

PANEL DISCUSSION

TRADE IN SERVICES: TIME FOR POLITICAL DECISIONS

INTRODUCTORY REMARKS

Ambassador Fernando de Mateo y Venturini (Mexico)

Chairperson of the Special Session of the Council for Trade in Services

It is a great honour for me to be here with you today and I will speak in my capacity as Chairperson of the Special Session of the Council for Trade in Services.

In many countries, services account for more than 70 per cent of GDP and provide more than 70 per cent of employment. Even in developing countries, services account for more than 50 per cent of GDP. In terms of value added, trade in services represents 50 per cent of the total world trade in goods and services but accounts for only 20 per cent of trade flow. 73 per cent of all the services in the world are intermediary services, used in the production of goods and other services. Services are the "Higgs Boson" particle of chains of production and critical to the existence of those chains. Advances in information and communication technologies, financial and transport services over the last 30 years have helped to shape production in our modern world. Globally, higher quality goods are being produced more cheaply, and this has resulted in the specialization of tasks rather than of products. Clearly, these chains of production have created employment and increases in the GDP of countries, and policies providing for the flow of trade and services between countries must exist.



With regard to services in the WTO and the progress made in the negotiations, there is quite a difference between bound tariffs and those applied in practice by countries. The gap has stood at more than 80 per cent, and remains in the order of 46 per cent. Therefore, in the WTO we have a good opportunity to open up more services to ensure an improved flow between countries facilitating better integration of chains of production. The reality is that all countries are involved in some way in chains of production; the greater a country's involvement, the bigger the impact on employment and on growth in the country.

The paradox is that in the Doha negotiations, services are receiving less attention than manufacturing or agriculture. Although there are problems with regard to market access, this does not mean that the Doha Round is at a complete deadlock. It is true to say that the rate of progress has slowed. The 8th Ministerial Conference in 2011 did succeed in breaking down the subjects being dealt with in the Round with a view to reaching agreements where possible and providing for continued negotiation in order to reach a final agreement in the future. The fact that there is no tangible progress regarding services concerning market access, agriculture and manufacture does not mean that progress with is not being made in other areas, including through regional trade agreements. An increasing number of such agreements are being concluded, and the part played by services in regional trade agreements has grown. Some countries here in Geneva are

frustrated that the multilateral negotiation process appears to have stalled, and 19 members have become involved in a plurilateral negotiation process.

In conclusion, I hope that you, as parliamentarians will help our governments to reach agreement enabling us to move forward with respect to market access. Achieving progress in the area of services is the best way of ensuring more effective economies and creating jobs. Goods and services are inextricably linked: services are the soul of world trade and goods are the heart of services. You can't have one without the other.

Ambassador Joakim Reiter (Sweden) Chairperson of the WTO Council for Trade in Services

Speaking in my capacity as the Swedish Ambassador, I would like to say that you, as parliamentarians, are the masters of the services trade. You set the basis for the rules, regulations and legislation determining conditions for economic operators in the services trade.



Negotiators in the area of services are focused primarily on locking in reforms. Their efforts to establish legal certainty, predictability and transparency –although crucial – are undertaken bearing in mind country services regimes and domestic choices that you, as parliamentarians, have determined through the sovereign enactment of regulations. Issues, such as the privatization of education, health, water and other sectors, are decided upon by national governments; negotiations in the WTO and free trade agreements are totally irrelevant in that regard.

I completely agree that the time has come for political decisions. As to who should take the decisions, will you now take the political decision to promote trade in services by enacting laws and regulatory reforms that allow foreign services providers to offer their services in your countries, and to do so on equal grounds with domestic services providers?

In answer to why political decisions should be taken, services are crucial for growth and employment, including better jobs. They account for more than 70 per cent of GDP in many developed countries and for approximately 50 per cent in developing countries. A World Bank report has shown that, in both developed and developing countries, the contribution of services to GDP growth over the last 30 years has been higher than that of industry. In terms of productivity – the value added per employee and the primary determinant of salary levels – growth in services has substantially outpaced that of industry in both developed and developing countries. Between 1991 and 2006, global employment growth was negative in both industry and agriculture but positive in services, with the jobs created in services compensating for the jobs lost in industry and agriculture, in particular in developing countries. Services are crucial for the competitiveness of the economy as a whole as well for trade performance across-the-board. Services function as a lubricant for trade, and the depth and speed of globalization is unlikely to have been achieved without the information and communication technologies and related services. Global production networks would not have formed without cost-effective and reliable transportation and logistics services. Moreover, services play a key role as the glue and facilitator of global, regional and national value chains, for example 40 per cent of the profits of one large

machinery manufacturer in Sweden come from rental, leasing and maintenance services that create local, high-quality jobs in the countries buying the product.

As to the type of decisions to be taken, domestic reform is essential. The tendency to try to pick winners is a very bad strategy for services. Since services are the facilitator of global, regional and national value chains, it is across-the-board reforms that matter most. A holistic approach must be taken with respect to services in order to establish the correct premise for domestic reform.

As part of the Ministerial Conference in December 2011, all the regular bodies of the WTO were tasked with identifying ways of improving their functioning and of strengthening their work. The Council for Trade in Services has had a number of discussions on this, and the broad objectives that we are debating concern improvement of transparency, the sharing of experience, and in-depth consideration of topical issues. Some proposals have already been tabled and there are a number of topics that members might wish to raise that warrant further discussion. Some of the members already involved in the plurilateral negotiations debrief the Council on developments, and this allows other members to express their views on that matter, maintaining an interaction and dialogue on the initiative that is unfolding.

Mr. Niccolò Rinaldi (European Parliament)

I welcome the opportunity to discuss services at our Parliamentary Conference. In my experience, services are one of the most delicate and controversial issues in international trade negotiations, not only for third countries but sometimes also within the European Union. This is paradoxical since services provide 70 per cent of GDP in developed countries and 50 per cent in developing countries. It is interesting to note that the sector is much more susceptible to change than others, and that approximately 50 per cent of the services necessary for the next 50 years have still to be invented.



Although, ideologically speaking, I am very open to the liberalization of services, it is important for me as a parliamentarian to be pragmatic and to take a cautious approach with regard to implications in terms of quality, costs and job creation for my constituents. Surveys show that, for the time being, it is not possible to obtain a precise impact assessment of those parameters and of the consequences of liberalization of services and of trade in services. The picture is somewhere between positive and negative. Empirical experience in our countries shows that, although there have been negative consequences following liberalization of some services, there are also numerous examples of better quality and lower costs as a result of the competition introduced through liberalization and trade in services. However, we cannot make the assumption that trade in services is always absolutely positive, and we need to be very careful in terms of job creation.

The European Commission has found that in the Southern Mediterranean countries, long-term effects on poverty from service liberalization are expected to be small but positive. In the short-term, the liberalization of the distribution of services might have adverse effects if not appropriately mitigated through loss of employment in small retail outlets. A Canadian-funded survey on ICT liberalization in Ghana has found that, because of the tax structure, it is more cost-effective to import cheap computers rather than parts for

assembly in the country; such a situation discourages local assembly and the growth of small firms. As a result, foreign companies appear to be benefiting more than local companies from trade in services in Ghana.

There is a consensus on the need to be extremely careful with regard the list of services in public health and education, and there is general agreement on the need for trade agreements in services in a number of fields such as telecommunications, insurance and banking. Some countries do have specific exceptions but this does not mean that we cannot find agreement and manage to square the circle.

Trade in services can encourage growth and job creation, and is crucial. However, it must be well structured and supported, and effective accompanying measures should be in place to ensure that the benefits and gains of liberalization filter through to the public. Public consultation is another important area that can sometimes be overlooked. The services sector is one that often has a direct impact on our citizens' daily lives. There must be as much transparency as possible, including in the decision-making process, and efforts must be made to ensure that all stakeholders are informed. Parliaments have an important role to play in that regard.

Mr. Pascal Kerneis Managing Director, European Services Forum

It is an honour for me to be here with you today. My organization is the European Services Forum, which represents the private sector in the European Union. We have members from nearly all sectors interested in export, including banking, insurance, construction, shipping and distribution services.

The services sector is an important one: it provides 70 per cent of GDP in the European Union, and more than 60 per cent of jobs. Services account for approximately 25 per cent of global trade – approximately US \$4 trillion per year. If we take into consideration global value chains, 45 to 50 per cent of world trade is in services. In addition, 60 per cent of all foreign direct investment in the world is from service companies.



Businesses are the beneficiaries of trade liberalization. You, as parliamentarians make the final decision on the deals brokered by the trade negotiators. I think it is very important for us to have access to this audience and I'm very grateful for this opportunity.

The European Services Forum supports the conclusion of the Doha Round, and have been pushing for this from the beginning. Unfortunately, I believe that services have not been taken seriously in this house and in these WTO negotiations. Only four hours in eleven years of negotiation have been dedicated to services, and even then, the relevant ministers did not take part in the discussions. We hope that the situation will improve and that there will be further opportunities for negotiations on services, which are extremely important for international trade and economic development.

The WTO Ministerial Conference in 2011 encouraged initiatives such as plurilateral negotiations in services. A number of countries have already taken that opportunity and tabled collective requests that should be

considered because they provide a framework for what is already deemed possible to achieve. Any new agreement should be ambitious, flexible and, more importantly, inclusive. The 19 countries that are involved in the plurilateral negotiations are essentially OECD countries, and we need to ensure that other countries will join the negotiating table. We hope that it will also be possible to strengthen existing markets, obtain new market access, and to bind existing commitments that have been taken by countries on an autonomous basis. Such action will foster confidence in the direction being taken and will enhance security and predictability – two elements that are essential in business, particularly for long-term investment. The European Services Forum will follow the negotiations closely, and has, together with the Global Services Coalition, already adopted position papers regarding the content of the plurilateral negotiations. There should be minimum standards of commitment on a horizontal basis, and equity caps, which constitute the major trade barrier for services companies, should be removed in order to facilitate investment.

We know that we also have to make efforts and encourage our own countries to open up their markets and make commitments with respect to Mode 4 –movement of natural persons. Any new agreement should not be about market access and binding existing commitments only. It should also be about regulation and rules that all signatories, and hopefully new countries, will accept on a horizontal level. These may include: a minimum level of transparency of legislation, cross-border dataflow, and data on enterprises to ensure fair competition for all in the market. It might also go further into rules for specific sectors, such as postal services, environmental services or energy-related services.

EXCERPTS FROM THE DEBATE

Mr. M. Choque Gutiérrez (Bolivia)



We hope that our session will be productive and help many countries to look to the future. If trade is to help to combat poverty, all WTO members need to work together. Parliamentarians need to have more information on what the WTO has to offer and the challenges it faces so that we can debate these issues in our countries and work for the good of all.

Mr. A. Al-Nuaimi (United Arab Emirates)

Although the liberalization of services will give consumers more choice, it may present problems for developing countries that often do not enjoy the

opportunities presented by the services sector. In order to improve services and to ensure that ethics are not compromised, all governments should adopt legislation to ensure compliance with international rules, and seek to ensure that trade in services provides the best development options for countries. Particular attention should be paid to the area education in order to combat illiteracy.

Mr. S. Matsushita (Japan)



In Japan, we believe that the services sector is an important part of the Doha Round, and that progress in the negotiations will significantly contribute to the development of developing countries. An efficient

and productive service industry strengthens competitiveness and enhances the quality of life of citizens. The importance of reducing barriers to trade in services for the benefit of developing countries should be recognized. Developed countries must pay due regard to the needs of developing States and the difficulties that the latter might encounter in the liberalization of services.

Japan will continue its efforts, including in the area of trade-related technical cooperation, in order to assist developing nations. Japan is participating in consultations to draft a new agreement on trade in services, and hopes that as many countries as possible will become involved.

Mr. A. Hossain (Bangladesh)



Services are essential for the efficiency of the production process, and we attach great importance to the development of the services sector for domestic consumption as well as for export. However, highly complex entrance barriers make it difficult for our service suppliers to enjoy the benefits of the huge services market. We welcome the adoption of preferential treatment for services and service suppliers in LDCs as a step in the right direction. However, the scope of the waiver is very narrow, and Bangladesh - an LDC - urges the developed countries to offer an autonomous waiver for export in a meaningful and beneficial way.

There is also a need for enhanced technical assistance and capacity building support in order to address supply-side constraints. The deadlock in the negotiations on services is linked to other negotiating areas in the Doha Development Agenda. The issue must be reviewed in a holistic and

multilateral manner. Anything less will fail to break the deadlock for the benefit of the global community.

Mr. F. De Mateo y Venturini (Panellist)



Good trade policy, although essential, is not enough for national development; good macroeconomic, fiscal, employment and education policies are also required. Trade liberalization in the area of services should not be confused with privatization, and privatization should not be confused with regulation. When trade is liberalized, new rules and regulations are required, for example in order to prevent a public monopoly from becoming a private one. More often not, the greatest difficulties encountered by services negotiators do not come from counterparts but from capitals, and there should be greater communication between negotiators, government ministries and parliaments to ensure a successful outcome of negotiations.

Mr. J. Reiter (Panellist)

On the issue of competition, governments have sometimes, for various reasons including budgetary reasons, chosen to take a step back and allow more private operators. However, they have refrained from opening up the opportunity for foreign private companies. This increases the risk of private monopoly rents, which is worse from the economic point of view than allowing fierce competition. A holistic approach is important since such action does not apply to the services sector only, but to the whole economy.

I agree that the amount exported by the LDCs is very low, and that this is a genuine problem that needs to be taken seriously by all WTO members,

including through consideration of the implementation of the services waiver. The services component is key part of the exports of some LDCs, such as Bangladesh, where 20 per cent of the value added from textile exports comes from services.

Since services require limited investment in fixed infrastructure, they can offer enormous potential for development and job creation in developing countries. Companies are flexible and prepared to go where entry costs are lower, as we can see from the recent decision of Ericsson, a Swedish company, to establish its global services centre in Mexico.

Mr. N. Rinaldi (Panellist)



My impression is that when we talk about services, there are a number of blocks that do not always communicate well with each other. We have developing countries, which tend to take a defensive position with regard to services albeit perhaps for legitimate reasons; emerging countries that might have a different agenda, and let's not forget that China and India together have approximately 12 per cent of the services market in the world; and countries that make up the group entitled "Really Good Friends of Services". The approach to services may sometimes be dictated by different agendas and priorities, and a consensual and more integrated approach should be taken.

I agree that the provision of information is essential, but I don't think WTO can be blamed for a lack of information. Members of the WTO might bear some responsibility for not communicating enough with their capitals. The media should also take some

responsibility for not drawing attention to particular issues and for not explaining what is at stake.

Mr. P. Kerneis (Panellist)



I can reaffirm that, from the private sector's point of view, a private monopoly is the worst-case scenario. I agree that a holistic approach must be taken. Looking at the motor industry, the value of the materials necessary to build a car accounts for approximately 15 per cent, the remainder of the value of the car comes from services, such as design, research and development, advertising, leasing, transport, and after-sales services. Looking at other industries, the value does not lie in the equipment itself but in the maintenance plans for the equipment.

With regard to the comments by the representative of Japan, the agreement to be negotiated must follow the GATT structure in order to facilitate the involvement of other countries, which would be desirable. Companies need certainty and will not be persuaded to invest in an LDC that is not willing to introduce reforms in the service sector. We want developing countries to be interested in services negotiations, and I hope that this Parliamentary Conference will have served to raise awareness of the importance of services.

Mr. H. Chaouch (Tunisia)

How does the services sector help to create jobs and contribute to growth in developing countries given the unequal opportunities that exist between developed and developing countries? In the current context, how can we focus on services before

resolving other issues of priority for developing countries?

Lord Harrison (United Kingdom)



I am reminded from the discussion that we are trying to connect politics and trade but that countries each have their own domestic agendas. How do individual parliaments deal with matters of trade? How is best practice in that regard spread among parliaments and experiences shared?

Mr. B. Mukherji (India)

In most economies, services have emerged as the single largest contributor to economic growth and employment. In India, the service sector contributes approximately 60 per cent of GDP and has played a large part in the high growth rate witnessed over the last decade.

In the negotiations, India has been in favour of the liberalization of Mode 1 and Mode 4 and of commitments from developed countries for contractual service suppliers and Indian professionals under Mode 4. India has offered substantial sectoral and modal coverage in its initial and revised offers in the ongoing services negotiations and has shown considerable movement from the Uruguay Round commitments. Despite this, India's primary request has not been addressed by key developed countries in Modes 1 and 4. Moreover, some of the major developed country members have shown little movement in their Mode 4 offers, and the imbalance in this Round between the offers from developed and developing countries is a fundamental issue of concern to us.

Parliamentarians have a vital role to play in formulating the policies of our respective countries. We can influence decision-making processes in all areas of government, including those pertaining to trade and commerce. We must reiterate our commitments to WTO's goals, in particular the development objectives, and adopt a pragmatic approach in order to resolve pending issues in line with the agreed Doha mandate.

We are deeply concerned about the efforts of a group of members to negotiate a plurilateral agreement, since such an approach has the potential to detract from the Doha Round negotiations and remove incentive to conclude a multilateral agreement on services as part of the Round. A plurilateral trading regime among the few cannot be a substitute for the multilateral system and is against the fundamental WTO principles of transparency and inclusiveness.

Mr. P. Kerneis (Panellist)



With regard to ensuring jobs and growth in the service sector at home, I am not sure that the approach of developing the local domestic sector before opening up is the best one, particularly given the lack of progress over the last 15 years in the Doha Development Agenda. That is a decision for politicians. However, many of the countries that have decided autonomously to open up have attracted foreign direct investment from countries in different services sectors and are already benefitting from this.

I understand the position of the India, but the Hong Kong ministerial meeting provided for plurilateral negotiation for those countries willing to participate. I

hope that India will join the plurilateral negotiations, which make it more likely for the country to achieve improvements with respect to Mode 1 and Mode 4.

Mr. N. Rinaldi (Panellist)

I agree that well-regulated competition is crucial to create jobs and improve the situation in all our countries. However, the success of trade in services is dependent on a number of issues that fall under the responsibility of national legislators. Trade needs to be well supported by fiscal responsibilities, and efforts must be made to ensure that the benefits generated from competition are distributed in order to improve the quality of services. All countries should have adequate anti-corruption legislation, and regulatory bodies should exist to address issues such as quality and tariff.

It is not sufficient for parliaments to have ex-post powers and simply rubberstamp decisions made, we must have an ex-ante strategy and working methods. The European Parliament, for example, has a permanent monitoring group for European Union negotiations. This allows us not only to be informed during the negotiations but also to provide input to the negotiators before any final package is developed. It is important for all parliaments to be informed and be associated at all stages of the negotiations and to that end parliaments should forge an alliance with civil society.

Mr. J. Reiter (Panellist)



Because the main focus of services negotiations is ultimately on locking in international commitments on the basis of domestic reforms already decided upon by national parliaments, I recommend cross-

parliament cooperation and a clear vision of objectives with respect to national economic reform so as to enhance competitiveness and attract foreign direct investment.

Between 1991 and 2006, employment fell by more than 4 per cent in agriculture and by approximately 1.7 per cent in industry. Developing countries have managed to create jobs, since employment in the services sector has increased by around 3 per cent in the same period. This is a very positive development for the services sector, the question is are countries prepared to spur that employment growth further through the reform agenda?

In order to ensure that investment received by developing countries is meaningful from a trade point of view, countries must take a holistic view and look at related services. Investment in education should not be underestimated. Services have such a low entry barrier, and education gives your citizens the possibility of creating their own businesses or of linking up with companies. There are a number of examples of developing countries that have already been extremely successful in the global services trade.

With regard to the comments of India, all modes are relevant, including Mode 4. The plurilateral solution can be multilateralized, and we are inviting as many WTO members to join the effort to move forward in a pragmatic manner. We should be honest about the alternatives: the Doha Development Agenda is not moving and the alternative is free trade agreements. We need to be honest: a plurilateral process that could be multilateralized is actually preferable to pursuing an active FTA policy, but that is not to say that the crucial question of how a plurilateral agreement should be incorporated into the multilateral trading system has been resolved.

Mr. F. De Mateo y Venturini (Panellist)

India provides the best example of how services can provide jobs and growth. It is not correct to say that exports are good and imports are bad. Over the past year, we have been analyzing global value chains and we have seen that if you can provide your industries, producers and consumers with the cheapest and most advanced inputs, you will be better off in terms of growth and job creation. There are a number of examples in this respect. Yes, by

liberalizing trade in services, you are going to provide jobs and foster economic growth. However you have to combine trade liberalization with regulation and with privatization. Trade negotiations are something completely different, and we have been striving to find a balance over the previous 11 years. In trade negotiations, you will always obtain less than you are aiming for and will have to pay more than you thought you would have to pay.

In Doha, we have not been able to find this balance and I agree that development is a central part in the negotiations. However, we all have a different interpretation of development, and this is the stumbling block. The only way to start afresh in these negotiations is if we are all willing to provide more and request less.

Lastly, the Mexican delegation to the plurilateral services negotiations considers that all the benefits of the International Services Agreement should be extended to the LDCs, and that those countries

should be allowed to become members for free as from the entry into force of the agreement.

Mr. A. Johnsson (IPU Secretary General)

The debates in the Parliamentary Conference have evolved over the last 10 years and become very political and focused on trade issues. I believe that they do have an impact on the negotiations taking place.

In response to the comments of the representative of the United Kingdom regarding good practice and how parliaments should tackle trade issues, I should say that we have information on how some parliaments deal with trade. However, it appears that there are now many parliamentary committees that deal with issues arising out of discussion in the WTO. We will work with the European Parliament to find more information about best practices and about how parliaments can learn from each other.

