23). Other countries have relied on contact groups formed within existing chambers of commerce or with sector associations.

Box 23: Active service coalitions

Antigua and Barbuda Coalition of Service Industries
www.abcsi.org

Australian Services Roundtable
www.servicesaustralia.org.au

Barbados Coalition of Service Industries
www.bcsi.org.bb

Belize Coalition of Service Providers
www.c-nsc.org/network/belize

Brazilian Association of Information Technology and Communication Companies
www.brasscom.org.br

Business New Zealand
www.businessnz.org.nz

Canadian Services Coalition
www.chamber.ca/advocacy/canadian-services-coalition

Caribbean Network of Service Coalitions (CNSC)
www.c-nsc.org

Coalition of Service Industries Malaysia
www.micci.com

Dominica Coalition of Service Industries
www.dominicacoalition.org

European Services Forum (ESF)
www.esf.be

Federação de Serviços do Estado de São Paulo
www.fesesp.org.br

Global Services Network (GSN)
www.globalservicesnetwork.com

Grenada Coalition of Services Providers
www.c-nsc.org/network/grenada

Hong Kong Coalition of Service Industries
www.hkcsi.org.hk

Jamaica Coalition of Service Industries
www.jamaicacsi.org

Japan Services Network
www.keidanren.or.jp

Mexican Services Coalition

National Association of Software and Service Companies (NASSCOM, India)
www.nasscom.in

National Federation of Service Industries (Norway)
www.nhoservice.no

Saint Lucia Coalition of Service Industries
www.slcsi.org

Services Exporting Committee of the Santiago Chamber of Commerce
www.chilexportaservicios.cl/ces

Singapore Coalition of Service Industries
www.sbf.org.sg

St. Vincent and the Grenadines Coalition of Service Industries
http://c-nsc.org

Taiwan Coalition of Service Industries
www.roccoc.org.tw

TheCityUK (formerly International Financial Services London)
www.thecityuk.com

Trinidad and Tobago Coalition of Service Industries
www.ttcsi.org

Uganda Services Exporters Association (USEA)/ Coalition of Service Industries
www.ugandaexportsonline.com/service_exports.htm

Unión Argentina de Entidades de Servicios (UDES)

Coalition of Services Industries (CSI)
www.servicescoalition.org

Source: ILEAP (2012).

COALITIONS SHOULD REFLECT COUNTRY INTERESTS

The drivers for services coalitions in developing countries can be different from those in developed countries. The focus in developed countries has been on promoting trade liberalization around the world, rather than domestic reform, due to other established consultation arrangements between regulatory authorities and the industries they regulate. In contrast, in developing countries the focus has been on capacity building for members in the form of awareness building, enhancing competitiveness, trade promotion, networking and lobbying or advocacy (ILEAP, 2012).

Box 24: Regional approaches to coalitions

Caribbean

The idea for a coalition of services industries in the Caribbean first emerged in 1997 and CARICOM Heads of Government agreed on it in 2001. The objectives of national services coalitions were to:

- Provide services providers with knowledge of export opportunities;
- Organize trade missions;
- Encourage service providers to engage in developing export opportunities;
- Promote sector development and competitiveness;
- Ensure the highest industry standards;
- Educate service providers on the CARICOM Single Market and Economy (CSME), WTO, free trade agreements and other such agreements;
- Educate service providers on government export strategies and services;
- Represent the services sector in lobbying governments on trade in services;
- Promote the organization of non-organized service providers;
- Advise governments on market conditions and trade barriers;
- Encourage strategic alliances/partnerships;
- Influence implementation of CSME.

East Africa

The Uganda Coalition of Service Industries was formed in 2009 from the Uganda Services Exporters Association, which had been designated as Uganda's enquiry point for services trade. It provides advocacy and export support to the Uganda services sector. However, it has found it difficult to move beyond this level of activity.

More broadly, the idea of a regional EAC coalition was also under discussion in 2009 with the East African Business Council (EABC). After a hiatus in 2010 new impetus was created to develop a Professional Services Platform in 2011. The Platform was launched in 2012.

Source: ILEAP (2012).

STEPS TOWARDS COALITION BUILDING

It is one thing to decide to form a new coalition, but quite another to ensure that it continues in existence over the long term. Arkell in 1997 created a checklist setting out what needs to be done to ensure that a CSI stands a chance of long-term survival. He argued that a nucleus of key, interested private sector stalwarts would be needed to get it up and running over its first few years, requiring considerable personal time and commitment, and providing its initial funding. The key steps were:

- Create an initial board of private-sector participants and send invitations to government officials to attend as observers;
- Choose a lead spokesman, e.g. Director General;
- Decide the mission and aims of the CSI;
- Develop an action plan for the first, say, three years, defining initial scope of issues to address;
- Decide on scope of membership;
- Decide how the organization will be funded;
- Set up a secretariat;
- Develop a prospectus for selling the benefits of membership;
- Produce a brochure and launch the CSI: invite the trade minister to speak and invite media;

- Develop a website;
- Produce a newsletter for members;
- Identify agendas of issues for regular meetings;
- Develop an agenda for discussions with national government;
- Develop relationships with other trade associations, chambers of commerce, international links;
- Create links with other CSIs.

The CSIs that have stood the test of time have been engaged, active, knowledgeable, credible and responsive to requests for input. They have generally been led at senior level by businessmen with drive and determination to engage with government at the highest levels. Trade issues progress slowly, and a considerable degree of understanding, if not patience, at the pace is necessary.

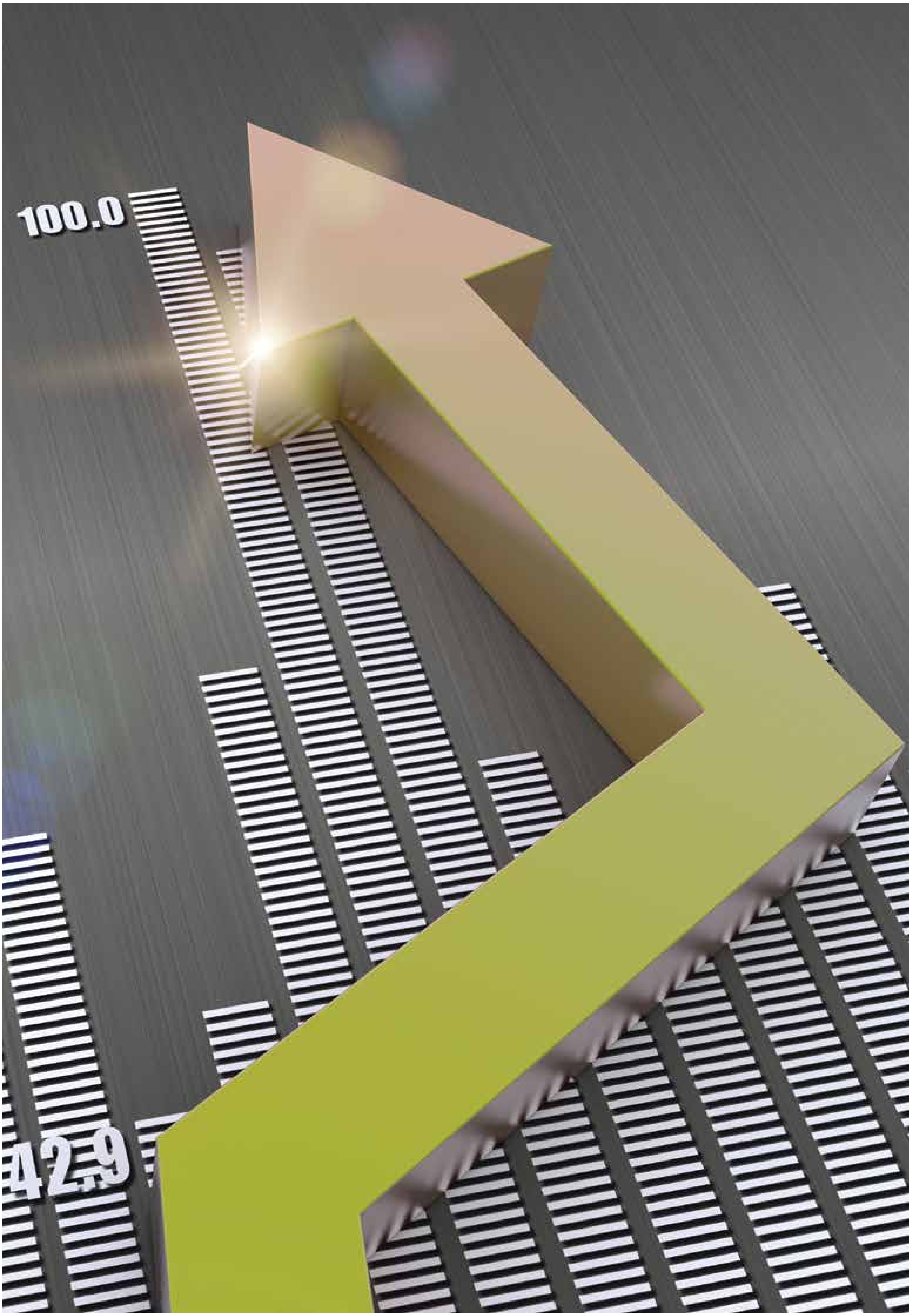
Funding can be problematic. Free-standing CSIs will need to be able to fund the secretariat appointed to run the CSI on a day-to-day basis. Arkell notes that membership funding is most likely to come from businesses rather than associations, which tend not to join other associations as members. He notes that paying members need to understand this and be comfortable with it. Sometimes funding may come from national governments, although this cannot be assumed.

POLICY AIMS AND STRATEGY

It is important to the success of CSIs that they have a clear aim and an agenda of relevant issues that are of interest to their members. Often the choice of the agenda is driven by the secretariat in line with the aims and directions of the governing board. But it is imperative that the agenda is continually fed with issues, otherwise there is a danger of the organization drying up. A five- or ten-year strategy may help, supported by annual business plans. These plans should be supported by a stakeholder engagement strategy and a communications strategy for engaging with the media to promote the interests and profile of the CSI.

A stakeholder engagement plan is vitally important. The success of the organization is dependent on the willingness of key contacts in government to work with it. In the services sector, this may be pushing at an open door, because governments that are seeking to press for more open trade may not have access to a dedicated group of services suppliers, who may otherwise fall through an institutional gap (ILEAP, 2012). Where the government is less willing to engage, senior business leaders with strong existing contacts at a political level should lead the CSI. The most successful relationships are those that are built on a platform of collaboration.

It is also important for the sustainability of membership that the organization is seen to be active. Regular visibility in the media is a prerequisite to demonstrate that the organization is working to address matters of importance and relevance. CSIs have also been successful in meeting with services negotiators and the chairs of negotiating groups. Not only does this improve understanding of negotiating objectives and impediments to progress, but it demonstrates a business commitment to successful outcomes. Making the most of such contacts involves a strategy for having access to the key people at any particular point in the negotiating process, supported by prepared statements or position papers developed and coordinated with members in advance.


100.0
42.9

CHAPTER 8

BUSINESS CAN HELP BUILD CAPACITY

BUSINESS CAN HELP BUILD CAPACITY

HOW BUSINESS CAN SUPPORT DEVELOPMENT

Much of this book has focused on how business and governments can support each other to achieve development and business aims. However, a broader question concerns the support that business can give in the area of capacity building. Some of these initiatives feature in what has been known since the WTO Ministerial Conference in Hong Kong in 2005 as Aid for Trade (see below).

The ODI notes that the potential contribution that business can make to development greatly exceeds the potential impact of aid (ODI, 2010). Companies looking for investment opportunities in developing countries may provide their own Aid for Trade, particularly through training in business practices and skills development. ODI calls for governments to consult business to identify potential growth sectors, and work with business to encourage business models that are pro-development.

The Africa Progress Panel, a business group set up to advise on business and development in Africa, argues that there is huge scope for business to contribute to the achievement of the Millennium Development Goals, and sound business reasons for doing so. It suggests that by contributing to human development in Africa, business can help entrepreneurs in Africa exploit new opportunities and at the same time reduce the costs of doing business.

First, the panel suggests that domestic and foreign businesses operating in Africa would benefit from stable and secure societies, by working in predictable and non-discriminatory trading and financial systems. Second, business can reduce the costs and risks of doing business that arise in relation to environmental and social challenges. Third, business can develop and introduce new products, services and technologies to address these challenges. Specific examples in relation to the service sector include:

- Enhancing private-sector investment in regional infrastructure – particularly in the areas of transport, energy and communications – and expanding access to capital through public-private partnerships;
- Creating a business environment that is friendly to business and investment, by highlighting barriers and advocating reforms;
- Ensuring a wider access to capital, by partnering with the public sector in infrastructure projects and providing alternative sources of finance such as tradable securities;
- Creating innovative services that can be resourced locally, resulting in increased employment and disposable income;
- Providing financial and management expertise, including financial intermediation.

AID FOR TRADE CAN SUPPORT SERVICES

The WTO Aid for Trade initiative has focused mainly on trade in goods. The WTO identifies a number of activities and constraints that Aid for Trade is aiming to help:

- **Technical assistance:** provision of advice and expertise to help developing countries with the complexities of international trade;
- **Capacity building:** transferring knowledge, such as through training of government officials;
- **Institutional reform:** assisting with the creation of effective institutions governing trade;
- **Infrastructure:** improving infrastructure such as roads and ports to help the distribution of goods, and telecommunications;
- **Assistance with adjustment costs:** fiscal support and policy advice to help countries with the costs of adjustment from liberalization;
- **Access to finance:** to help export potential or business development.

The WTO Second Global Review of Aid for Trade in 2009 noted that Aid for Trade had helped the expansion of the services sector in Cape Verde, with OECD data showing that most external support in the categories classified as Aid for Trade had been directed towards improving the port, airport and road infrastructure to cater for the increased transit of merchandise, passengers and cargo. Cambodia's Rice Export Policy has led to strong cooperation and coordination among stakeholders in a public-donor-private sector partnership, from inter-ministerial coordination to a dynamic dialogue with the private sector on a value and supply chain development approach. This encompasses simplified trade facilitation procedures, creation or improvement of trade-related infrastructure, provision of finance, and support for rice producers and exporters to meet standards and other requirements of import markets and exploit preferential market access.

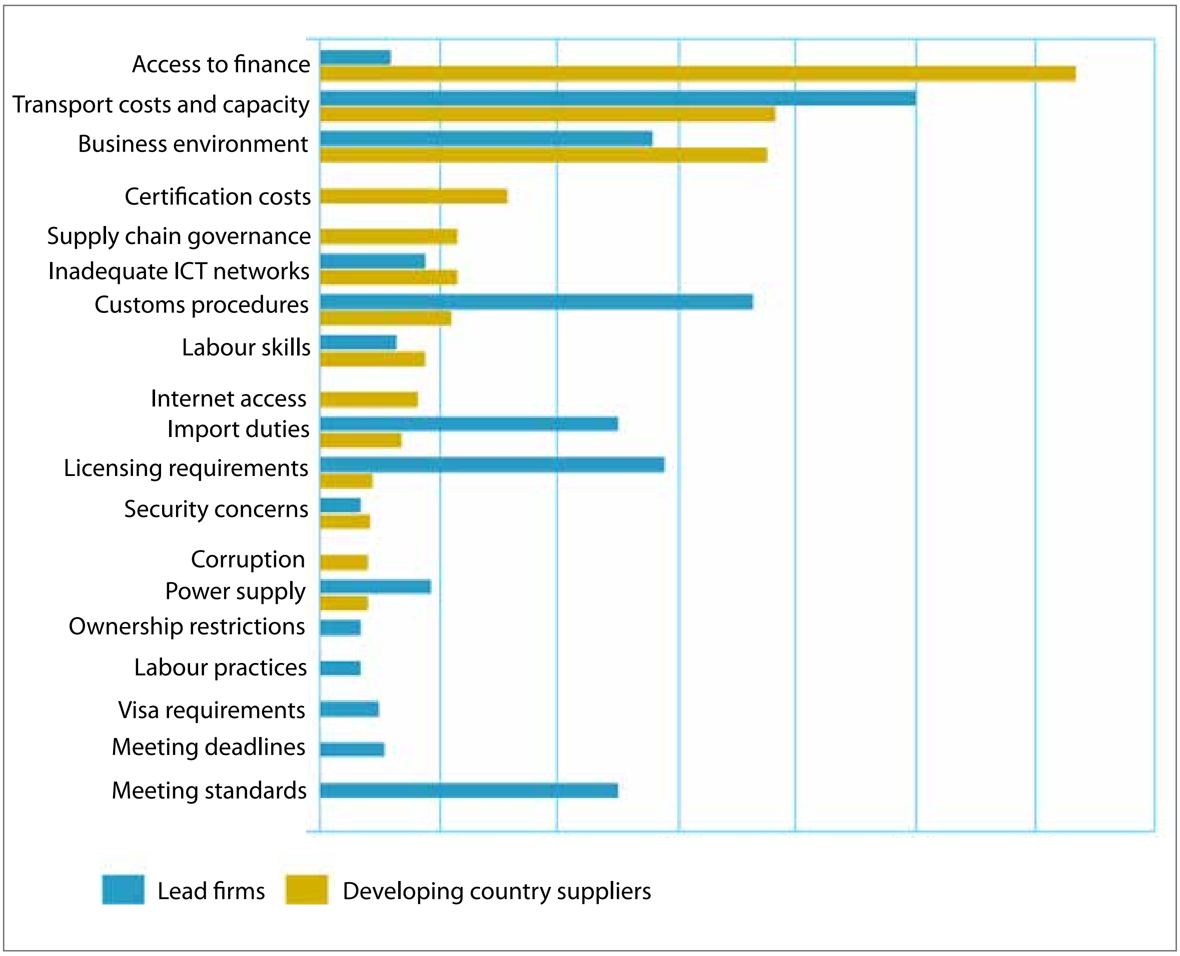
The Third Global Review in 2011 noted the importance of Aid for Trade in helping the services sector. The WTO identified in particular the need to improve access by developing countries to business services in order to promote income and generate employment. Case studies submitted at the review covering the services sector included the following examples:

- The Dominican Republic reformed its telecommunications sector with support from the United States Agency for International Development;
- The African Development Bank provided assistance for electricity generation and distribution in Benin, Nigeria and Togo;
- Australia supported a Pacific-wide project to increase the supply of skilled workers in the automotive, manufacturing, construction, tourism and community services;
- New Zealand provided training for seasonal workers to develop English literacy, numeracy and financial skills;
- Support was given to the Comoros and Saint Vincent and the Grenadines to promote development of business services and tourism.

The Fourth Global Review reports that since its launch developing countries, especially LDCs, are increasingly making value chains a priority (WTO, 2013). The WTO notes that value chains involve ever more complex regional and South-South trade interactions, and are extending beyond goods into services. By providing access to networks, global markets, capital, knowledge and technology, integrating into existing value chains can accelerate economic development faster than building new facilities.

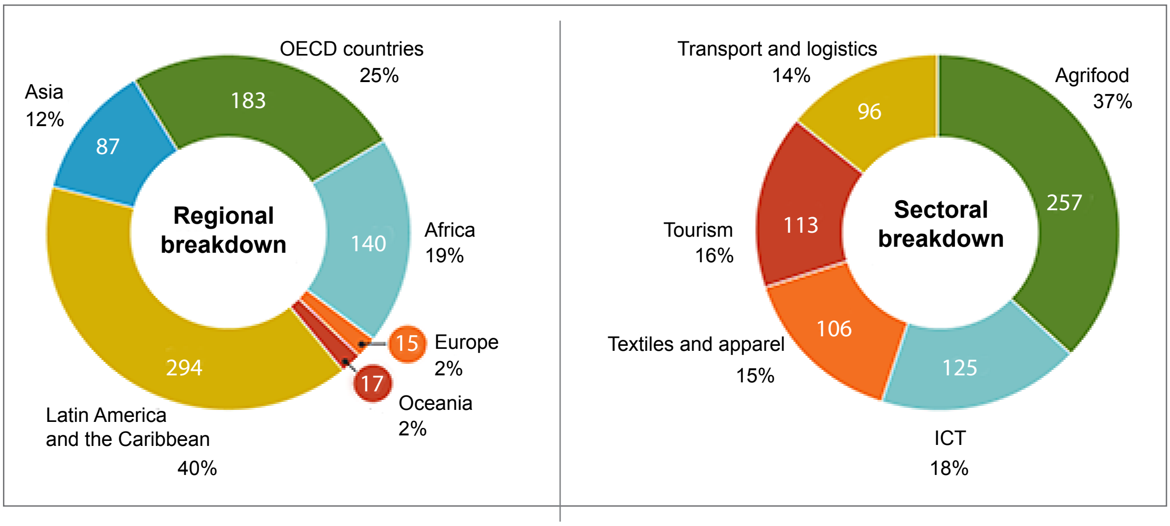
Business has identified transport costs as the main trade barrier (see figure 8), along with customs procedures, licensing requirements and impediments in the business environment. At a sectoral level, the key areas of interest in the services sector are ICT, tourism and transport and logistics. There is a clear role for the private sector, both in building trade capacity as well as through strategic public-private partnerships (PPPs), particularly in areas such as trade and transport infrastructure, and public-private dialogue in areas such as customs and border procedures, better regulation and improving governance. All of these form part of the agenda for services reform.

Figure 8: Private-sector views of main barriers in connecting firms to value chains (Percentage of responses to OECD/WTO questionnaire)



Source: OECD/WTO (2013).

Figure 9: Private-sector responses to OECD/WTO Aid for Trade questionnaire



Source: OECD/WTO (2013).

ROLE OF FINANCE AND DEVELOPMENT BODIES

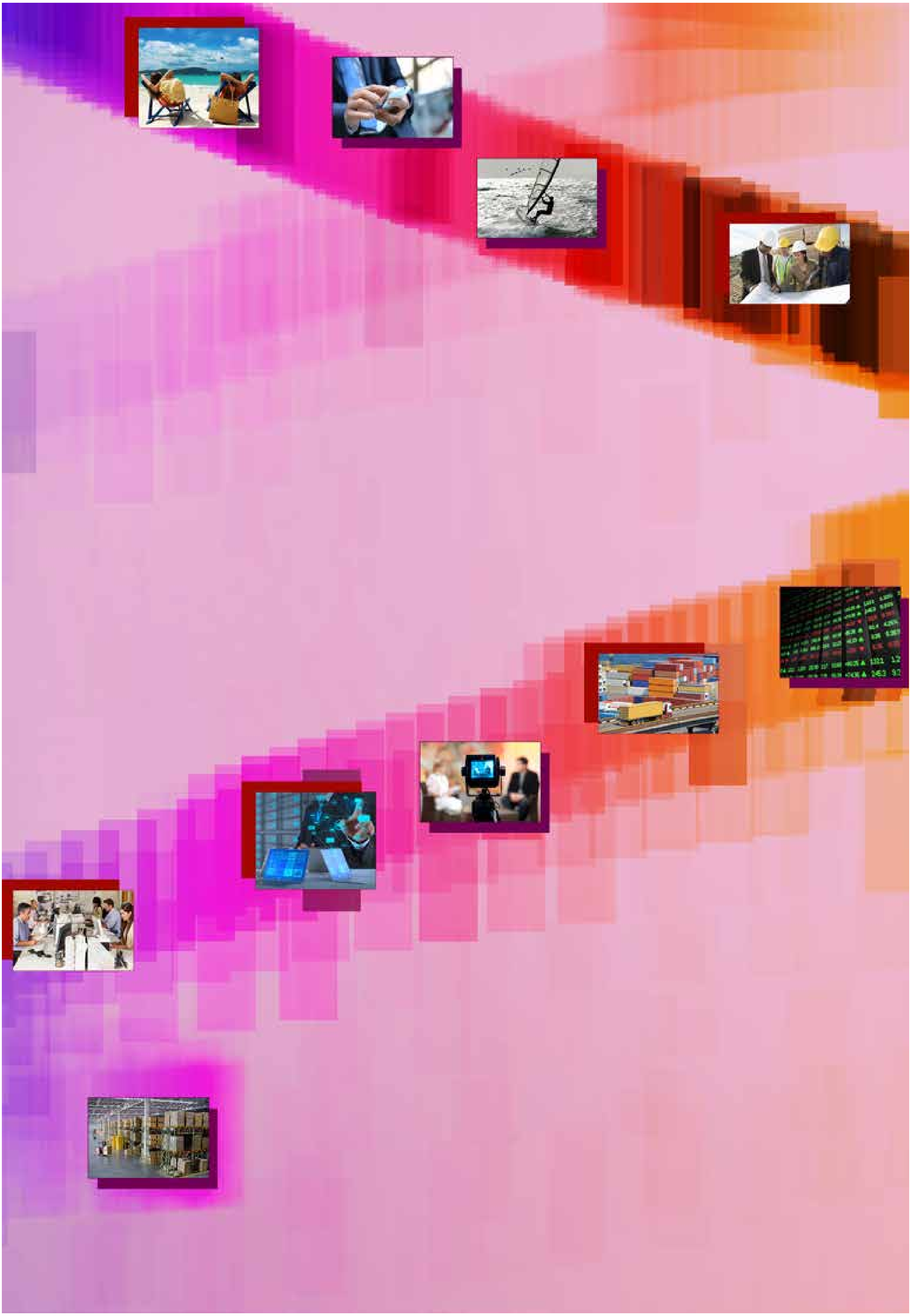
A strong financial sector is vitally important for growth and poverty reduction. However, access to finance is a major constraint for many businesses in developing countries. ODI notes that its research suggests that access to finance such as savings or credit will help individuals to invest in education and new small businesses, and thus work their way out of poverty. Financial-sector development can contribute to improving the use of assets held by poor people, create opportunities for entrepreneurship and investment, facilitate remittances, improve efficiencies in product and factor markets, and stimulate private-sector development, job creation, and growth (International Finance Corporation, 2011). The role that the banking sector can and should play is key to widening access to services and supporting innovation and new technologies.

The International Finance Corporation notes that the private sector is a critical stakeholder in economic development (IFC, 2011), and that development banks and other international financial institutions (IFIs) play an important part in supporting the private sector in developing countries. They provide capital, knowledge and partnerships; help to manage risks; and support entrepreneurial initiatives that aim to help developing countries achieve sustainable economic growth.

This recognizes that it is the private sector that has become more important in the delivery of infrastructure and other services, as governments have looked for more efficient and less costly ways to deliver services. Much of the focus is now on public-private partnerships, as they match the advantages of state provision of certain infrastructure services with the benefits that private-sector management and resources can bring to meet public sector shortfalls.

PART II

LIBERALIZATION IN INDIVIDUAL SECTORS



CHAPTER 9

INDIVIDUAL SERVICE SECTORS

INDIVIDUAL SERVICE SECTORS

This part of the book looks briefly at some individual sectors, the key characteristics of those sectors, the importance of trade in the sector, including the importance to developing countries, the regulatory issues raised and the drivers for liberalization, from the perspective of business. It highlights developments in the sectors with references to case studies.

The sectors considered are: transport and logistics; tourism and travel; communications; audiovisual services, construction; financial services; computer services and business process outsourcing; other business services including professional services; distribution services and cultural and recreational services.

The order in which sectors are considered, and the WTO background document reference for most of them,[1] are in the table below.

Table 14: Individual sectors: WTO key reference

Sector	WTO background document reference
Tourism and travel	S/C/W/298
Transport and logistics	S/C/W/315,324
Professional (accountancy, architectural, engineering, legal) and other business services including business process outsourcing	S/C/W/303,316,318,334
Computer-related services	S/C/W/300
Communications	S/C/W/299
Audio-visual services	S/C/W310
Construction	S/C/W/302
Financial services	S/C/W/312
Distribution services	S/C/W/326
Cultural and recreational services	

Source: WTO website, www.wto.org.

TOURISM SERVICES

SCOPE

This sector covers mainly the following services:

- Hotels, restaurants and other catering services;
- Travel agencies and tour operators;
- Tourist guides.

Reforms in the tourism sector should take account of the bigger picture that related services represent. These include computer reservation systems; cruise ships and other transport services; hotel construction; car rentals; certain distribution, business and financial services; and most recreational, cultural and sporting services.

Generally speaking, developing countries have shown a willingness to open their markets to foreign providers of star-rated hotels, a wide variety of restaurants and tour operators and travel agents, although there has been some concern about profits not being retained in the tourism destination country. Despite this, tour guide activities have been widely reserved for national providers, based on the view that nationals understand the local culture and history better. Foreign providers have seen this as a form of protectionism for the local industry.

1 World Trade Organization. Documents on Line Data Base. Available from https://docs.wto.org.

ECONOMIC IMPORTANCE

Tourism has become one of the major international trade categories, and the export income generated by international tourism currently ranks fourth after fuels, chemicals and automotive products. For many developing countries, it is one of the main income sources and the most important export category, creating much-needed employment and opportunities for development.

Tourism is highly labour intensive, and an important source of employment, including in remote and rural areas (WTO, 2009). The expansion of low-cost air travel has radically transformed tourism as a whole, although some contend that the current system of bilateral aviation agreements continues to limit tourism potential. One of the most characteristic aspects of international tourism is the cross-border movement of consumers. This permits even unskilled workers in remote areas to become exporters of tourism services.

An Asia-Pacific Economic Cooperation (APEC) working party on tourism (2004) concluded that there were three particular challenges to the long-term growth of international tourism:

- The relatively low profile of tourism at the political level in most countries, which means that actions by government and non-governmental organizations can affect the sector negatively, even if this is done unintentionally;
- Tourism is highly fragmented, with tourism enterprises belonging to a number of very different industries such as transportation, accommodation, food services, travel trade (tour operators and travel agencies), recreation and entertainment, and thus making it difficult for the industry to speak with one voice;
- Tourism is highly vulnerable to external forces, including acts of terrorism, economic trends, natural disasters, weather and climate, and developments in competing destinations.[2]

According to the World Tourism Organization (UNWTO), in 2011 world tourism continued to rebound from the setbacks of 2008–2009, in a year marked by persistent economic turbulence, major political changes in the Middle East and North Africa, and the natural disaster in Japan. Worldwide, international tourist arrivals (i.e. overnight visitors) grew by 4.6% in 2011 to 983 million, up from 940 million in 2010 when arrivals increased by 6.4%. Travel for leisure, recreation and holidays in 2011 accounted for 51% of all international tourist arrivals, with 505 million arrivals. Travel for business and professional purposes accounted for 15% of tourist arrivals, while 27% of tourists travelled for other purposes, such as visiting friends and relatives, religious reasons or health treatment. Just over half, or 51%, arrived by air, 41% by road, 6% by water and 2% by rail.

Table 15: Key trade barriers in tourism

Mode of supply	Typical limitations
General	▪ International standards – such as terminology for hotel accommodation ▪ Anti-competitive practices, including cartels, abuse of dominant position and buying power, attempts to monopolize ▪ Vertical relationship between holiday package providers, retailers and tourism suppliers ▪ Long distances of many developing countries from the main tourist generating centres ▪ Lack of essential infrastructure
Mode 1	▪ Lack of market access commitments allowing cross-border travel agency and tour operator services via e-commerce, a significant export opportunity for many developing countries
Mode 3	▪ Lack of policies to attract FDI in tourism ▪ Economic needs test for new bars or restaurants ▪ Market access guarantees only for hotels above a certain size (e.g. 50–100 rooms) and economic needs tests below that level (to protect small local hotels)
Mode 4	▪ Citizenship requirements for tourist guide licences

Source: Author, drawing from GATS schedules.

2 Asia-Pacific Economic Cooperation (2004). *APEC Tourism Impediments Study Stage 2,* December 2004, p. 100. In 1990, the OECD published an *Inventory of Obstacles to International Tourism* in the OECD area. The study concluded that, by comparison with other service sectors, the tourism sector in OECD countries was 'remarkably free from protectionist and discriminatory practices'. See World Tourism Organization (1996), *Seminar on GATS Implications for Tourism*, 1996, p. 42. Madrid.

Box 25: Tourism in Barbados

Tourism remains the mainstay of Barbados' economy and its most important services export. Barbados is one of the most mature Caribbean tourism destinations. The country's tourism industry is diversified, comprising the long-stay visitor market and a growing cruise ship segment. In 2007, Barbados received a total of 1,189,291 tourist visits. Long-stay tourists accounted for approximately 48.2% of this (albeit boosted by Barbados' hosting of some matches of the Cricket World Cup in April 2007), a 1.8% increase over 2006. Cruise tourism is an increasingly important part of the tourism market, growing by 14.3% in 2007.

As well as hotels and restaurants, the sector includes a wide variety of service suppliers, including car rental and coach operators; aircraft catering; tour guides; travel agents and tour operators; duty-free retailers; and a wide variety of other businesses which derive a significant portion of their revenues from the tourism industry. Barbados has made good progress in creating niche tourism markets such as cultural, heritage and sports tourism, and promoting the island as a destination for weddings.

The United Kingdom is the most important tourism market for Barbados, accounting for 38% of total long-stay tourist arrivals in 2007. Arrivals from Germany and other European destinations declined by 25.8% in 2006–2007, however. Other major tourist markets, such as the United States and Canada, continue to grow, recording increases of 2.1% and 7.7% respectively over the same period.

In recent decades, Barbados has faced increasingly strong competition within the region from destinations such as Cuba, the Dominican Republic, Jamaica and Mexico. The country's main challenge is therefore to maintain high-quality tourism while adding value through new niche markets such as health and wellness tourism, which build on Barbados' existing capacity base. Given that Barbados' largest tourism markets are the United Kingdom, the United States and Canada, the industry is particularly vulnerable to economic downturns in any of these countries.

The Economic Partnership Agreement negotiations between CARIFORUM and the European Union created an important opportunity to promote diversification of export markets for Barbadian tourism. Keen to reverse the decline in tourism from the EU, Barbados requested the EU to remove all restrictions on cross-border supply (Mode 1), commercial presence (Mode 3) and movement of managers and key personnel (Mode 4) for travel agents, tour operators, tour guides and lodging, food and beverage services.

The EU agreed to commitments on the provision of catering services and additional market access for travel agency and tour operators via Mode 1, but maintained more restricted access for hotels and restaurants and some restrictions on tourist guide services in certain Member States. Under Mode 3, the EU agreed to remove commercial presence restrictions (except in Bulgaria and Italy) for hotel, restaurant and catering services and restrictions in Bulgaria and Portugal for travel agency and tour operator services. The EU offered full market access for the establishment of commercial presence for tourist guide services, although under Mode 4 nationality requirements were retained in 12 Member States, in effect nullifying market access. In relation to other aspects of Mode 4, the EU agreed to allow investors to engage key personnel and graduate trainees for every liberalized service, except in Bulgaria.

Source: Ward and Sauvé (2010).

Box 26: Tourism in Vanuatu: Evergreen Limited

Initially conceived in the early 1990s by a local Ni-Vanuatu family, Evergreen was formally established as a fully licensed inbound tour operator in 1999, with its head office in Port Vila. The owners of the company are also the landowners of the Mele Cascades Waterfalls and the Pele Island Beach. With knowledge of local customs and culture, Evergreen Ltd has become the largest indigenous tour operator in Vanuatu with a network covering all of Vanuatu's major tourist islands.

Evergreen is also a handling agent for major international travel agents from Australia, New Zealand and New Caledonia. Using bilingual staff, the company offers half- and full-day tours covering a range of ecotourism, cultural, adventure and health-care itineraries. The company aims to achieve a positive impact on the local economy, integrating local communities into the tours as guides and sellers of local products, or by facilitating tourist experiences of traditional cuisine and artistic performances. Evergreen owns a fleet of modern air-conditioned tourist coaches and tour buses providing group or private transfers, as well as modern boats for sea excursions, equipped with life jackets and flares.

In an effort to position itself in the global tourism industry, representing all other Vanuatu tour operators, Evergreen exhibited at the Mini World Expo in Yeosu City in the Republic of Korea in 2012.

"This has been a good opportunity for the company to diversify its target markets from the traditional ones, mainly Australia and New Zealand, and in particular to create connections with South Korea and other Asian emerging markets. Evergreen receives over 6,000 Korean tourists every year and we look forward to increase their number as a result of this Expo,' according to Philip Malas, Managing Director, Evergreen Tourism.

In 2013 the company was awarded a certificate of excellence by TripAdvisor, setting a new benchmark for other local companies in Vanuatu.

Source: Evergreen Ltd.

TRADE DATA

World trade in tourism services is measured by the WTO in terms of travel. The WTO estimates that travel accounted for 25.6% of total exports of commercial services in 2011.

Table 16: Leading exporters and importers of travel, 2005–2011
(Billion dollars and percentage)

	Value	Share		Annual percentage change			
	2011	2005	2011	2005–2011	2009	2010	2011
Exporters							
European Union (27)	377.1	42.5	35.3	4	-13	-1	13
Extra-EU (27) exports	117.9	11.8	11.0	6	-12	6	17
United States	149.6	15.3	14.0	6	-11	9	11
China	48.5	4.2	4.5	9	-3	15	6
Macao, China	38.5	1.1	3.6	30	7	53	39
Australia	31.4	2.4	2.9	11	1	17	6
Hong Kong, China	27.7	1.5	2.6	18	7	35	25
Thailand	26.7	1.4	2.5	19	-12	25	33
Turkey	22.7	2.6	2.1	4	-3	-2	9
Singapore	19.1	0.9	1.8	21	-13	51	35
Malaysia	18.2	1.3	1.7	13	3	16	0
Switzerland	17.7	1.4	1.7	10	-2	6	18
India	17.5	1.1	1.6	15	-6	27	24
Canada	16.7	2.0	1.6	3	-12	14	6
Korea, Republic of	12.3	0.8	1.2	13	0	6	19
Mexico	11.9	1.7	1.1	0	-14	4	-1
Above 15	**835.0**	**80.3**	**78.3**	**-**	**-**	**-**	**-**
Importers							
European Union (27)	350.4	46.3	36.9	3	-13	-2	7
Extra-EU (27) imports	124.5	16.5	13.1	3	-13	0	4
United States	86.7	11.7	9.1	3	-7	2	5
China	72.5	3.4	7.6	22	21	26	32
Canada	33.2	2.8	3.5	11	-11	22	12
Russian Federation	32.5	2.7	3.4	11	-12	27	22
Japan	27.3	4.3	2.9	0	-10	11	-2
Australia	26.9	1.8	2.8	16	-6	26	21
Brazil	21.2	0.7	2.2	28	-1	51	29
Singapore	20.2	1.6	2.1	12	-2	12	20
Korea, Republic of	19.5	2.4	2.1	4	-21	25	4
Hong Kong, China	19.1	2.1	2.0	6	-3	12	9
Saudi Arabia	17.3	1.4	1.8	11	35	4	-18
Norway	16.7	1.6	1.8	9	-11	13	20
Iran (Islamic Republic of)[a/]	15.7	0.6	1.7	...	19	56	...
India	13.8	1.0	1.5	14	-3	14	30
Above 15	**775.0**	**84.2**	**81.4**	**-**	**-**	**-**	**-**

Source: WTO, International Trade Statistics 2012.

a/ Secretariat estimate.

Table 17: International tourist arrivals

Rank		Million		Change (%)		Receipts ($ billion)	
		2010	2011	10/09	11/10	2010	2011
1	France	77.1	79.5	0.5	3.0	46.6	53.8
2	United States	59.8	62.3	8.8	4.2	103.5	116.3
3	China	55.7	57.6	9.4	3.4	45.8	48.5
4	Spain	52.7	56.7	1.0	7.6	52.5	59.9
5	Italy	43.6	46.1	0.9	5.7	38.8	43.0
6	Turkey	27.0	29.3	5.9	8.7	20.8	23.0
7	United Kingdom	28.3	29.2	0.4	3.2	32.4	35.9
8	Germany	26.9	28.4	10.9	5.5	34.7	38.8
9	Malaysia	24.6	24.7	3.9	0.6	18.3	18.3
10	Mexico	23.3	23.4	4.2	0.5	12.0	11.9
Among the developing countries, leading destinations include:							
Rank		Million		Change (%)		Receipts ($ billion)	
		2010	2011	10/09	11/10	2010	2011
1	China	77.1	79.5	0.5	3.0	46.6	53.8
2	Malaysia	24.6	24.7	3.9	0.6	18.3	18.3
3	Mexico	23.3	23.4	4.2	0.5	12.0	11.9
4	Hong Kong, China	20.1	22.3	18.7	11.1	22.2	27.7
5	Thailand	15.9	19.1	12.6	19.8	20.1	26.3
6	Macao, China	11.9	12.9	14.7	8.4	27.8	….
7	Singapore	9.2	10.4	22.3	13.4	14.3	18.0
8	Korea, Republic of	8.8	9.9	12.5	11.3	10.4	12.3
9	Morocco	9.3	9.3	11.4	0.6	6.7	7.3
10	South Africa	8.0	8.3	15.1	3.3	9.0	9.5
11	Indonesia	7.0	7.7	10.7	9.2	7.0	8.0
12	India	5.8	6.3	11.8	8.9	14.2	17.5
13	Viet Nam	5.1	6.0	34.8	19.1	4.5	5.6
14	Argentina	5.3	5.7	23.6	6.3	4.9	5.4
15	Brazil	5.2	5.5	7.5	5.3	5.7	6.6
	Caribbean*	20.0	20.8	2.2	3.6	22.7	23.9

Source: United Nations World Tourism Organization.

* Caribbean, taken together – of which leading destinations were the Dominican Republic, Puerto Rico and Cuba.

TRANSPORT AND LOGISTICS SERVICES

SCOPE

The sector covers six transport modes and a range of auxiliary services. The six modes are:

- Maritime transport;
- Inland waterways transport;
- Air transport;
- Rail transport;
- Road transport;
- Pipeline transport.

Auxiliary services cover activities such as cargo handling, warehousing, freight forwarding, etc.

Trade negotiations tend to focus mostly on maritime, road and auxiliary services. There tends to be less interest in developing countries in rail, inland waterways and pipeline transport. Air services are excluded from the scope of most trade agreements, which draw their scope from the exclusion from the GATS of services related to air traffic rights and the inclusion of aircraft maintenance and repair services, sales and marketing services, and computer reservation services.

ECONOMIC IMPORTANCE

The transport sector is arguably the second most important sector for developing countries, after tourism. Transport is vital for moving goods around, and without efficient transport services a country's exports will be more expensive and less competitive on world markets. Transport is also an essential part of the supply chain. It is, however, characterized by the different modes of transport, which raise different issues of public and private supply and competition, and differences in transport regulation. For example, shipping is extremely important for countries with coastal ports, but less important for land locked countries, for which road and rail transport assume greater significance. Businesses choose particular modes of transport by balancing the value of the goods to be transported, the urgency of delivery, the degree of reliability and the cost per ton/distance of different transport modes.

Table 18: Characteristics of transport modes

Mode	Value	Time sensitivity	Reliability	Cost
Air	Very high	High	High	Very high
Road	High	High	Reliable	Moderately high
Sea	High	Low	Moderate	Low
Rail	Low	Low	Moderate	Low
Inland waterways	Very low	Very low	Moderate	Low
Pipeline	Fuel – oil and gas	Slow	Reliable	Low

Source: Author, based on Ballou (1999).

Transport is also a key infrastructure service. Maritime and air transport both rely on the infrastructure provided by ports and airports. Other transport modes require dedicated infrastructure, such as roads and rail track that require construction and maintenance. Yet the provision of transport services is concerned not with the building of infrastructure, but the supply of services by businesses that use the infrastructure. It follows then that in developing a strategy for liberalizing transport, countries need to focus on the different modes of transport and how foreign participation could assist in achieving higher competitiveness and improved quality in the supply of services. Alongside, governments need to think about how best to attract the investment needed to construct and operate the infrastructure.

The World Bank's *Doing Business* report focuses on the costs of transportation when assessing a country's ranking in terms of trading across borders. Consequently, a country wishing to improve its ranking should pay particular attention to the cost of transportation in terms of time and expense.

LIBERALIZATION UNDER TRADE AGREEMENTS

Maritime transport has always been the lifeblood of international freight transport, accounting for more than 90% of international trade. The sector is divided between shipowners and operators, and port and terminal operators. Within the shipping sector, services are split into dry bulk, tanker and liner trades (mainly containerized transport). Each sector specializes in particular cargos and especially designed ships, but otherwise competes in the supply of largely liberalized services. Ports also compete with each other for trades that are not linked to specialized routes using very large vessels, such as crude carriers or iron ore carriers. Some ports are publicly owned but private operators now run many ports. The most protectionist routes are cabotage services (the national carriage of goods by non-national transport operators), which tend to be reserved for national carriers.

Road freight transport tends to be liberalized, and is characterized by small one-vehicle fleet operators at one end of the sector and very large companies with several hundred trucks in their fleets at the other. Trade barriers are mainly found in the way transport is regulated, from operator licensing restrictions and road user charges to regulations on vehicles and drivers for safety and environmental reasons. Discriminatory application of regulations to foreign registered vehicles forms the basis of frequent complaints from business.

Air transport services that are linked to air traffic rights are normally excluded from the scope of trade agreements, including the GATS (although this is reviewed periodically). Yet ancillary services, such as maintenance and repair services, selling and marketing services and computer reservation services *are* included. Ancillary services, such as cargo storage and warehousing and freight forwarding, tend to be the most liberalized area of transport, with many companies seeking to offer services in a competitive market. A growing area of interest is in ground handling services (e.g. baggage handling, catering and aircraft handling services such as pushbacks), as in many countries these services have been delinked from the airlines and offered separately.

Many transport companies that once specialized in haulage now offer a package of supply chain logistics and supply chain management services related to the movement and storage of goods, as well as the associated information flows, from the beginning to the end of the supply chain. In terms of the GATS classification of services (appendix I), countries make commitments according to individual activities as there is no separate category for logistics services, so integrated logistics services tend to be broken into their separate components. Liberalization, however, needs to be considered on a more strategic and holistic basis if it is to make sense.

Shipments are often held up at borders for customs and other border regulation requirements related to the export or import of the goods being carried. Consequently, there is a strong link between logistics performance and trade facilitation.

Table 19: Transport and logistics: trade barriers and regulatory issues

Mode of supply	Typical limitations
General	▪ Maritime, port and cargo security regulation ▪ Cargo reservation legislation ▪ Discriminatory application of transport regulation (drivers and vehicles) ▪ Discriminatory application of transit rules ▪ Customs regulations and delays ▪ Freight inspections
Mode 3	▪ Land scarcity ▪ Residency requirements on directors ▪ Nationality requirements on use of labour and customs brokers
Other	▪ MFN exemptions protecting bilateral transport agreements

Source: Author.

Box 27: Philips Electronics: trade facilitation across borders

Philips Electronics is Europe's largest electronics company. The company operates a fairly decentralized organization and is dependent on a large number of production units located around the world. These units are united in a complex global supply chain. Philips has established a specialized service unit of approximately 150 professionals whose purpose is to serve and assist the movement of goods across borders. For example, this unit handles issues related to border and customs procedures such as customs declarations and customs invoices.

About 40 of the professionals in this unit work solely with the Chinese market, which represents about 25% of production and 20% of sales. Customs issues are high on the agenda when production is outsourced, where short lead times are critical and documentation requirements complex. Customs procedures are normally taken into consideration at the end of the investment evaluation process. Potential locations are first identified using a broad set of criteria, and it is in the final stages of the evaluation process that the company investigates the efficiency of the customs procedures of candidate countries.

Customs procedures are less important to investment decisions in major markets. In China, Philips enjoys an early mover advantage where its dedicated service unit for border issues has long-established relations and agreements with local authorities concerning customs clearance. The company's relative market size and importance as a large foreign investor also play an important role in its ability to affect border barriers.

For example, in the beginning of the 1990s, Philips invested in production facilities in Hungary. One of the company's preconditions was that the local authorities agree to cut clearance time – a major hurdle at the time. The company managed to negotiate a cut in customs clearance time from an average of 4–5 days to 1–2 days.

Source: Organisation for Economic Co-operation and Development (2005). The Economic Impact of Trade Facilitation, Trade Policy Working Paper No. 21. Paris.

Box 28: Rwanda: deregulating international transport

In 1994, Rwanda decided to deregulate the international transport sector to bring down transport prices, a major impediment for a landlocked country. The reduction in costs by up to 30% demonstrated the impact of cartels in the country. The main trucking company had an effective monopoly and was able to set high prices. Deregulation sparked growth in the Rwandan private trucking industry, in marked contrast to the fears expressed prior to deregulation. It boosted the rapid recovery of the domestic fleet and enabled it to capture niche markets such as the transport of petroleum products.

Source: Teravaninthorn and Raballand (2009).

Box 29: Czech Republic, Hungary and Poland: privatizing transport

Road freight transport was one of the first sectors to be privatized and liberalized in most Central and East European countries. Hungary, followed by Poland and then the Czech Republic, was the earliest to adopt pro-competition reforms. Hungary and Poland passed laws granting free entry to the trucking market in 1988, as did the Czech Republic after 1990. Market forces freely determine transport prices. The combination of privatization and liberalization, which included deregulation reforms, such as eliminating rate and route controls, led to the entry of many new trucking operators with competitive prices and better quality services.

A consequence of the new competitive environment includes several innovative logistics services initiated by the trucking companies. This has resulted in faster delivery times and less breakage or spoilage of cargo. In most cases, the more significant service innovations were initiated by the larger, internationally connected trucking companies.

Source: Teravaninthorn and Raballand (2009).

Table 20: Leading exporters and importers of transportation services, 2011
(Billion dollars and percentage)

	Value	Share		Annual percentage change			
	2011	2005	2011	2005–2011	2009	2010	2011
Exporters							
European Union (27)	372.5	46.1	43.3	6	-23	9	9
Extra-EU (27) exports	185.1	22.8	21.5	6	-25	13	9
United States	78.9	9.2	9.2	7	-18	15	12
Japan	38.4	6.3	4.5	1	-33	23	-1
Singapore	37.1	3.4	4.3	11	-19	15	13
Korea, Republic of	37.1	4.2	4.3	8	-36	36	-5
China	35.6	2.7	4.1	15	-39	45	4
Hong Kong, China	32.7	3.6	3.8	8	-18	26	9
India	17.5	1.0	2.0	20	-5	21	32
Russian Federation	17.0	1.6	2.0	11	-18	21	14
Norway	15.1	2.7	1.8	0	-25	1	-4
Canada	13.5	1.7	1.6	6	-19	25	16
Turkey	10.4	0.9	1.2	13	0	15	15
Taipei, Chinese	9.7	1.0	1.1	9	-31	54	-1
Ukraine	9.0	0.8	1.0	12	-18	25	15
Egypt	8.2	0.8	1.0	10	-18	18	4
Above 15	**735.0**	**86.0**	**85.2**	-	-	-	-
Importers							
European Union (27)	338.3	36.5	30.7	5	-24	11	9
Extra-EU (27) imports	156.1	16.3	14.2	6	-25	17	9
United States	85.2	11.5	7.7	1	-24	16	9
China	80.4	4.2	7.3	19	-7	36	27
India	56.9	3.0	5.2	18	-17	31	22
Japan	49.5	5.9	4.5	3	-25	15	7
Singapore	33.4	3.0	3.0	9	-18	15	17
United Arab Emirates	31.0	1.6	2.8	19	-10	12	20
Korea, Republic of	27.8	2.9	2.5	6	-36	27	-6
Thailand	26.7	2.1	2.4	11	-26	32	19
Canada	23.4	2.1	2.1	8	-18	21	15
Hong Kong, China	15.7	1.5	1.4	7	-23	19	7
Australia	15.5	1.6	1.4	6	-31	30	16
Saudi Arabia	15.4	0.7	1.4	21	-27	12	21
Russian Federation	15.3	0.8	1.4	20	-27	28	27
Brazil	14.2	0.7	1.3	19	-23	42	25
Above 15	**830.0**	**78.1**	**75.2**	-	-	-	-

Source: WTO, International Trade Statistics 2012.

COMMUNICATIONS SERVICES

SCOPE

The sector covers mainly:

- Postal services;
- Courier services;
- Basic telecommunications;
- Value-added telecommunications.

ECONOMIC IMPORTANCE

Telecommunications have been revolutionized, and in turn have revolutionized trade, over the last 20 years. The once dominant public telecommunications monopolies have been replaced by competitive private suppliers. This has led to enormous growth in mobile telephony, lower prices and the explosion of Internet-based services. As a result, telecommunications (both fixed and mobile) are now available to nearly 70% of the world's population. Significantly, telephone density is lowest in countries which have retained public telecommunications transport networks and services.

By 2007, Internet users globally exceeded the number of fixed line subscribers, and mobile service accounted for 72% of all telephones, according to WTO. Universal service is becoming a *de facto* state of the market, not a regulated condition of operation (Blackman, 2007). Internet access and usage has been assisted by high-capacity broadband, which in 2007 had reached over 5% of the world's population. Broadband technologies have brought more information to ordinary users and businesses, and allowed downloading of video and music to an extent unimaginable 10 years ago.

Telecommunications have changed the way firms do business. Telecommunications have streamlined and globalized buying, selling and logistics management. The growth in global business process outsourcing to developing countries reflects the fact that the Internet and associated applications allow call centres, for example, to function as if they were in close proximity to the customers and companies served.

Sophisticated, lower cost communications have energized electronic commerce and other forms of cross-border supply. Businesses everywhere maintain websites, and in many cases allow the purchase and/or delivery of their products online and, increasingly, via mobile handsets. And it is developing countries that have been among the first to adopt more widely the new technologies (e.g. mobile phone banking – see box 3). There has also been a growth in e-government initiatives, which have improved and streamlined services and enhanced trade facilitation and the interface with businesses.

The postal system has also undergone a similar transformation, albeit less dramatic. Traditionally, the public postal operator handled letters and parcels. Liberalization of the parcel system, has transformed the sector, introduced competition and resulted in new services. The parcel system has benefited from the Internet as consumers have increased their shopping online, relying mainly on competitive parcel delivery services to carry items ordered direct to their homes. Universal service considerations have become less pervasive, as consumers even in remote areas can rely on delivery of items ordered online. The area reserved for service suppliers under universal service obligations has been reduced to basic letter post, and even here has been greatly reduced in terms of letter weights and sizes. However, many countries remain cautious about opening up the postal sector fully to competition.

Not so the courier sector. At one time this provided a premium service for guaranteed delivery. Now, the notion of courier services has been replaced by the concept of express delivery, with a whole new set of services such as tracking and tracing. This highly competitive sector is dominated by a small number of global operators offering value-added services.

LIBERALIZATION UNDER TRADE AGREEMENTS

Most trade negotiations focus on telecommunications and courier services. Postal services tend to be seen as a reserved area for public services, although increasingly postal services are being privatized or the reserved area is being reduced in scope. Courier services – originally seen as value-added postal services – are taken to include express delivery services, though in practice these are closely related to air cargo services and transport logistics services.

In liberalized markets, the distinction between basic and value-added services appears to be much less significant than in the past. In some regimes, distinguishing between the two types of services remains relevant to the implementation of certain public or universal service objectives, licensing requirements or regulatory obligations. Nonetheless, this change has encouraged the development of alternative classification bases.

Within the GATS, the distinction between basic and value-added telecommunications remains relevant to the application of the Annex on Telecommunications and the Reference Paper of pro-competitive regulatory principles developed in the basic telecommunications negotiations in 1998. In these texts, the term PTTNS is employed to define the scope of services and services suppliers to which governments are obliged to apply certain of the disciplines. (The significance of the Reference Paper has been shown in the *Mexico Telecoms* case.) Full liberalization of services and the introduction of new transmission technologies have also blurred or even eliminated the distinction between basic and value-added services. The EU, for example, no longer makes any legal distinction between basic and value-added services. Suppliers are able to integrate different telecommunications services, as well as a variety of computer and audiovisual services and technologies such as video on demand and Voice over Internet Protocol (VoIP) services.

Table 21: Communications: trade barriers and regulatory issues

Mode of supply	Typical limitations
General	▪ Discriminatory practices by infrastructure providers ▪ Implementation of regulatory disciplines ▪ Independence of regulators ▪ Anti-competitive interconnection ▪ Excessive charges for mobile roaming ▪ Spectrum management ▪ Universal service obligations ▪ Local loop unbundling ▪ Restructuring of postal operators ▪ Reduction of reserved area for postal services ▪ Restrictions on scope of operations of express delivery companies
Other	▪ Basic telecommunications Reference Paper of pro-competitive regulatory principles

Source: Author, based on GATS schedules.

Box 30: Mobile telephony

Mobile telephony witnessed exponential growth in developing countries, once governments issued more mobile licenses and the operators introduced prepaid payment options, making the service accessible to low-income users. In Africa, for example, penetration remains low, but mobile growth rates remain the highest in the world at over 30% in 2006–2007. These changes boosted the economic take-off of India and China and other emerging powers, and also brought a much greater level of digital connectivity to the poor than could have been imagined in the late 1980s. A recent study on mobile telecommunications in Pakistan[*] offers evidence that pro-competition policies may be essential for mobile development in developing countries and, also, that an independent regulator is critical in promoting technological innovation.

Source: WTO, 2010.

* Gao, P. and A. Rafiq (2009). Analysing the Mobile Telecommunications Market in a Developing Country: A Socio-Technical Perspective on Pakistan. Centre for Development Informatics Working Paper, No. 40. University of Manchester.Available from http://www.sed.manchester.ac.uk/idpm/research/publications/wp/di/documents/di_wp40.pdf.

Box 31: Nepal: opening up telecommunications

Nepal's commitments under the WTO remove all limitations on the number of suppliers in various telecommunication services. In addition, Nepal has committed to allow foreign participation of up to 80% in the sector. These changes seek to make telecommunication services reliable and accessible throughout the country at a reasonable cost. However, the liberalization process has to be accompanied by the setting up of regulators to ensure that competition is fair and consumers are not exploited. In addition, as Nepal is moving from a government-owned monopolistic market into a liberalized competitive market, a major challenge is to establish an independent regulator with adequate expertise, information, authority and accountability.

Source: Raihan (2013).

TRADE DATA

Table 22: Major exporters and importers of communications services, 2010 and 2011 (Million dollars and percentage)

	Value		Share in 10 economies	Annual percentage change			
	2010	2011	2010	2005–2010	2009	2010	2011
Exporters							
European Union (27)	47 808	52 563	64.9	8	-7	3	10
Extra-EU (27) exports	20 473	24 412	27.8	17	-1	13	19
United States	11 324	12 988	15.4	...	0	10	15
Kuwait[a/]	3 559	3 602	4.8	22	13	-48	1
Canada	2 959	3 440	4.0	9	5	14	16
Switzerland	1 431	1 533	1.9	4	9	8	7
India	1 411	1 601	1.9	-2	-40	-5	13
Russian Federation	1 351	1 473	1.8	15	-10	1	9
Singapore	1 347	1 486	1.8	19	-13	28	10
Hong Kong, China	1 241	...	1.7	6	1	39	...
China	1 220	1 689	1.7	20	-24	2	38
Above 10	**73 650**	**...**	**100.0**	**-**	**-**	**-**	**-**
Importers							
European Union (27)	46 328	48 448	67.2	8	-4	1	5
Extra-EU (27) imports	18 814	21 160	27.3	14	-1	4	12
United States	8 367	8 174	12.1	...	-5	5	-2
Canada	2 287	2 231	3.3	9	3	16	-2
Saudi Arabia	2 197	2 599	3.2	45	46	18	18
Russian Federation	2 100	2 530	3.0	23	1	11	21
Singapore	1 758	1 941	2.5	15	-6	28	10
Hong Kong, China	1 673	...	2.4	8	-3	45	...
Norway	1 620	...	2.3	42	-22	83	...
Korea, Republic of	1 460	1 464	2.1	14	7	19	0
India	1 194	1 394	1.7	23	22	-7	17
Above 10	**68 985**	**...**	**100.0**	**-**	**-**	**-**	**-**

Source: WTO, International Trade Statistics 2012.
a/ Telecommunications services.

AUDIOVISUAL SERVICES

SCOPE

The sector essentially comprises services relating to television and radio, motion pictures, and sound recording.

Audiovisual services, which includes services and fees related to the production of motion pictures, radio and television programmes, and musical recordings, are classified under communications services, because the sector includes radio and television transmission services. Other related sectors are classified elsewhere, such as performance of live concerts (considered as entertainment services), rental of videotapes (other rental/licensing services), or retail and wholesale of merchandise such as cinematographic films and video tapes (distribution services).

ECONOMIC IMPORTANCE

Audiovisual sector is significant. The global market in 2008 was estimated at $516 billion, of which television was by far the most important, estimated at $354 billion (68%), film at $84 billion (16%), radio broadcasting at $49 billion (9.4%) and music at $31 billion (6%). North America alone accounted for 42% of the market. For film, the world's biggest producer is India, followed by the United States, Japan, China and France (European Audiovisual Observatory, 2008).

Yet audiovisual services have raised sensitivities in trade agreements, over issues of cultural diversity, intellectual property rights and social protection (e.g. in terms of content regulation). The EU was a major sponsor of the UNESCO Convention on the Protection and Promotion of the Diversity of Cultural Expressions adopted in 2005. The Convention aims to protect and promote the diversity of cultural expressions' and 'to recognize the distinctive nature of cultural activities, goods and services as vehicles of identity, values and meaning'. Some countries see this as providing a cultural counterbalance to the WTO in any future disputes between trade and culture, while some opponents of the Convention view it as disguised protectionism.

LIBERALIZATION UNDER TRADE AGREEMENTS

As a result of concerns over the protection of cultural diversity, the European Union and Canada have taken a cautious approach to audiovisual services in trade agreements, and the sector is excluded from the scope of the EU bilateral free trade agreements. Other countries, however, have often made commitments in audiovisual services while accompanying them with MFN exemptions (exceptions to the MFN principle), allowing countries that are signatories to co-production or regional agreements to maintain these relationships without extending the benefits of market access to all exporting countries.

Elsewhere, countries tend to adopt liberal approaches to other sectors, while protecting museums, theatres and other cultural places that rely on public ownership or subsidies.

Table 23: Audiovisual: **trade barriers and regulatory issues**

Mode of supply	Typical limitations
General	▪ Intellectual property rights ▪ Cultural protection/promotion restrictions ▪ Domestic content regulation/foreign content quotas – 'must carry' rules requiring national channels to be carried by satellite TV platforms ▪ Protection of bilateral co-production agreements ▪ Protection of subsidies/public funding for public service operators, especially for film production, television and radio ▪ Asymmetrical treatment of telecommunications and broadcasting ▪ Local loop limitations ▪ Restrictions on exploitation of digital content
Mode 3	▪ Foreign equity restrictions ▪ Cross-ownership limits ▪ Limits on the number of operators ▪ Discriminatory taxes ▪ Limitations on advertising time by foreign channels
Mode 4	▪ Limitations on the use of local cast and crews

Box 32: India: the audiovisual sector

The audiovisual service sector is economically and culturally important to India. Apart from the cultural significance, it creates opportunities to diversify. India is the largest film producing country in the world, producing on an average 800 feature films and 900 short films in different local languages and dialects. The Indian film industry provides direct or indirect employment to around 5 million people. The Indian radio and terrestrial broadcasting network is also one of the largest in the world.

By adopting digital technology and expanding in cable and satellite, the audiovisual industry experienced significant growth in urban and rural areas. In 2001 the film and television industry alone experienced a growth of 30%. This sector has a high multiplier effect as people employed in this sector are low skilled and would have a high propensity to consume.

Markets of export interest to India include the countries in the former Soviet Union and countries which have a sizeable Indian diaspora. Among them are the United States, countries in the EU, Canada, Australia; Middle East countries such as Kuwait, Qatar, the United Arab Emirates; South Asian countries such as Hong Kong (China) Malaysia, Singapore; African countries such as Kenya, Nigeria, Uganda, the United Republic of Tanzania; and neighbouring countries such as Bangladesh, Pakistan and Sri Lanka. For example, ZEE TV is the largest company in the Indian sub-continent and is now available in more than 100 countries around the world. In the United Kingdom alone its regular audience is estimated at 700,000.

Source: Nedumpara and Gupta (2004).

TRADE DATA

Table 24: Major exporters and importers of audiovisual and related services, 2010 and 2011 (Million dollars and percentage)

	Value		Share in 10 economies	Annual percentage change			
	2010	2011	2010	2005-2010	2009	2010	2011
Exporters							
United States	13 529	...	48.1	6	4	-2	...
European Union (27)	11 203	...	39.8	3	2	11	...
Extra-EU (27) exports	4 802	...	17.1	2	9	8	...
Canada	1 954	2 233	6.9	1	-5	5	14
Russian Federation	360	310	1.3	23	-1	39	-14
Argentina	343	298	1.2	12	-41	25	-13
Norway	204	...	0.7	1	-9	-20	...
Korea, Republic of	189	271	0.7	8	-5	-5	44
Australia	128	209	0.5	0	-45	19	63
China	123	147	0.4	-2	-77	26	19
Hong Kong, China	112	...	0.4	-14	-50	-2	...
Above 10	**28 145**	**...**	**100.0**	**-**	**-**	**-**	**-**
Importers							
European Union (27)	13 356	...	60.5	0	-8	3	...
Extra-EU (27) imports	5 699	...	25.8	-3	-15	3	...
Canada	2 393	2 445	10.8	7	-3	30	2
United States	1 666	...	7.5	12	8	-13	...
Australia	1 031	1 332	4.7	12	-18	15	29
Brazil	957	1 043	4.3	25	23	32	9
Russian Federation	851	875	3.9	18	6	18	3
Japan	732	...	3.3	-4	-12	-11	...
China	371	371	1.7	19	9	33	0
Korea, Republic of	360	329	1.6	18	-7	12	-9
Argentina	356	428	1.6	17	14	27	20
Above 10	**22 070**	**...**	**100.0**	**-**	**-**	**-**	**-**

Source: WTO, International Trade Statistics 2012.

Note: Based on information available to the WTO Secretariat. As certain major traders in personal, cultural and recreational services do not report the item audiovisual and related services separately, they may not appear in the list.

COMPUTER SERVICES AND BUSINESS PROCESS OUTSOURCING

SCOPE

Under the GATS the computer-related services sector covers mainly:

- Consultancy services related to the installation of computer hardware;
- Software implementation services;
- Data processing services;
- Database services.

The classification used in W/120 (appendix I), however, is now significantly outdated when compared with services currently supplied by ICT companies. IT consultancy is offered on a much wider basis, including management consulting, while services such as those offered online are extensive, reflecting the technological revolution of the Internet.

A key new service that uses computer and communications services is business process outsourcing (BPO). This is a business service that has achieved enormous growth in recent years in developing countries, and is an important example of ICT-enabled services.

ECONOMIC IMPORTANCE

Demand for computer services is high, reflecting business needs for efficient processing of transactions and data electronically. According to the WTO, global spending on computer services and software was $1 trillion in 2007 and had been expected to grow annually by nearly 10%. The two biggest exporters in 2006 were India and Ireland, while the main importers were the United States and Germany. Major customers of IT services are the financial, communications, professional services, health and tourism sectors. Other growth areas are expected to be business intelligence, enterprise resource management, retail distribution and telecommunications, particularly mobile telephony.

The ICT sector comprises a large number of small or medium-sized businesses. The ease and frequency with which new computer businesses are set up is both an indication of how competitive the sector is and a potential problem for the continuity of business, as companies can disappear as quickly as they emerge. Nevertheless, there seems to be no pressure or justification for new regulation of the sector at present.

LIBERALIZATION UNDER TRADE AGREEMENTS

Computer services represent one of the sectors that could bring growth in export earnings for developing countries without being hampered by trade barriers. Providing ICT services online through both Modes 1 and 2 reduces much of the need for IT experts to be moved to export markets to supply services through Mode 4. This means that developing countries have the opportunity to enhance their stock of human skills by investing in training in the sector. At the same time, it is important for many IT companies to remain close to their customers, both to repair hardware and deal with software problems. Nevertheless, businesses still find that they need to persuade governments to ease restrictions on foreign direct investment and visas or work permits for IT specialists.

The outdated classification used in trade agreements for ICT services has not, in practice, presented a major problem, as it is already one of the most liberalized, competitive and unregulated service sectors. As a result, several existing WTO members have proposed that new commitments should be taken covering the sector as a whole (i.e. at the 'two-digit' headline level for CPC 84), rather than on the basis of the sub-sectors listed in the classification. A group of WTO Members have proposed an understanding on computer and related services as a basis for commitments under the Doha Round, while many recently acceded countries have agreed to requests to take commitments on this basis.

Meanwhile, BPO services seem to be classified under 'other business services', a somewhat inadequate classification to capture the importance of this new service. As a result, commitments in this sector are lower than would be expected if BPO were treated as a computer service. A group of developing countries has proposed greater liberalization of Modes 1 and 2 for a wide range of BPO-related services in an attempt to bring commitments up to date with global outsourcing trends.

Table 25: Computer related: trade barriers and regulatory issues

Mode of supply	Typical limitations
General	▪ R&D support ▪ Protection of intellectual property rights ▪ Technical standards ▪ Tariffs on computer equipment ▪ Government procurement ▪ Availability of broadband/bandwidth
Mode 1	▪ Removal of unbound commitments
Mode 4	▪ Restrictions on temporary movement of employees with technical skills – work permits and visas

Box 33: Bangladesh: company profile in IT

Synesis IT is a good example of an IT services firm in Banlgadesh.

Synesis IT Ltd provides secure, scalable, on-demand application systems and data access solutions.

Three graduates of the Bangladesh University of Engineering and Technology founded the company in 2006. Their vision was to build a globally respected company based on quality, best practices, sound employment processes, social commitment and a financially sustainable business model. Initially, the company concentrated on the domestic market, but it has since gained notable recognition abroad. It can handle specialized outsourced work through streamlined processes, highly qualified professionals and innovative technological breakthroughs.

The main export markets include the United States and Europe. In 2011, annual revenue reached $500,000, up from $350,000 a year earlier.

Synesis IT prides itself in making a direct contribution to society in Bangladesh, through projects it has delivered, including call centres for a national medical provider and for Dhaka's water authority. On the basis of projects such as these, Synesis IT has developed a strong reputation in the domestic market. It is the only company in Bangladesh where engineers and doctors work together, and its commitment to gender equality has led to women making up 40% of its employees. Synesis IT started with 7 staff and has grown to employ more than 130 professionals.

Over the past three years, Synesis IT has been showcasing these local success stories overseas, particularly in Europe, where it received assistance from the Netherlands Trust Fund (NTF) II programme of ITC. NTF II has helped Synesis IT build capacity and market exposure; as a result the company now has clients in both Germany and the Netherlands and has achieved a 20% increase in export revenue.

Source: International Trade Centre. LDC Services Exports: Trends and Success Stories, 2013.

Box 34: Business process outsourcing

Recent years have seen the emergence and rapid growth of business process outsourcing. These services include call centres, help desks and other back-office activities. They enable companies, particularly those in sectors such as banking and insurance, to offer customer services from remote locations where costs are lower. The price of international telephony makes it cheaper for a company to route customers to call centres in these locations, while the development of the Internet means that data can be managed efficiently where the outsourcing takes place, provided adequate security systems for protecting personal data are introduced.

India and the Philippines have been particularly successful at exploiting these new service opportunities (see box 4). Many major companies in developed countries are using Indian providers, and the Indian Association NASSCOM estimates that the sector now employs 700,000 people, with export earnings in 2009 in the region of $12 billion that were expected to rise to about $30 billion in 2012. Some of the world's poorest countries, including Ghana, Bangladesh, Nepal and Senegal, have also developed export-oriented BPO markets. Many countries have been able to develop BPO services for companies in countries with similar languages (e.g. Mexico for the United States to serve the Spanish-speaking community, while Morocco, Senegal and Tunisia have targeted France).

IT support services can also be provided through BPO, as it can be cheaper for companies to use experts online rather than employ them in-house. Businesses have been outsourcing their IT departments to such BPO companies. Services can either be provided through phone contact or online services such as web-chats. Indeed, some computer services have become virtually indistinguishable from value-added telecommunications services.

Source: Author and ITC.

Box 35: Senegal: company profile in IT

PCCI is a locally owned holding company, created in 2002 by three young Senegalese. PCCI provides a large number of back-office services to companies seeking to outsource business processes. Customer relationship management (CRM) is the most common service offered by the company, but it also provides electronic document management portals, web portals, content management systems (CMS), email processing and telephone surveys.

In 10 years, its client base has expanded internationally; most clients are large and medium-sized enterprises. Turnover is split between Europe (40%) and Africa (60%). PCCI is supplying European and other multinational value chains, operating in different services sectors such as telecommunications, Internet, communications, security and distribution.

Thanks to the experience gained in the international market, PCCI is now positioning itself to pick up work for local clients in Senegal, in particular with telecommunications companies outsourcing their inbound calls to the contact centre.

PCCI offers its clients quality of service and cost control thanks to a trained labour force, supervision by experienced management and superior quality digital infrastructure networks in Senegal. Its success has attracted business attention and a growing number of other tele-services companies are also now offering call-centre services as well as higher value-added services such as distance software development and technical support.

PCCI employees are trained in neutral-accented French and general knowledge about France. Employees are also trained to recognize regional accents in France. Today, PCCI employs as many as 20 different nationalities speaking more than 50 languages.

To meet the international market requirements and build its clients' confidence, PCCI has adopted a rigorous quality control system in all of its operational processes with regular audits, ensuring that the services provided are in line with client expectations.

Importantly, PCCI also has an economic incentive model where the billing system is based on performance. In general clients pay only if they get results. So the focus on measurable indicators in contractual arrangements has been among the company's key success factors.

Source: International Trade Centre. LDC Services Exports: Trends and Success Stories, 2013.

TRADE DATA

Table 26: Major exporters and importers of computer and information services, 2010 and 2011

	Value		Share in 10 economies	Annual percentage change			
	2010	2011	2010	2005–2010	2008	2010	2011
Exporters							
European Union (27)	113 316	128 652	57.2	13	-5	6	14
Extra-EU (27) exports	49 057	57 036	24.8	18	-1	11	16
India[a/]	41 106	...	20.7	...	...	...	...
United States	13 766	15 313	6.9	8	3	2	11
China	9 256	12 174	4.7	38	4	42	32
Israel[b/]	7 700	9 737	3.9	11	12	0	26
Canada	4 893	5 095	2.5	6	-16	16	4
Norway[b/]	3 023	...	1.5	27	21	15	...
Philippines[b/]	1 928	2 062	1.0	85	52	10	7
Singapore	1 790	2 039	0.9	28	2	13	14
Australia	1 414	1 597	0.7	10	-10	11	13
Above 10	**198 190**	**...**	**100.0**	**-**	**-**	**-**	**-**
Importers							
European Union (27)	54 513	59 072	57.8	11	-5	4	8
Extra-EU (27) imports	18 692	20 290	19.8	12	-4	4	9
United States	19 385	23 977	20.5	13	1	14	24
Japan	3 573	4 214	3.8	8	-5	-5	18
Brazil	3 505	4 036	3.7	15	0	25	15
China	2 965	3 855	3.1	13	2	-8	30
Canada	2 904	3 272	3.1	10	1	8	13
India	2 531	1 457	2.7	15	-40	12	-42
Russian Federation	1 884	2 433	2.0	31	0	32	29
Norway[b/]	1 674	...	1.8	8	-9	7	...
Australia	1 459	1 632	1.5	13	-5	17	12
Above 10	**94 395**	**...**	**100.0**	**-**	**-**	**-**	**-**

Source: WTO, International Trade Statistics 2012.

a/ Secretariat estimate.
b/ Computer services.

Note: Based on information available to the Secretariat. As certain economies do not report this item, they may not appear in the list.

FINANCIAL SERVICES

SCOPE

The sector covers mainly:

- Insurance;
- Reinsurance;
- Banking and securities;
- Intermediation.

ECONOMIC IMPORTANCE

Economies cannot function properly without efficient, competitive financial services, which facilitate investment in businesses and contribute to productivity. The ODI observes that access to financial services such as banking and insurance contributes directly to poverty reduction, allowing individuals to improve their standards of living by setting up micro-businesses and manage their risks better. Yet in many developing countries, access to finance is limited, especially for small and medium-sized businesses.

The WTO notes that the value added of the the financial sector ranges from about 1% of GDP in countries such as Cambodia, Madagascar and Mali to more than 10% in the Caribbean islands of St. Kitts and Nevis, Bahamas and Dominica, as well as in financial centres such as Hong Kong, China and Singapore. Production of financial services has shifted in recent years to places such as Kiribati, Jordan, Iceland, Ireland and the United Kingdom. Employment in developing countries is more than 4% in Uruguay and more than 10% in the Bahamas, Cayman Islands and South Africa.

Financial services experienced rapid growth in the 2000s, due to technological progress, regulatory reform (including liberalization), trade expansion and globally high growth rates. Exports of financial services including insurance reached $370 billion in 2007, accounting for 11% of global exports of commercial services. According to the McKinsey Global Institute, global financial assets amounted to $194 trillion in 2007, of which the United States, the European countries, Japan and the United Kingdom accounted together for about 75%.

While developed countries have dominated trade in financial services, several developing countries have also become important sources of financial services. In the 10 years to 2006, lending between developing countries grew by more than 50%.

LIBERALIZATION UNDER TRADE AGREEMENTS

Prior to the financial crisis in 2008, the financial services sector was undergoing major reform and liberalization, both in developed and developing countries. Consolidation and convergence were also taking place, through mergers and acquisitions, especially in banking, and the dismantling of traditional divisions between banking, insurance and brokering, affecting competition in the sector.

The financial crisis caused authorities to think again about how the sector was regulated. The causes of the crisis have been widely studied and are not for this book. Nonetheless, there is general agreement that opening markets to foreign competition and national treatment was not the root cause. Consequently, the crisis does not seem to have sparked the introduction of new trade restrictions in financial services. On the contrary, the main response has been in the way the sector is regulated, through the separation and isolation of bad risks, recapitalization schemes, nationalization of certain banks to allow for restructuring and government guarantees underpinning bank liabilities.

Many of these changes to regulatory practice can be considered to be prudential in aim. It is for this reason that the GATS Annex on Financial Services allows governments to adopt measures for 'prudential reasons, including for the protection of investors, depositors, policy holders or persons to whom a fiduciary duty is owed by a financial service supplier, or to ensure the integrity and stability of the financial system' (also known as the 'prudential carve-out'), although it also makes clear that such measures are not to be used as a means of avoiding the Member's commitments or obligations under the Agreement.

Negotiations under the GATS also gave rise to an Understanding on Financial Services, which deviates from the normal approach to scheduling commitments, by setting out first a standstill obligation not to introduce new non-conforming measures and second a different set of obligations on market access and national treatment. The Understanding is voluntary, with countries that have elected to follow it inscribing a reference to it in their GATS schedules. This alternative approach tends not to be referred to in other free trade agreements.

Table 27: Financial: trade barriers and regulatory issues

Mode of supply	Typical limitations
General	▪ Prudential regulation (which does not need to be scheduled)
Mode 1	▪ Limitations on cross-border supply ▪ Preference of regulators to require local commercial presence, especially for insurance ▪ Greater willingness to make commitments in relation to financial information and marine, aviation and transport insurance
Mode 2	▪ Limitations on cross-border purchase by a country's own nationals
Mode 3	▪ Limitations on operations, such as the number of ATMs allowed ▪ Restrictions on branches and representative offices ▪ Requirements demonstrating length of time in business ▪ Minimum capitalization requirements ▪ Restrictions on concentration of bank ownership ▪ Nationality requirements for directors

Box 36: Nepal: the financial services sector

In Nepal, there are already a few foreign insurance companies established with 100% equity, as well as a few joint ventures, so liberalization under the WTO does not expose the country to a completely new scenario. However, the need for a sound regulatory system remains necessary to maintain an efficient, safe, fair and stable insurance market and promote growth and competition in the sector, as insurance markets have developed at a much faster pace than the process of insurance supervision.

Over the years, Nepal's banking sector has slowly transformed from a heavily state-owned sector to a vibrant one dominated by private companies. Under the Financial Sector Reform Programme, Nepal has put in place various institutional reforms. Nonetheless, Nepal Rastra Bank (the Central Bank of Nepal) needs to address gaps in its supervisory framework and enhance cross-border supervision mechanisms. In addition, before any further liberalization of the financial sector, Nepal needs to resolve several issues, such as loan recovery from large defaulters and the financial condition of the two government-owned commercial banks.

Source: Raihan (2013).

Box 37: Cambodia: company profile, banking sector

ACLEDA Bank was set up with assistance from the International Labour Organization and the United Nations Development Programme in January 1993, as a national NGO for the development of micro and small enterprises and credit. Expansion of its network to all of Cambodia's provinces and towns, combined with the ability to operate sustainably at a profit, led its Board of Directors and international partners to conclude that it should be transformed into a commercial bank. This also was motivated by the need to provide a secure regulatory framework that was lacking under ACLEDA's previous status and to enable ACLEDA to enlarge its range of funding options, such as equity injection, public deposit-taking and commercial interbank lending, to support expansion of its core microfinance business.

Since 2003, ACLEDA Bank has been licensed as a commercial bank after having tripled its capital to $13 million, and renamed ACLEDA Bank Plc. By the end of 2012, ACLEDA Bank's total assets were $1.9 billion, with market share of about 22% of total lending in the country and 21% of total deposits.

In 2012, the bank reported earnings of over $65 million – an increase of 31% compared with 2011.

This was the result of strong growth in the banking business in almost all products despite robust competition, including from numerous foreign banks present in Cambodia. The bank currently has a loan portfolio of $1.4 billion and more than 320,731 borrowing customers, of which more than half are women. It employs 8,344 staff in 238 branches and offices in all provinces and towns throughout Cambodia.

ACLEDA Bank is currently 51% owned by Cambodian interests, including its staff, with the remaining 49% held in equal parts by the International Finance Corporation, Compagnie Financière de la BRED (a subsidiary of BRED Banque Populaire), JSH Asian Holdings Ltd (a subsidiary of Jardine Strategic Holdings Limited), and the three investment funds (Triodos-Doen Foundation, Triodos Fair Share Fund, and Triodos Microfinance Fund) managed by Triodos Investment Management.

ACLEDA Bank offers e-banking, credit, deposits, local and international funds transfers, trade finance, cash management, money exchange, and a variety of other banking services.

The Bank already has commercial presence in two neighbouring countries. In 2007 it opened its first branch in Lao People's Democratic Republic, where it has 28 offices. In 2008, it received a full banking licence in the country. In 2010, ACLEDA Bank Lao Ltd doubled its capital to $26 billion through shares issuance. In 2011, ACLEDA Bank Plc. retained a 39.95% stake in the subsidiary. The principal activities of ACLEDA Bank Lao Ltd are the provision of banking and related services. More recently, in 2013 ACLEDA expanded its operations into Myanmar, incorporating and creating a subsidiary ACLEDA MFI Myanmar Co., Ltd with initial capital of $10 million.

Establishing commercial presence abroad is not the only way the bank participates in international business. ACLEDA Bank also accepts deposits from and provides financial services to non-residents. ACLEDA Bank is the first bank in Cambodia to have been assigned ratings by an international credit rating agency (Standard and Poor's). In 2012 it was awarded the prestigious 2012 Most Admired ASEAN Enterprises Awards in the category of Growth and Employment by the ASEAN Business Advisory Council.

Source: International Trade Centre. LDC Services Exports: Trends and Success Stories, 2013.

TRADE DATA

Table 28: Major exporters and importers of insurance services, 2010 and 2011
(Million dollars and percentage)

	Value		Share in 10 economies	Annual percentage change			
	2010	2011	2010	2005–2010	2009	2010	2011
Exporters							
European Union (27)	38 848	39 707	53.1	11	-7	-1	2
Extra-EU (27) exports	17 481	17 457	23.9	18	-6	-3	0
United States	14 605	15 351	20.0	14	8	1	5
Switzerland	4 918	5 671	6.7	8	-5	-12	15
Canada	4 392	4 593	6.0	6	-5	10	5
Singapore	2 837	2 024	3.9	17	31	18	-29
Mexico	1 831	2 262	2.5	3	-21	15	24
India	1 782	2 575	2.4	14	-2	17	44
China	1 727	3 346	2.4	26	15	8	94
Japan	1 274	1 638	1.7	8	-8	47	29
Bahrain	906	352	1.2	7	-7	6	-61
Above 10	**73 120**	**77 520**	**100.0**	-	-	-	-
Importers							
United States	61 767	57 562	44.3	17	8	-3	-7
European Union (27)	34 058	34 839	24.4	5	-10	6	2
Extra-EU (27) imports	12 187	13 874	8.7	4	-13	12	14
China	15 755	19 769	11.3	17	-11	39	25
Japan	6 799	6 771	4.9	29	0	32	0
Canada	6 240	6 847	4.5	4	-6	8	10
India	5 004	6 078	3.6	17	-7	24	21
Singapore	3 479	3 250	2.5	13	5	31	-7
Mexico	2 626	4 086	1.9	2	17	-18	56
Thailand	2 107	2 634	1.5	9	-21	31	25
Saudi Arabia	1 669	1 950	1.2	28	-18	11	17
Above 10	**139 505**	**143 785**	**100.0**	-	-	-	-

Source: WTO, International Trade Statistics 2012.

Note: Based on information available to the Secretariat.

Table 29: Major exporters and importers of financial services, 2010 and 2011
(Million dollars and percentage)

	Value		Share in 10 economies	Annual percentage change			
	2010	2011	2010	2005–2010	2009	2010	2011
Exporters							
European Union (27)	134 302	153 436	51.7	7	-19	2	14
Extra-EU (27) exports	61 063	65 335	23.5	7	-20	4	7
United States	66 387	72 989	25.6	11	-1	6	10
Switzerland[a/]	15 791	17 034	6.1	2	-16	-2	8
Hong Kong, China	13 141	15 288	5.1	16	-6	16	16
Singapore[a/]	12 182	14 099	4.7	22	-7	31	16
India	6 003	6 414	2.3	39	-15	64	7
Japan	3 607	4 106	1.4	-6	-12	-25	14
Canada	3 312	3 766	1.3	11	-18	31	14
Korea, Republic of	2 736	3 367	1.1	11	-40	20	23
Lebanon	2 076	...	0.8	...	15	...	...
Above 10	**259 535**	**...**	**100.0**	**-**	**-**	**-**	**-**
Importers							
European Union (27)	61 601	72 413	61.6	6	-18	6	18
Extra-EU (27) imports	24 759	30 221	24.8	7	-19	11	22
United States	13 803	15 070	13.8	3	-21	2	9
India	6 787	8 210	6.8	51	6	81	21
Canada	3 658	3 506	3.7	6	-6	-2	-4
Hong Kong, China	3 532	3 985	3.5	20	5	7	13
Japan	3 150	3 347	3.1	3	-23	3	6
Singapore[a/]	2 369	2 604	2.4	21	-20	17	10
Switzerland[a/]	1 722	1 898	1.7	10	-11	-9	10
Russian Federation	1 720	1 744	1.7	14	-29	16	1
Brazil	1 679	1 779	1.7	18	41	4	6
Above 10	**100 020**	**114 555**	**100.0**	**-**	**-**	**-**	**-**

Source: WTO, International Trade Statistics 2012.

a/ Includes Financial Intermediation Services Indirectly Measured (FISIM), see the Metadata.

Note: Based on information available to the Secretariat.

PROFESSIONAL AND OTHER BUSINESS SERVICES

SCOPE

The sector covers mainly accredited professional services:

- Accountancy and bookkeeping services;
- Legal services;
- Architectural services;
- Engineering services.

Other non-accredited, business services include trade-related services, operational leasing (rentals), and miscellaneous business, professional and technical services. Among these are management consulting, public relations services, advertising, market research and public opinion polling, research and development services and other technical services, agricultural, mining and onsite processing. This book does not discuss non-accredited services, but it provides numerous examples of opportunities for countries seeking to take commitments in less sensitive sectors than some of the major ones referred to elsewhere in the book.

ECONOMIC IMPORTANCE

The four main accredited professional services, although unique in themselves, share a number of characteristics.

- Each of the sectors relies on the skills of specially trained and qualified professionals.
- The skills required need to attain international standards,
- The issue of recognition of those qualifications is essential to the ability to practise internationally.

Beyond that, each sector has its own characteristics.

Of the accredited professional sectors, architectural and engineering services are the largest, representing nearly 20% of global exports. They are also at the liberal end of the spectrum. They are strongly related to the construction sector and other business services. Most architects are self-employed as sole principals, partners or associates. The main exception is in China, where public bodies employ 80% those in architecture and engineering. Technology has played a major part in reforming how architects practice, and many services are now supplied electronically. Conversely, engineers need to be physically present during construction of projects, and many work for large engineering firms.

Accountancy is an essential input into other goods and services, particularly regarding implementation and enforcement of financial regulatory measures. The designation of those considered to be members of the profession has implications for the size of the sector. In some jurisdictions, the qualification demonstrates a level of professional education, in others designation amounts to a professional title which needs to be given up when the individual leaves the profession. Only accountants that have qualified to a certain level of competence are recognized to carry out statutory audits of financial performance, which are required by law and must meet the relevant accounting standards. It is at that level that mutual recognition of qualifications becomes important as suitably qualified accountancy practices seek business in other jurisdictions.

The legal sector underpins international trade contracts and disputes, yet is the most protected of the professions and is a sector that is largely under-developed in developing countries. It has experienced significant growth and consolidation in recent years resulting in the emergence of multinational law firms employing large numbers of lawyers, especially in the United States. In the United Kingdom, over half the revenue generated by the largest 100 law firms is earned by international firms based in London (IFSL, 2009).

The accountancy, legal and management consulting sectors together represent a smaller percentage of global exports (18%) than architectural and engineering services.

LIBERALIZATION UNDER TRADE AGREEMENTS

The architectural and engineering sectors are already largely liberal, albeit that the engineering sector relies heavily on movement of skilled engineers, such that Mode 4 is the most important mode of supply for this sector. The accountancy sector is also largely liberal, with the exception of statutory audit and public notary services. In the legal sector, countries restrict the activities of foreign law firms to advising on home country and private international law. Representation in the courts is normally reserved for national firms, as is advice on host country law.

Protection of a professional title is important to ensure that it has recognizable value. But care needs to be taken to ensure that it is not used as a disguised barrier to trade. While regulations may be intended to maintain quality of standards, they may also have the effect of limiting competition and transparency.

Recognition of qualifications is an important issue in trade in professional services. As seen in Part I, professional services are supplied through the use of personnel qualified in their field. However, unless the country where services are to be provided recognizes the qualifications obtained by the practising professional, it may not allow services to be provided by that professional. To avoid the need for the professional to re-qualify in the country concerned, countries may conclude mutual recognition agreements (MRAs), which will either fully or partially recognize certain qualifications obtained.

Table 30: Professional and other business: trade barriers and regulatory issues

Mode of supply	Typical limitations
General	▪ Restrictions on entry and professional conduct ▪ Quality standards and exclusive rights ▪ Recognition of qualifications and standards ▪ Quantitative restrictions ▪ Advertising restrictions ▪ Price regulations ▪ Rules on inter-professional cooperation ▪ Restrictions on scope of activities (e.g. statutory audit and public notary services)
Mode 3	▪ Residency requirements ▪ Restrictions on legal form, e.g. branches of foreign law firms not allowed
Mode 4	▪ Restrictions on movement of skilled professionals

Box 38: East African Professional Services Platform

The East African Business Council launched the East African Professional Services Platform in September 2012 as a forum for convening and representing the interests of the professional services sector at the regional level. The platform was born out of the recognition of the critical importance of developing professional services along with other services sectors, to harness development of the East African Economy.

The East African Business Council states that the platform 'aims to bring professional services issues to the forefront of policy agenda of the East African community. The mission of the platform is to foster a single integrated and vibrant market for professional services in East Africa. In reaching this goal, the platform takes a two-pronged approach which includes both policy level support as well as business level support.'

Source: East African Business Council.

TRADE DATA

Table 31: Major exporters and importers of other business services, 2010 and 2011
(Million dollars and percentage)

	Value		Share in 10 economies	Annual percentage change			
	2010	2011	2010	2005–2010	2009	2010	2011
Exporters							
European Union (27)	447 212	498 557	53.1	7	-10	4	11
Extra-EU (27) exports	213 216	234 957	25.3	7	-6	3	10
United States	111 397	...	13.2	11	1	9	...
China	61 242	64 528	7.3	21	-2	34	5
India[a/]	44 580	...	5.3	...	...	...	...
Singapore	43 851	49 384	5.2	16	7	14	13
Japan	42 473	45 273	5.0	9	3	0	7
Hong Kong, China	37 516	...	4.5	9	-3	16	...
Taipei, Chinese	18 818	21 669	2.2	10	-16	18	15
Canada	18 236	20 682	2.2	4	-13	11	13
Korea, Republic of	16 834	18 911	2.0	12	-7	39	12
Above 10	**842 160**	**...**	**100.0**	**-**	**-**	**-**	**-**
Importers							
European Union (27)	393 192	433 398	57.7	6	-8	0	10
Extra-EU (27) imports	160 224	177 503	23.5	8	-8	-1	11
United States	69 418	...	10.2	14	1	7	...
India	39 678	...	5.8	24	4	89	...
Japan	39 164	45 859	5.7	8	-4	1	17
China	34 310	39 497	5.0	16	-12	0	15
Korea, Republic of	30 422	35 827	4.5	14	-1	12	18
Singapore	25 418	30 559	3.7	19	-5	27	20
Brazil	20 874	25 256	3.1	23	13	36	21
Russian Federation	15 796	19 278	2.3	20	-14	15	22
Canada	13 392	15 060	2.0	1	-12	8	12
Above 10	**681 665**	**...**	**100.0**	**-**	**-**	**-**	**-**

Source: WTO, International Trade Statistics 2012.

a/ Secretariat estimate.

Note: Based on information available to the Secretariat. For more information on asymmetries, see the Metadata.

CONSTRUCTION SERVICES

SCOPE

The sector covers mainly:

- Building construction;
- Civil engineering construction (roads, bridges, pipelines, water and sewage systems, etc.);
- Installation and assembly work (including plumbing and wiring);
- Completion and finishing work (glazing, painting, plastering, etc.).

The sector is usually considered as a whole, and is closely linked to architectural and engineering professional services.

ECONOMIC IMPORTANCE

It has been estimated that globally construction accounts for about 5% of GDP and 7% of employment. At a domestic level, which accounts for the vast majority of construction, it is characterized by a large number of small firms often employing less than 20 people, often with specialist skills. More than one firm may be involved in a single construction activity – the company carrying out the structural work of a building will often use the services of other firms that specialize in ancillary skills such as plastering or decorating.

For large-scale infrastructure projects such as roads or bridges, larger multinational civil engineering companies tend to be used. To a large extent the customers of these construction services are to be governments or private corporations. As construction tends to be highly competitive and generates low profit margins, construction companies continually seek new ways of doing business and adding value. Many may seek to partner with the customer through public-private partnerships, build-operate-transfer arrangements, or other forms of private financing initiatives, and continue their involvement beyond the construction phase by entering into maintenance and repair contracts. Increasingly, companies may offer fully integrated services, from design, construction, project management and consulting services.

The WTO suggests that certain countries have developed particular project specialties, citing the United States in chemical and petrochemical plants, Japan and the Republic of Korea in auto and electronics manufacturing, Europe in relation to transport infrastructure, power generation and waste, and China in the fields of general building, power, water, transport and telecommunications.

LIBERALIZATION UNDER TRADE AGREEMENTS

Unlike most services sectors, where the output is intangible, construction services result in a physical product (a building, road, etc.). This requires both a commercial presence and the involvement of key personnel, and for this reason cross-border trade restrictions are negligible. The Internet has expanded the services that may be offered cross-border, such as design work and site investigation, but these are linked closely to architectural and engineering professional services, where local qualification requirements need to be met. So the focus of this sector is generally on Modes 3 and 4.

Countries frequently require a local presence to be linked in some way to a local partner for a project, or foreign companies to meet prior approval requirements, and there are many occasions when countries require a large proportion of the workforce to be hired locally, e.g. through labour market tests, quotas, nationality or residency requirements. Government subsidies are often reserved for national suppliers. A large part of the market for construction services also falls under government procurement, which is outside the scope of the main obligations in trade in services agreements.

Table 32: Construction: trade barriers and regulatory issues

Mode of supply	Typical limitations
General	▪ Government procurement rules ▪ Licensing and qualification requirements ▪ Urban planning and land use ▪ Restrictions on public subsidies ▪ Building regulations ▪ Permits and inspections ▪ Prior approval requirements linked to local content/employment ▪ Public utilities regulations/concessions ▪ National standards for construction ▪ Transfer of know-how
Mode 1	▪ Commitments limited to design
Mode 3	▪ Local incorporation hampering project-based commercial presence ▪ Local partners/joint ventures ▪ Preference for locally employed labour ▪ Nationality/residency requirements
Mode 4	▪ Labour market tests

TRADE DATA

Table 33: Major exporters and importers of construction, 2010 and 2011
(Million dollars and percentage)

	Value		Share in 10 economies	Annual percentage change			
	2010	2011	2010	2005–2010	2009	2010	2011
Exporters							
European Union (27)	38 090	39 216	45.1	5	-11	-8	3
Extra-EU (27) exports	21 792	23 363	25.8	8	-8	-8	7
China	14 495	14 795	17.2	41	-8	53	2
Korea, Republic of	11 977	15 185	14.2	21	6	-18	27
Japan	10 637	10 968	12.6	8	-9	-15	3
Russian Federation	2 625	3 119	3.1	4	-29	-20	19
United States	2 611	...	3.1	...	4	-35	...
Turkey	1 120	1 250	1.3	5	12	-12	12
Singapore	1 049	1 179	1.2	14	0	13	12
Iran (Islamic Republic of)	951	...	1.1	-8	-92	...	...
Israel	838	1 004	1.0	19	-4	7	20
Above 10	**84 390**	**...**	**100.0**	**-**	**-**	**-**	**-**
Importers							
European Union (27)	24 857	25 230	41.8	6	-6	-14	1
Extra-EU (27) imports	10 673	11 472	17.9	7	6	-15	7
Japan	7 883	7 711	13.2	11	1	-31	-2
China	5 072	3 753	8.5	26	34	-14	-26
Angola	4 643	...	7.8	29	-7	-1	...
Russian Federation	4 382	5 655	7.4	2	-49	-2	29
Saudi Arabia	3 789	2 578	6.4	22	-27	15	-32
Algeria	2 556	...	4.3	36	14	-15	...
United States	2 351	...	4.0	...	4	-34	...
Korea, Republic of	2 302	3 092	3.9	21	8	-18	34
Kazakhstan	1 666	1 900	2.8	-3	-35	-19	14
Above 10	**59 500**	**...**	**100.0**	**-**	**-**	**-**	**-**

Source: WTO, International Trade Statistics 2012.

Note: Based on information available to the Secretariat. As certain economies do not report this item separately, they may not appear in the list (e.g. Switzerland, United Arab Emirates).

DISTRIBUTION SERVICES

SCOPE

The sector covers mainly:

- Commission agents' services;
- Wholesale distribution services;
- Retail distribution services;
- Franchising services.

Negotiations tend to focus mostly on wholesale and retail distribution services.

ECONOMIC IMPORTANCE

In many countries, distribution is second in economic importance to manufacturing and vital to the proper functioning of markets. The role of service suppliers is to provide an essential link between the producers and importers of goods and their consumers, by ensuring access to the wide range of products demanded by consumers at a competitive price. The efficiency of distribution is therefore a key concern. Distribution companies cannot afford to maintain large inventories, and therefore need to find increasingly efficient ways to balance growing consumer demand for choice, while keeping down inventory costs to satisfy those demands.

Competition helps to drive local suppliers to improve production methods and standards, the management of supply chains, and the use of information and communication technologies (ICT) and new management and organizational systems to improve inventory control and otherwise manage relations with suppliers.

Distribution services have wide-ranging formats, in terms of types of distribution – whether from retail outlets, online trade (i.e. electronic commerce) or door-to-door selling. Retail outlets can range from small in-town shops or neighbourhood corner shops to larger supermarkets or department stores, or larger out-of-town retail parks or shopping centres. Distributors are also involved directly with producers, logistics companies and transport providers, as well as with advertising agencies. They often own their own distribution centres, which act as wholesalers or storage and warehousing facilities.

A major growth area in many countries is electronic commerce. Consumers increasingly prefer to search for products on the Internet, where they can view a wider range of goods and carry out price comparisons, which often results in cheaper products than conventional, physical shopping. Purchases are carried out online, with delivery either to the consumer's home or to collection points. The sector also includes direct selling, which generally involves the sale of goods directly to consumers in their homes or homes of others by a seller, away from permanent retail locations. This trend has changed the nature of in-town shopping in many countries.

Franchising is different from other distribution services in that franchisers sell specific rights and privileges, for instance, the right to use a particular retail format or a trademark. This is often a cheaper way of entering a market, as the franchisee can bring a brand to the market supported by the franchiser's training and quality standards, while the franchiser gets its brand introduced to the market at limited cost.

LIBERALIZATION UNDER TRADE AGREEMENTS

The benefits from liberalizing distribution services are improvements in efficiency, economies of scale and the ability to offer better prices, quality and choice for consumers. Many developing countries, however, remain concerned about the potential threat to local retailers from the presence of foreign suppliers. They fear that the entry into a market by major foreign distributors could drive local retailers out of business. There is a reluctance to introduce greater product ranges and new efficiencies in management practices, despite the benefits to consumers.

The most significant barriers to trade therefore are found in relation to commercial presence. These include limitations on foreign capital participation or on the number of licences granted to foreign suppliers, as well as the application of economic needs tests, particularly for large retail outlets. Many countries maintain requirements to form joint ventures with local suppliers. Some countries also limit the number of foreign outlets in certain geographical areas (more common for retailing than for wholesale services). Local governments and town planning departments implement many of these measures. There are also often requirements to employ a certain percentage of the workforce locally, given the high labour intensity of the sector. This can lead to nationality or residency requirements for managers and restrict the temporary movement of natural persons.

With respect to cross-border distribution, e.g. via the Internet, limitations may include measures such as discriminatory taxes on goods delivered by mail, as well as commercial presence requirements or other discrimination against companies not established in the country that sell products through the Internet.

Trade in distribution services is also affected by restrictions in other service sectors on which retailers and wholesalers rely, such as transport, logistics or financial services, as well as by trade barriers on goods. Just as liberalization of trade in goods has facilitated the growth of trade in distribution services, the continuation of certain barriers to trade in goods, such as complex customs clearance services, can have the opposite effect.

Table 34: Distribution: trade barriers and regulatory issues

Mode of supply	Typical limitations
General	▪ Town planning/ zoning regulations ▪ Burdensome regulation on telephone and electronic marketing ▪ Long approval procedures for large outlets ▪ Restrictive opening hours
Mode 1	▪ Discriminatory taxation of goods delivered by mail ▪ Discrimination against companies not established in the country that sell products via the Internet
Mode 3	▪ Limitations on foreign capital participation ▪ Joint venture requirements with local suppliers ▪ Restrictions/economic needs tests on size of retail establishments ▪ Geographical restrictions – authorizations limited to certain towns and cities ▪ Restrictions on particular products that may be distributed ▪ Local labour force requirements

Box 39: China: distribution services

China's distribution system has been evolving from a rigid, centrally controlled allocation system to a more flexible one driven by market demand since the implementation of China's 'open-door' policy. The new market-oriented system has allowed more local entrepreneurs and foreign enterprises to enter China's distribution sector. Over the past decades, retail sales of consumer goods have grown rapidly in China. The retail sector is sustaining high growth based on robust economic development, liberalization and increased consumer spending power.

China's huge population and strong economy has attracted retailers from all over the world. China decided to open its distribution sector on a trial basis in July 1992. The country's entry into the WTO was accompanied by commitments in commission agents' services, wholesaling and retailing services, benefiting foreign companies seeking access to the Chinese market.

Ahead of other service sectors, the WTO commitments called for removal of many regulations in the distribution sector by the end of 2004, although restrictions remain on types of products that may be supplied, as well as the location of joint ventures with foreign partners. Regulations concerning chain franchise systems and commercial trade (exports and imports) as well as limits on foreign capital investment, areas and volume (such as number of companies and outlets) were abolished, establishing a fair and competitive environment. According to the National Bureau of Statistics of China, there were 6,338 new foreign retail and wholesale enterprises in 2007, up by 35.9% from 2006.

Foreign direct investment, particularly in China's retail and wholesale trade sector, in 2007 amounted to $2.68 billion. Of the world's 50 top retailers, 80% have entered China's market by Mode 3. Most of the world's top 500 companies have direct investment in China. Many foreign-invested manufacturing enterprises in China have established their own distribution networks to access the domestic market. The retail sector in China is growing with the influx of foreign companies investing in hypermarkets, convenience stores and specialty stores. Foreign retailers play a significant role in shaping the development of China's retail sector, which is now one of the most international in the world.

In 2008, China became the sixth most international retail market. While 93% of the top 280 global retailers had a presence outside their country of origin in 2008, 42% had operations in China. Foreign retailers perform particularly well in the hypermarket format; prominent players include Carrefour, Walmart, RT-Mart and Tesco.

According to China's Ministry of Commerce, the country had about 2,400 foreign-invested retail enterprises and $4.8 billion in total foreign retail investment by August 2009, 91% of which was invested after 2004.

Sources: Fan (2010).

China Business Review (2010). Understanding China's retail market, 1 May. Available from http://www.chinabusinessreview.com/understanding-chinas-retail-market/

CULTURAL AND RECREATIONAL SERVICES

SCOPE

This sector has been separately identified given the availability of trade date (see below), although trade is not as significant as in other service sectors.

The sector covers mainly:

- Entertainment services (cinemas, theatres, etc.);
- News agency services;
- Museums and other cultural services;
- Sporting and recreational services.

As noted above, there are linkages between certain entertainment services and audiovisual services, and between sporting and recreational services on the one hand and tourism services on the other. Some personal services such as spa or other well-being services may be considered as recreational services, supplied in the course of tourism.

ECONOMIC IMPORTANCE

The most significant sub-sector in this cluster of services is news agency services. Reuters, the world's largest news agency service, defines the sector as services provided for newspapers and broadcasting companies. In smaller countries there tends to be one national news agency, which dominates the market. News agencies differ from other media organizations because of their nature as wholesalers. The news agency distributes its stories and other materials to a large number of customers who either publish the stories as they are or use them as background or supplementary material.

LIBERALIZATION UNDER TRADE AGREEMENTS

Generally speaking, countries tend to adopt an open approach towards cinema services, and a more cautious approach to opening the other sectors. Many museums are in public ownership and therefore offer public services, while theatres and other cultural places often rely on national subsidies. The United Nations Educational, Scientific and Cultural Organization (UNESCO) has supported the establishment of national news agencies as it believes that they improve the collection and dissemination of news within nations and promoting greater diversity of news sources in international news.

TRADE DATA

Table 35: Major exporters and importers of personal, cultural and recreational services, 2010 and 2011
(Million dollars and percentage)

	Value		Share in 10 economies	Annual percentage change			
	2010	2011	2010	2005–2010	2009	2010	2011
Exporters							
European Union (27)	20 483	24 953	49.9	7	-1	20	22
Extra-EU (27) exports	8 588	9 352	20.9	7	-2	21	9
United States	14 515	15 906	35.4	7	6	-2	10
Canada	2 198	2 488	5.4	1	-5	6	13
Turkey	912	1 263	2.2	-3	-37	18	38
Australia	702	886	1.7	10	-10	16	26
Korea, Republic of	637	794	1.6	19	-1	22	25
Russian Federation	474	493	1.2	20	-11	36	4
Norway	398	...	1.0	3	-15	-16	...
Argentina	361	310	0.9	12	-42	29	-14
New Zealand	345	245	0.8	15	0	-2	-29
Above 10	**41 025**	**...**	**100.0**	**-**	**-**	**-**	**-**
Importers							
European Union (27)	21 090	22 217	64.4	4	-7	9	5
Extra-EU (27) imports	8 566	8 605	26.1	2	-11	9	0
Canada	2 608	2 679	8.0	7	-6	28	3
United States	2 214	...	6.8	14	16	-8	...
Brazil	1 271	1 426	3.9	23	10	33	12
Australia	1 260	1 629	3.8	10	-15	20	29
Korea, Republic of	1 022	1 018	3.1	16	-5	21	0
Russian Federation	1 000	1 059	3.1	18	-4	24	6
Japan	934	978	2.9	-3	-14	-11	5
Venezuela (Bolivarian Rep. of)	751	658	2.3	31	-17	7	-12
Norway	612	...	1.9	3	-15	6	...
Above 10	**32765**	**...**	**100.0**	**-**	**-**	**-**	**-**

Source: WTO, International Trade Statistics 2012.


+4000?

APPENDICES

APPENDIX I CLASSIFICATION OF SERVICES SECTORS (W/120)

Sectors and sub-sectors	Corresponding provisional CPC code
1. Business services	
A. Professional services	
a. Legal services	861
b. Accounting, auditing and bookkeeping services	862
c. Taxation services	863
d. Architectural services	8671
e. Engineering services	8672
f. Integrated engineering services	8673
g. Urban planning and landscape architectural services	8674
h. Medical and dental services	9312
g. Veterinary services	932
j. Services provided by midwives, nurses, physiotherapists and para-medical personnel	93191
k. Other	
B. Computer and related services	
a. Consultancy services related to the installation of computer hardware	841
b. Software implementation services	842
c. Data processing services	843
d. Database services	844
e. Other	845+849
C. Research and development services	
a. R&D services on natural sciences	851
b. R&D services on social sciences and humanities	852
c. Interdisciplinary R&D services	853
D. Real estate services	
a. Involving own or leased property	821
b. On a fee or contract basis	822
E. Rental/leasing services without operators	
a. Relating to ships	83103
b. Relating to aircraft	83104
c. Relating to other transport equipment	83101+83102+83105
d. Relating to other machinery and equipment	83106-83109
e. Other	832
F. Other business services	
a. Advertising services	871
b. Market research and public opinion polling services	864
c. Management consulting services	865
d. Services related to management consulting	866
e. Technical testing and analysis services	8676
f. Services incidental to agriculture, hunting and forestry	881
g. Services incidental to fishing	882
h. Services incidental to mining	883+5115
i. Services incidental to manufacturing	884+885 (except for 88442)
j. Services incidental to energy distribution	887
k. Placement and supply services of personnel	872
l. Investigation and security	873
m. Related scientific and technical consulting services	8675
n. Maintenance and repair of equipment (not including maritime vessels, aircraft or other transport equipment)	633+8861-8866
o. Building-cleaning services	874
p. Photographic services	875
q. Packaging services	876
r. Printing, publishing	88442
s. Convention services	87909*
t. Other	8790

Sectors and sub-sectors	Corresponding provisional CPC code
2. Communication services	
A. Postal services	7511
B. Courier services	7512
C. Telecommunication services	
a. Voice telephone services	7521
b. Packet-switched data transmission services	7523**
c. Circuit-switched data transmission services	7523**
d. Telex services	7523**
e. Telegraph services	7522
f. Facsimile services	7521**+7529**
g. Private leased circuit services	7522**+7523**
h. Electronic mail	7523**
i. Voice mail	7523**
j. Online information and data base retrieval	7523**
k. Electronic data interchange (EDI)	7523**
l. Enhanced/value added facsimile services, including store	7523**
and forward, store and retrieve	n.a.
m. Code and protocol conversion	843**
n. Online information and/or data processing (including transaction processing)	
o. Other	
D. Audiovisual services	
a. Motion picture and video tape production and distribution services	9611
b. Motion picture projection services	9612
c. Radio and television services	9613
d. Radio and television transmission services	7524
e. Sound recording	n.a.
f. Other	
E. Other	
3. Construction and related engineering services	
A. General construction work for buildings	512
B. General construction work for civil engineering	513
C. Installation and assembly work	514+516
D. Building completion and finishing work	517
E. Other	511+515+518
4. Distribution services	
A. Commission agents' services	621
B. Wholesale trade services	622
C. Retailing services	631+632+6111+6113+6121
D. Franchising	8929
E. Other	
5. Educational services	
A. Primary education services	921
B. Secondary education services	922
C. Higher education services	923
D. Adult education	924
E. Other education services	929
6. Environmental services	
A. Sewage services	9401
B. Refuse disposal services	9402
C. Sanitation and similar services	9403
D. Other	

Sectors and sub-sectors	Corresponding provisional CPC code
7. Financial services (see also separate classification below)	
A. All insurance and insurance-related services a. Life, accident and health insurance services b. Non-life insurance services c. Reinsurance and retrocession d. Services auxiliary to insurance (including broking and agency services)	812** 8121 8129 81299* 8140
B. Banking and other financial services (excluding insurance) a. Acceptance of deposits and other repayable funds from the public b. Lending of all types, including, inter alia, consumer credit, mortgage credit, factoring and financing of commercial transaction c. Financial leasing d. All payment and money transmission services e. Guarantees and commitments f. Trading for own account or for account of customers, whether on an exchange, in an over-the-counter market or otherwise, the following: ■ Money market instruments (cheques, bills, certificate of deposits, etc.) ■ Foreign exchange ■ Derivative products including, but not limited to, futures and options ■ Exchange rate and interest rate instruments, including products such as swaps, forward rate agreements, etc. ■ Transferable securities ■ Other negotiable instruments and financial assets, including bullion g. Participation in issues of all kinds of securities, including underwriting and placement as agent (whether publicly or privately) and provision of service related to such issues h. Money broking i. Asset management, such as cash or portfolio management, all forms of collective investment management, pension fund management, custodial depository and trust services j. Settlement and clearing services for financial assets, including securities, derivative products, and other negotiable instruments k. Advisory and other auxiliary financial services on all the activities listed in Article 1B of MTN.TNC/W/50, including credit reference and analysis, investment and portfolio research and advice, advice on acquisitions and on corporate restructuring and strategy l. Provision and transfer of financial information, and financial data processing and related software by providers of other financial services	 81115-81119 8113 8112 81339** 81199** 81333 81339** 81339** 81321* 81339** 8132 81339** 8119**+81323* 81339** or 81319** 8131 or 8133 8131
C. Other	
8. Health related and social services (other than those listed under 1.A.hj)	
A. Hospital services	9311
B. Other human health services	9319 (other than 93191)
C. Social services	933
D. Other	
9. Tourism and travel-related services	
A. Hotels and restaurants (including catering)	641-643
B. Travel agencies and tour operators services	7471
C. Tourist guides services	7472
D. Other	

Sectors and sub-sectors	Corresponding provisional CPC code
10. Recreational, cultural and sporting services (other than audiovisual services)	
A. Entertainment services (including theatre, live bands and circus services)	9619
B. News agency services	962
C. Libraries, archives, museums and other cultural services	963
D. Sporting and other recreational services	964
E. Other	
11. Transport services	
A. Maritime transport services a. Passenger transportation b. Freight transportation c. Rental of vessels with crew d. Maintenance and repair of vessels e. Pushing and towing services f. Supporting services for maritime transport	 7211 7212 7213 8868** 7214 745**
B. Internal waterways transport a. Passenger transportation b. Freight transportation c. Rental of vessels with crew d. Maintenance and repair of vessels e. Pushing and towing services f. Supporting services for internal waterway transport	 7221 7222 7223 8868** 7224 745**
C. Air transport services a. Passenger transportation b. Freight transportation c. Rental of aircraft with crew d. Maintenance and repair of aircraft e. Supporting services for air transport	 731 732 734 8868** 746
D. Space transport	733
E. Rail transport services a. Passenger transportation b. Freight transportation c. Pushing and towing services d. Maintenance and repair of rail transport equipment e. Supporting services for rail transport services	 7111 7112 7113 8868** 743
F. Road transport services a. Passenger transportation b. Freight transportation c. Rental of commercial vehicles with operator d. Maintenance and repair of road transport equipment e. Supporting services for road transport services	 7121+7122 7123 7124 6112+8867 744
G. Pipeline transport a. Transportation of fuels b. Transportation of other goods	 7131 7139
H. Services auxiliary to all modes of transport a. Cargo-handling services b. Storage and warehouse services c. Freight transport agency services d. Other	 741 742 748 749
I. Other transport services	
12. Other services not included elsewhere	95+97+98+99

* indicates that the service specified is a component of a more aggregated CPC item specified elsewhere in this classification list.

** indicates that the service specified constitutes only a part of the total range of activities covered by the CPC concordance (e.g. voice mail is only a component of CPC item 7523).

SEPARATE CLASSIFICATION OF FINANCIAL SERVICES USED BY SOME WTO MEMBERS

The GATS Annex on Financial Services defines a financial service as 'any service of a financial nature offered by a financial service supplier of a Member.' Financial services include all insurance and insurance-related services, all banking and other financial services (excluding insurance) and the following activities:

Insurance and insurance-related services		
(i)	Direct insurance (including co-insurance):	
	(A)	life
	(B)	non-life
(ii)	Reinsurance and retrocession;	
(iii)	Insurance intermediation, such as brokerage and agency;	
(iv)	Services auxiliary to insurance, such as consultancy, actuarial, risk assessment and claim settlement services.	
Banking and other financial services (excluding insurance)		
(v)	Acceptance of deposits and other repayable funds from the public;	
(vi)	Lending of all types, including consumer credit, mortgage credit, factoring and financing of commercial transaction;	
(vii)	Financial leasing;	
(viii)	All payment and money transmission services, including credit, charge and debit cards, travellers cheques and bankers drafts;	
(ix)	Guarantees and commitments;	
(x)	Trading for own account or for account of customers, whether on an exchange, in an over-the-counter market or otherwise, the following:	
	(A)	money market instruments (including cheques, bills, certificates of deposits);
	(B)	foreign exchange;
	(C)	derivative products including, but not limited to, futures and options;
	(D)	exchange rate and interest rate instruments, including products such as swaps, forward rate agreements;
	(E)	transferable securities;
	(F)	other negotiable instruments and financial assets, including bullion.
(xi)	Participation in issues of all kinds of securities, including underwriting and placement as agent (whether publicly or privately) and provision of services related to such issues;	
(xii)	Money broking;	
(xiii)	Asset management, such as cash or portfolio management, all forms of collective investment management, pension fund management, custodial, depository and trust services;	
(xiv)	Settlement and clearing services for financial assets, including securities, derivative products, and other negotiable instruments;	
(xv)	Provision and transfer of financial information, and financial data processing and related software by suppliers of other financial services;	
(xvi)	Advisory, intermediation and other auxiliary financial services on all the activities listed in subparagraphs (v) through (xv), including credit reference and analysis, investment and portfolio research and advice, advice on acquisitions and on corporate restructuring and strategy.	

APPENDIX II TRADE IN SERVICES – KEY STATISTICS

Source: WTO, International Trade Statistics 2011

World trade in commercial services by category, 2011
(Billion dollars and percentage)

	Value	Share				
		2011	2000	2005	2009	2010
Exports						
All commercial services	4 170	100.0	100.0	100.0	100.0	100.0
Transportation services	860	23.0	22.7	20.0	21.0	20.6
Travel	1 065	32.1	27.7	25.5	25.2	25.6
Other commercial services	2 240	44.8	49.6	54.4	53.7	53.7
Imports						
All commercial services	3 955	100.0	100.0	100.0	100.0	100.0
Transportation services	1 100	28.7	28.8	25.4	27.3	27.9
Travel	950	29.9	27.0	24.4	24.1	24.0
Other commercial services	1 860	41.4	44.2	48.9	47.5	47.1

Note: Total commercial services do not add up to the sum of components due to unallocated services, accounting for 0.3% of world exports and 0.6% of world imports in 2011. For more information on asymmetries, see the Metadata.

World trade in transportation services by region, 2011
(Billion dollars and percentage)

	Value	Share		Annual percentage change			
	2011	2005	2011	2005–2011	2009	2010	2011
Exporters							
World	**860**	**100.0**	**100.0**	**7**	**-23**	**16**	**9**
North America	93	11.1	10.8	7	-18	16	12
South and Central America	29	2.9	3.3	10	-16	19	15
Europe	409	50.9	47.6	6	-23	9	9
European Union (27)	373	46.1	43.3	6	-23	9	9
Commonwealth of Independent States (CIS)	37	3.1	4.3	13	-16	20	15
Africa	24	2.6	2.8	8	-15	19	5
Middle East	28	2.7	3.3	11	-16	19	19
Asia	239	26.7	27.8	8	-28	27	6
Importers							
World	**1 100**	**100.0**	**100.0**	**8**	**-22**	**18**	**13**
North America	121	14.8	11.0	3	-22	17	10
South and Central America	52	3.9	4.7	12	-24	27	17
Europe	372	39.8	33.8	5	-24	12	9
European Union (27)	338	36.5	30.7	5	-24	11	9
Commonwealth of Independent States (CIS)	28	1.5	2.6	18	-30	22	23
Africa	62	4.5	5.6	12	-11	15	11
Middle East	92	5.3	8.4	17	-11	13	21
Asia	374	30.2	34.0	10	-22	26	16

World trade in travel by region, 2011
(Billion dollars and percentage)

	Value	Share		Annual percentage change			
	2011	2005	2011	2005–2011	2009	2010	2011
Exporters							
World	**1 065**	**100.0**	**100.0**	**7**	**-9**	**9**	**12**
North America	179	19.0	16.7	5	-11	9	10
South and Central America	47	4.5	4.4	7	-5	11	7
Europe	437	48.5	41.0	4	-12	-1	13
European Union (27)	377	42.5	35.3	4	-13	-1	13
Commonwealth of Independent States (CIS)	22	1.6	2.1	12	-22	1	29
Africa	40	4.1	3.8	6	-6	10	-4
Middle East	51	3.3	4.8	14	5	25	9
Asia	291	19.0	27.3	14	-3	25	17
Importers							
World	**950**	**100.0**	**100.0**	**7**	**-9**	**8**	**11**
North America	128	15.6	13.5	4	-9	6	7
South and Central America	42	2.6	4.4	17	-1	26	21
Europe	390	50.1	41.0	3	-13	-1	7
European Union (27)	350	46.3	36.9	3	-13	-2	7
Commonwealth of Independent States (CIS)	43	3.5	4.6	12	-12	24	24
Africa	27	2.0	2.9	14	-21	13	7
Middle East	72	5.3	7.5	13	3	17	4
Asia	248	20.8	26.1	11	-2	20	17

World trade in other commercial services by region, 2011
(Billion dollars and percentage)

	Value	Share		Annual percentage change			
	2011	2005	2011	2005–2011	2009	2010	2011
Exporters							
World	**2 240**	**100.0**	**100.0**	**10**	**-7**	**9**	**11**
North America	400	19.2	17.9	9	-2	8	8
South and Central America	54	1.8	2.4	16	-6	17	17
Europe	1 134	54.4	50.6	9	-9	4	12
European Union (27)	1 031	50.2	46.0	9	-9	4	11
Commonwealth of Independent States (CIS)	36	1.1	1.6	19	-15	12	18
Africa	21	1.0	0.9	10	-12	9	3
Middle East	35	...	1.6	...	-4	-9	4
Asia	559	20.5	25.0	14	-5	20	11
Importers							
World	**1 860**	**100.0**	**100.0**	**10**	**-5**	**7**	**10**
North America	272	15.0	14.6	10	0	4	7
South and Central America	69	2.7	3.7	16	4	19	16
Europe	866	52.6	46.5	8	-7	1	9
European Union (27)	813	50.0	43.7	8	-7	1	9
Commonwealth of Independent States (CIS)	59	2.5	3.2	14	-19	13	15
Africa	66	2.6	3.6	16	-8	7	14
Middle East	62	...	3.3	...	-14	6	20
Asia	467	22.0	25.1	12	-4	17	10

World exports of communications services by region, 2010 and 2011
(Billion dollars and percentage)

Source: WTO, International Trade Statistics 2011

Communications services

	Value		Share		Annual percentage change		
	2010	2011	2005	2011	2005–2011	2010	2011
Exporters							
World	**95**	**100**	**100.0**	**100.0**	**9**	**1**	**9**
North America	15	17	...	16.4	...	11	15
South and Central America	4	3	4.5	3.2	3	7	-15
Europe	51	57	57.9	55.7	9	3	11
European Union (27)	48	53	53.6	51.5	9	3	10
Commonwealth of Independent States (CIS)	3	3	2.1	2.8	15	8	7
Africa	4	3	3.2	3.3	10	10	-13
Middle East	6	6	...	5.6	...	-35	-4
Asia	12	13	14.7	12.9	7	7	14

Construction

	Value		Share		Annual percentage change		
	2010	2011	2005	2011	2005–2011	2010	2011
Exporters							
World	**95**	**100**	**100.0**	**100.0**	**10**	**-4**	**8**
North America	3	...	2.7	...	...	-32	...
South and Central America	0	0	0.2	0.2	5	48	-23
Europe	42	44	55.3	42.8	6	-8	5
European Union (27)	38	39	51.8	38.5	5	-8	3
Commonwealth of Independent States (CIS)	3	4	4.5	4.0	8	-16	19
Africa	2	2	2.0	1.9	9	20	-3
Middle East	3	3	...	2.8	...	33	13
Asia	42	46	31.4	45.4	17	1	11

Insurance services

	Value		Share		Annual percentage change		
	2010	2011	2005	2011	2005–2011	2010	2011
Exporters							
World	**80**	**85**	**100.0**	**100.0**	**10**	**1**	**6**
North America	21	22	25.2	25.9	10	4	7
South and Central America	2	2	2.7	2.1	5	3	4
Europe	45	47	54.9	54.2	10	-2	4
European Union (27)	39	40	46.5	46.1	10	-1	2
Commonwealth of Independent States (CIS)	1	1	0.9	0.8	9	1	-1
Africa	1	1	2.3	1.2	-2	6	-1
Middle East	2	1	...	1.4	...	-7	-33
Asia	10	12	11.6	14.5	14	15	24

Financial services

	Value		Share		Annual percentage change		
	2010	2011	2005	2011	2005–2011	2010	2011
Exporters							
World	**275**	**310**	**100.0**	**100.0**	**10**	**7**	**12**
North America	70	77	23.4	24.8	11	7	10
South and Central America	4	5	0.7	1.5	24	36	26
Europe	152	173	61.3	55.7	8	1	14
European Union (27)	134	153	52.7	49.5	8	2	14
Commonwealth of Independent States (CIS)	2	2	0.3	0.5	21	7	-7
Africa	2	2	0.8	0.7	9	15	16
Middle East	5	4	...	1.3	...	...	-13
Asia	42	48	12.4	15.5	14	22	14

Computer and information services

	Value		Share		Annual percentage change		
	2010	2011	2005	2011	2005–2011	2010	2011
Exporters							
World	**215**	**250**	**100.0**	**100.0**	**15**	**11**	**15**
North America	19	20	12.1	8.2	8	5	9
South and Central America	4	5	0.9	1.9	30	32	24
Europe	121	137	60.3	55.0	13	7	13
European Union (27)	113	129	58.2	51.6	13	6	14
Commonwealth of Independent States (CIS)	2	3	0.5	1.2	33	13	34
Africa	1	1	0.4	0.5	23	5	22
Middle East	8	10	...	4.1	...	3	25
Asia	61	73	21.0	29.1	21	22	19

Royalties and licence fees (world receipts)

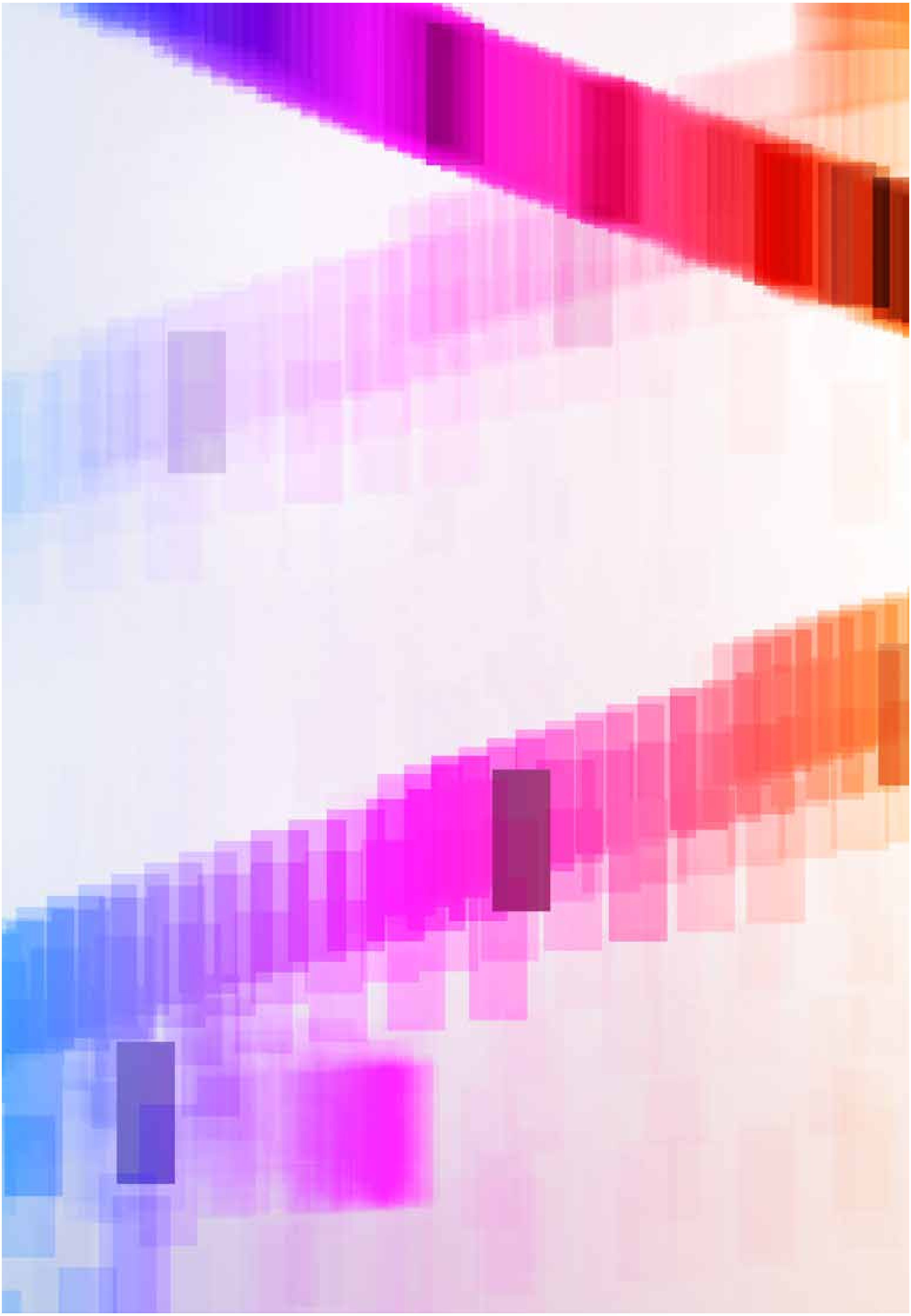
	Value		Share		Annual percentage change		
	2010	2011	2005	2011	2005–2011	2010	2011
Exporters							
World	**240**	**270**	**100.0**	**100.0**	**10**	**10**	**13**
North America	96	108	44.6	40.3	8	11	12
South and Central America	1	2	0.4	0.6	15	3	27
Europe	103	115	38.7	43.1	12	6	12
European Union (27)	85	94	32.5	35.0	11	5	10
Commonwealth of Independent States (CIS)	1	1	0.2	0.4	23	22	30
Africa	1	1	0.4	0.3	6	-7	10
Middle East	1	1	...	0.5	...	17	18
Asia	35	40	14.9	14.9	10	22	13

Other business services

	Value		Share		Annual percentage change		
	2010	2011	2005	2011	2005–2011	2010	2011
Exporters							
World	980	1 070	100.0	100.0	10	11	9
North America	130	134	13.6	12.5	8	9	3
South and Central America	31	37	2.4	3.4	16	15	20
Europe	480	534	54.9	50.0	8	5	11
European Union (27)	447	499	52.5	46.6	8	4	11
Commonwealth of Independent States (CIS)	18	22	1.2	2.1	20	20	20
Africa	9	10	0.9	0.9	11	8	6
Middle East	9	9	...	0.9	...	...	2
Asia	300	323	25.3	30.2	13	24	8

Personal, cultural and recreational services

	Value		Share		Annual percentage change		
	2010	2011	2005	2011	2005–2011	2010	2011
Exporters							
World	45	50	100.0	100.0	8	10	16
North America	17	19	39.7	35.5	6	-1	10
South and Central America	1	1	1.6	1.6	8	42	-14
Europe	22	27	49.4	52.1	9	19	22
European Union (27)	20	25	44.7	47.9	10	20	22
Commonwealth of Independent States (CIS)	1	1	0.7	1.5	23	30	-1
Africa	0	0	0.9	0.7	4	-9	12
Middle East	1	1	...	1.3	...	78	9
Asia	3	4	6.1	7.2	11	6	20



BIBLIOGRAPHY

BIBLIOGRAPHY

Amin, M. and A. Mattoo (2006). Do Institutions Matter More for Services? Policy Research Working Paper, No. 4032. Washington, D.C.: World Bank.

Arkell, Julian (1997). Forming and Running a National Coalition of Service Industries: An Action Checklist. Paper published by International Trade and Services Policy.

Stephenson, S. and M. Robert (2011). Evaluating the Contributions of Regional Trade Agreements to Governance of Services Trade. ADBI Working Paper, No. 307. Tokyo: Asian Development Bank Institute.

Ballou, Ronald H. (1999). *Business Logistics Management: Planning, Organizing, and Controlling the Supply Chain.* New Jersey: Prentice-Hall.

Ben-David, D., H. Nordström and L. Winters (1999). Trade, Income Disparity and Poverty. Special Study, No. 5. Geneva: World Trade Organization. Available from http://www.wto.org/english/res_e/booksp_e/special_study_5_e.pdf

Bhagwati, Jagdish, ed. (2002). *Going Alone: The Case for Relaxed Reciprocity in Freeing Trade,* Cambridge: MIT Press.

Borchert, I. and A. Mattoo (2009). Services Trade – The Collapse That Wasn't. In *The Great Trade Collapse: Causes, Consequences and Prospects,* Richard Baldwin (ed.). London: VoxEU.org.

Borchert, I., B. Gootiiz and A. Mattoo (2010). Restrictions on Services Trade and FDI in Developing Countries. Mimeo. Washington D.C.: World Bank.

Burki, A.A. and S.M. Turab Hussain (2007). Opportunities and Risks of Liberalising Trade in Services in Pakistan. Issue Paper, No. 7. Geneva: International Centre for Trade and Sustainable Development.

Cali, M., K. Ellis and D.W. te Velde (2008). The Contribution of Services to Development and the Role of Trade Liberalisation and Regulation. Working Paper, No. 298. London: Overseas Development Institute.

Chaitoo, Ramesh (2009). Services Liberalisation and Domestic Regulation: Why is it Important? In *Reflections on Global Partnership for Development, Reality and Potential.* Jaipur: CUTS International.

Chanda, Rupa. (2008). Services Trade and Investment: Liberalisation and Domestic Regulation, a Summary of Six Country Case Studies. Jaipur: CUTS International.

Commonwealth Secretariat (2010). *Final Report of the Regional Capacity Building Workshop to Enhance Services Exports, Saint Kitts and Nevis, 20 November-2 December 2010.* London.

____________ (2011). Final Report of the *Regional Capacity Building Workshop to Enhance Services Exports (Africa), Mombasa, Kenya, 7-9 June 2011.* London.

International Lawyers and Economists Against Poverty (2009). *GATS-based Framework and the Request-Offer process. Power point presentation at East African Business Council Workshop, Trade in Services Negotiations and the Private Sector: Generating Opportunities for Development, Nairobi, Kenya, 26-28 February 2009.* Available from www.ileap-jeicp.org.

Ellis, Karen (2010). The Private Sector and Development. Policy Brief, May 2010. London: Overseas Development Institute.

European Audiovisual Observatory (2008). *Trends in European Television, Yearbook Vol. 2.* Strasbourg.

____________ (2009). *Focus 2009: World Film Market Trends.* Strasbourg.

European Commission (2009). *Impact Assessment Guidelines, Document No. SEC (2009) 92.* Brussels.

European Services Forum (1999). *Declaration of the European Service Industries for the Third WTO Ministerial Conference Towards the Millennium Round,* 25 October 1999. Brussels.

Fan, Ying (2010). China's Liberalization of Trade in Distribution Services. Paper prepared for Regulatory Reforms and Liberalization in Services: Examining Impacts on Inclusive and Sustainable Development, a conference jointly organized by the Asian Development Bank Institute, United Nations Economic and Social Commission for Asia and the Pacific and the Asia-Pacific Research and Training Network on Trade. Bali, 11-12 October. Available from www.unescap.org.

Fink, C., A. Mattoo and R. Rathindran (2002). An Assessment of Telecommunications Reform in Developing Countries. Policy Research Working Paper, No. 2909. Washington, D.C.: World Bank.

Gao, P. and A. Rafiq (2009). Analysing the Mobile Telecommunications Market in a Developing Country: A Socio-Technical Perspective on Pakistan. Centre for Development Informatics Working Paper, No. 40. University of Manchester.

Global Services Coalition (2011). *Global Services Coalition calls for a start to plurilateral services negotiations at meeting in Hong Kong.* Press release, 6 June 2011.

Goswami, A.G., A. Mattoo and S. Sáez (2011). *Exporting Services: A Developing Country Perspective.* Washington D.C.: World Bank.

Hartzenberg, Trudi and others (2012). *The Tripartite Free Trade Area: Towards a New African Integration Paradigm?* Stellenbosch: Trade Law Centre for Southern Africa.

Hoekman, B. and A. Mattoo. (2011). Services Trade Liberalization and Regulatory Reform: Re-invigorating International Cooperation. Discussion Paper, No. 8181. London: Centre for Economic Policy Research.

____________ (2007). Services Trade and Growth. Policy Research Working Paper, No. 4461. Washington D.C.: World Bank.

Hustler, M. and D. Primack (2012). Harnessing Services Trade for Development: A Background and Guide on Service Coalitions in Africa and the Caribbean. Background Brief, No. 22. Toronto: International Lawyers and Economists Against Poverty.

IBM (2006). *Services and Global Competitiveness: Growth Opportunities for Developing Economies.* IBM Governmental Programs, October 2006.

International Finance Corporation (2011). *International Financial Institutions and Development Through the Private Sector. A joint report of 31 multilateral and bilateral development finance institutions.* Washington D.C. Available from http://www.miga.org/documents/IFI_report_09-13-11.pdf.

International Financial Services, London. *Benefits to Emerging markets of Financial Services Liberalisation, February 2003; Capacity Building and Competitiveness in Developing Countries, January 2005; Trade Liberalisation and Privatisation, June 2005; Benefits to Emerging Economies of Liberalising Financial Services and Promoting Access to Finance, July 2006.*

International Lawyers and Economists Against Poverty (2009). *GATS-based Framework and the Request-Offer process. Power point presentation at East African Business Council Workshop, Trade in Services Negotiations and the Private Sector: Generating Opportunities for Development, Nairobi, Kenya, 26-28 February 2009.* Available from www.ileap-jeicp.org.

International Telecommunication Union and infoDev (2011). *ICT Regulation Toolkit.* Available from http://www.ictregulationtoolkit.org/en/section.3108.html.

International Trade Centre (2013). *LDC Services Exports: Trends and Success Stories,* Technical Paper. Geneva.

____________ (2011). *Stepping Up ITC's Technical Assistance for Services Exports.* Geneva.

____________ (2010). *Business Process Outsourcing: Key Lessons for Developing Countries,* Thematic Paper. Geneva.

____________ (2001). *Successful Services Exporting: A Handbook for Firms, Associations and Governments.* Geneva.

Jha, V., J. Nedumpara and S. Gupta (2004). The Poverty Impact of Doha: India. The Doha Development Agenda – Impacts on Trade and Poverty Papers, No. 4. London: Overseas Development Institute. Available from http://www.odi.org.uk/sites/odi.org.uk/files/odi-assets/publications-opinion-files/3079.pdf.

Kalapesi, C., S. Willersdorf and P. Zwillenberg (2010). The Connected Kingdom: How the Internet is Transforming the UK Economy. Boston: Boston Consulting Group.

Karsenty, Guy (2000). Assessing Trade in Services by Modes of Supply. In *GATS 2000: New Directions in Trade in Services Liberalization,* Pierre Sauvé and Robert M. Stern, eds. Washington D.C.: Brookings Institution Press.

Kirkpatrick, C. and D. Parker (2004). Regulation and the Privatisation of Water Services in Developing Countries: Assessing the Impact of the General Agreement on Trade in Services (GATS). Centre on Regulation and Competition Working Paper Series, No. 67. University of Manchester.

Macrory, P. and S. Stephenson (2011). Making trade in Services Supportive of Development in Commonwealth Small and Low-Income Countries. London: Commonwealth Secretariat.

Magdeleine, J. and A. Maurer (2008). Measuring GATS Mode 4 Trade Flows. Staff Working Paper, No. ERSD-2008-05. Geneva: World Trade Organization.

Marconini, M. and P. Sauvé (2009). Negotiating Trade in Services: A Practical Guide for Developing Countries. Washington, D.C.: World Bank.

Martin, M. and A. Mattoo (2011). *Unfinished Business? The WTO's Doha Agenda.* Washington D.C.: World Bank.

Mattoo, A., R.M. Stern and G. Zanini, eds. (2007). *A Handbook of International Trade in Services.* Washington D.C.: World Bank.

McGuire, Greg (2002). Trade in Services – Market Access Opportunities and the benefits of Liberalization for Developing Economies. Policy Issues in International Trade and Commodities Study Series, No. 19. Geneva: UNCTAD.

Muller Helmut (2006). Legal Bases of the Internal Insurance Market in Europe. Hamburg: Hamburger Gesellschaft Zur Förderung des Versicherungswesens mbH. Available from http://www.hgfv.de/hgfv/pdf/BinnenmarktMueller06E.pdf.

Nielson, J. and D. Taglioni (2004). Services Trade Liberalisation: Identifying Opportunities and Gains. OECD Trade Policy Working Papers, No. 1. Paris: OECD Publishing.

Ondiege, Peter (2013). Fostering Financial Inclusion with Mobile Banking. Tunis: African Development Bank.

Raihan, Selim (2013). Services Trade Liberalisation in South Asia. Paper, No. 46077. Munich: MPRA.

Rainan, Ananya (2005). Liberalising Trade in Services: Negotiating Strategy for Bangladesh. Paper, No. 47. Dhaka: Centre for Policy Dialogue.

Sáez, Sebastián (2011). Cited in Services Trade – Approaches for the 21st Century. Pacific Economic Cooperation Council and Asian Development Bank Institute. Available from http://www.adbi.org/files/2012.02.01.book.services.trade.approaches.21st.century.pdf

____________ ed. (2010). *Trade in Services Negotiations: A Guide for Developing Countries.* Washington D.C.: World Bank.

Soprana, Marta (2011). Competitiveness in services exports: a practical guide for developing countries. Masters Thesis. Bern: World Trade Institute.

South Centre (2007). *GATS Dispute Settlement Cases: Practical Implications for Developing Countries.* South Centre Analytical Note, February 2007. Geneva.

Teravaninthorn, S. and G. Raballand (2009). *Transport Prices and Costs in Africa: A Review of the Main International Corridors.* Washington, D.C.: World Bank.

United Kingdom, Department for Business, Innovation and Skills (2011). *Trade and Investment for Growth.* London: The Stationery Office.

United Kingdom, Department of Trade and Industry (2002). *Liberalising trade in services – a new consultation on the World Trade Organisation GATS negotiations.* London.

United Nations Conference on Trade and Development (2013). *National Services Policy Review: Nepal.* Geneva.

United Nations (2012). *The Millennium Development Goals Report 2012.* New York. Available from http://www.un.org/millenniumgoals/11_MDG%20Report_EN.pdf

Ward, N. and P. Sauvé (2010). Tourism Services Liberalization – The Role of Business Advocacy in the Caribbean-European Union EPA Negotiations. Case Study. Geneva: International Trade Centre.

Ward, N. and E. Barreto. (2011). Technical Report: Road Freight Transport Diagnostic Study. Paper submitted to USAID/Southern Africa. Gaborone: Southern Africa Trade Hub.

Whalley, John (2004). Assessing the Benefits to Developing Countries of Liberalisation in Services Trade. *The World Economy,* vol. 27, Issue 8 (August).

Wolak, R., S. Kalafatis and P. Harris (1998). An Investigation into Four Characteristics of Service. Journal of Empirical Generalisations in Marketing Science, vol. 3, No.2. Available from http://members.byronsharp.com/empgens/emp1.pdf

World Trade Organization (2013). *Fourth Global Review of Aid for Trade: Connecting to value chains.* Geneva.

___________ (2012). *International Trade Statistics 2012.* Geneva.

___________ (2012). *World Trade Report 2012.* Trade and Public Policies: A Closer Look at Non-Tariff Measures in the 21st Century. Geneva.

___________ (2011). Third.

___________ (2010). *A Review of Statistics on Trade Flows in Services – Data Compilation and Availability,* Council for Trade in Services, Note by the Secretariat, S/C/W/329, 22 December 2010. Geneva.

___________ (2009). *Background Notes: Tourism Services* (S/C/W/298), *Transport Services* (S/C/W/315), *Logistics Services* (S/C/W/324), *Accountancy Services* (S/C/W/303), *Architectural Services* (S/C/W/316), *Engineering Services* (S/C/W/318), *Legal Services* (S/C/W/334), *Computer Related Services* (S/C/W/300), *Communications* Services (S/C/W/299), *Audiovisual Services* (S/C/W/310), *Construction Services* (S/C/W/302), *Financial Services* (S/C/W/312), *Distribution Services* (S/C/W/326). Geneva.

___________ (2004). *United States – Measures Affecting the Cross-Border Supply of Gambling and Betting Services.* WT/DS285/R. Geneva. Available from http://www.wto.org/english/tratop_e/dispu_e/285r_e.pdf.

___________ (1998). *Disciplines on Domestic Regulation in the Accountancy Sector.* Document No. S/L/64. Geneva.

Yi, S. and S. Stephenson (2002). Transparency in Regulation of Services. Paper prepared for the Pacific Economic Cooperation Council Trade Forum Meeting in Lima, Peru, 17-19 May 2002.

A free PDF of this publication is available on ITC’s website at:
www.intracen.org/publications

Printed copies of ITC publications can be purchased from ITC’s website:
www.intracen.org/eshop and from:

- United Nations Publications
  Sales and Marketing
  300 E 42nd Street
  9th Floor, IN-919J
  New York, NY 10017
  United States of America
  https://unp.un.org
  Tel: 1-800-253-9646
  Fax: 212-963-3489
  E-mail: **publications@un.org**

International
Trade
Centre

USD 35
ISBN 978-92-9137-412-0

United Nations Sales No. E.14.III.T.1