

# **PROSPECTS FOR SERVICES TRADE LIBERALIZATION IN THE NEW TRADE ROUND**

*Robert Vastine*  
*President, Coalition of Service Industries*  
[vastine@uscsi.org](mailto:vastine@uscsi.org)

Prepared for the Cato Institute's Center for Trade Policy Studies Conference, "Seattle and Beyond: The Future of the WTO," November 17, 1999, Washington, D.C.

The Coalition of Service Industries is committed to a comprehensive, highly ambitious new multilateral services negotiation starting in 2000. At our World Services Congress on November 1-3 in Atlanta, panels of experts agreed on resolutions in a large number of discreet sectors, and on cross-cutting issues affecting the structure and goals of the negotiations.

Including about 700 participants from 54 countries, the Congress brought together for the first time negotiators, businessmen, and academics to discuss the expansion of world services trade. The resolutions, a large number of papers on services issues, and other materials are available at [www.worldservicescongress.com](http://www.worldservicescongress.com).

Also at Atlanta we took a big step in completing the organization of the Global Services Network (GSN), which is open to all companies and associations and others who are committed to services trade liberalization. The GSN should be the vehicle for communications among services organizations in many important countries. It should help build consensus for liberalization and speed the liberalization process.

The services sector is—certainly in comparison to other sectors—well informed and ready to take advantage of the next round of services negotiations set to begin in January.

The United States has a particularly big stake in these negotiations, a stake rising to the level of a national economic security imperative.

We believe these negotiations will further expand our global markets, enabling our sector to increase its 77 percent share of U.S. employment, its 79 percent share of GDP, and its trade surplus of about \$80 billion (about 30 percent of U.S. exports). Because foreigners have a high propensity to consume U.S. services, negotiations that reduce barriers across a wide range of highly protected foreign services markets could materially stimulate U.S. trade. The U.S. is very competitive in virtually every category of services trade.

It has recently been suggested that successful multilateral services negotiations could offset the structural goods deficit. Catherine L. Mann, in a study for the Institute for International Economics,\* wrote:

"...as income in a foreign country grows, its imports of U.S. services tend to rise disproportionately. Successful broad-based negotiations on trade in services will likely increase U.S. exports of services even further, with a positive effect on the trade deficit. The long-term trajectory of the U.S. external balances could be altered significantly by

the combination of successful service-sector negotiations and broad-based liberalization and deregulation at home and especially abroad. These together would unleash higher productivity and faster growth at home and abroad, which would narrow the U.S. current account deficit."

Dr. Mann cites earlier estimates that comprehensive liberalization of services could raise global GDP by 4 to 6 percentage points, and raise the long-run global growth rate from 3.2 to 5 percent. \*\*

My point is that the United States has a powerful national economic security interest in making the coming services negotiations a major success. But so does the rest of the world economy.

### **The Seattle Ministerial**

Because we need highly successful new services trade negotiations, we need a successful Seattle WTO Ministerial Meeting. What defines success? For the service sector a successful Ministerial must:

- give a very strong mandate to negotiators to start comprehensive services negotiations in 2000.
- provide that this 3-year negotiation be focussed mainly on services, agriculture, and industrial products so that there is a real chance that negotiators can focus on services trade and complete an ambitious agenda of liberalization in areas where the likelihood of liberalization exists. This rules out, in our view, an effort to reach a multilateral agreement on investment.
- Recognize that electronic commerce is an important new technique for trading, not a new sector in and of itself; extend the existing moratorium on duties on electronic transmissions, call on countries to refrain from adopting measures that would unnecessarily restrict electronic commerce, provide that electronic delivery of services falls within the scope of the GATS, and that there be no discrimination among foreign and domestic providers in their access to electronic networks.
- Provide that the entire new "round" be completed by December 31, 2002, in order to force closure on the existing agenda, reap what gains can be garnered, and begin again with a fresh agenda that could include items like investment.

In addition to organizing the World Services Congress, CSI has been very actively engaged in the preparations for the Seattle Ministerial. We are organizing a day of activities to demonstrate the importance of the service sector to the 21st Century, knowledge based, "third wave" economy.

### **Ambitious U.S. Goals for Services 2000**

CSI believes strongly that the United States should enter the new negotiations with a bold agenda, calling for sweeping commitments to liberalization across as many sectors as possible. New sectors requiring attention in this round should include energy services, health services, air cargo services, legal services, as well as the financial services, telecommunications, and others.

We would like our negotiators to propose broad commitments to liberalization in areas such as the right to establish a business presence in foreign markets (commercial presence), the right to own all or a majority share of that business, and the right to be treated as a local business (national treatment).

If we are to succeed, our negotiating methods will need to be bold and innovative. We support the efforts of U.S. services negotiators, joined by their colleagues in the Quad (the United States, Canada, the European Union, and Japan) and a group of other countries with strong interests in services trade, to find new approaches to services trade liberalization. These are designed to supplement the usual "request-offer" approach, save time, and bring better results.

These new approaches could include commitments applying "horizontally" across all service sectors, the negotiation of transparency and other pro-competitive regulatory commitments for service sectors under negotiation, then the negotiation of model schedules for each sector under negotiation. Countries would have the right, as they do now, to list exceptions to the model schedules and pro-competitive regulatory commitments. Once the models had been adopted, countries could engage each other in negotiations to improve the scope and depth of other countries' commitments.

## **Mobility of Business Personnel**

One of the areas requiring fresh thinking here and abroad, are the provisions used by countries, including the U.S., for the temporary entry of foreign managerial and technical personnel. Increasingly, large, highly competitive U.S. companies such as consulting, accounting, legal, architectural, and engineering firms and information technology companies need to transfer personnel at short notice to service the needs of their clients throughout the world. Delivering services via transfer of natural persons is known in GATS parlance as “mode 4” of supply. The WTO has to date been unable to make any progress on achieving liberalization of this form of supply of services. Because it is of increasing importance to U.S. firms, and to some other countries, it should be an important element of the coming negotiations.

## **The Need for "Pro-Competitive" Regulatory Reform**

Foreign companies entering new markets often face formidable barriers in the form of arbitrary and non-transparent regulations and regulatory institutions. Such regulations too often deny foreign companies the opportunity to compete on an equal basis with domestic firms. They can effectively negate the benefits of trade liberalization commitments.

Pro-competitive regulatory reforms mean abandoning forms of regulation by which governments limit the introduction of new products, restrict use of market-based pricing, and in other ways constrain competition.

Transparency of regulatory processes is an important element of pro-competitive reform. This means adopting many of the procedures embodied in our more open system of government, such as the publication of existing and proposed regulations, and the right to comment and to be heard in administrative proceedings. It also means applying higher principles of how companies operate, such as regulations ensuring solvency, promoting transparency in intra-company transactions and financial reporting, and improving the reliability of financial data that would allow customers and investors to make better informed judgments.

## **Conclusion**

The reduction of barriers to trade in goods began many decades ago with the 1934 reciprocal trade agreements program of the Roosevelt era. The reduction of barriers to trade in

services is in its infancy. The Uruguay Round wrote the "constitution" or legal framework for liberalization of trade in service: the GATS. But countries' actual

commitments to liberalization were disappointing. The actual work of liberalization was advanced in the successful 1997 Basic Telecommunications and Financial Services negotiations. The next negotiation, services 2000, is the first real opportunity to bring to bear the lessons we have learned about the complex process of negotiating freer trade in services and to broaden binding commitments across all sectors and deepen commitments within product categories and sub categories.

As I said at the outset, the United States has a particularly big stake in a successful multilateral negotiation. We are already highly competitive in services. We can secure and enhance this comparative advantage by removing restrictions to our exports, and at the same time make a bigger and bigger dent in our structural trade deficit.

The Seattle Ministerial is a preamble to the main event, the negotiation itself. But it is essential that the Ministerial Declaration give a strong impetus to an ambitious, achievable negotiation in services. Such a result is essential to our national economic interest and to global prosperity.

\* Catherine L. Mann, "Is the U.S. Trade Deficit Sustainable?" Institute for International Economics, 1999, p. 9.

\*\* Gary Clyde Hufbauer and Tony Warren, "The Globalization of Services: What Has Happened?" Institute for International Economics, 1999.

## **Appendix I**

Examples illustrating the stake of U.S. service industries in expanded global markets:

Travel and tourism contributed over \$25 billion to the services trade surplus in 1997. This is the largest sectoral contribution to the overall services surplus. In addition, travel and tourism are estimated to support over seven million direct jobs and generate roughly \$71 billion in tax revenues for federal, state and local governments.

Business, professional and technical services is a largely unrecognized powerhouse in American trade. In 1997, we exported more than \$21 billion in these services and we had a \$16 billion trade surplus. These data do not include the earnings from foreign investments and foreign affiliates, which are very substantial. Trade in business, professional and technical services—such as accounting, legal, engineering, architectural and consulting services—is especially important because it frequently paves the way for trade and investment in other service and manufacturing sectors.

Telecommunications services are an integral component of operations of all businesses, and are essential in promoting domestic and global growth. Telecommunications services provide the necessary infrastructure for the development and continued expansion of the information society and electronic commerce. An estimated \$725 billion in revenue was generated in 1997, and projections for the next five years indicate that traded telecommunications services will increase at about 20 percent annually for outbound calls from the U.S. to foreign markets.

The information technology industry is also dependent on trade and trade expansion. The WTO estimates that over the next five years, sales over the Internet will double each year.

The U.S. asset management industry is the largest in the world. It is estimated that by 2002, 51 percent of total asset management revenue of \$160 billion will come from abroad, not the U.S. Today, U.S.-domiciled investment managers manage 14 percent of the total of non-U.S. retirement plan assets and 5 percent of non-U.S. mutual fund assets.

U.S. law firms, when billing foreign clients, produce services exports. Overall U.S. legal services exports approach \$1.0 billion.

Foreign students coming to American schools, net after scholarship and local assistance, spent \$8.3 billion in the U.S., which is a U.S. services export. We have a surplus in trade in education services of \$7.0 billion.

Although few doctors imagine themselves as U.S. exporters, medical services rendered in the U.S. to foreign citizens produced an export surplus of \$0.5 billion.

Air cargo transport accounts for well over a third of the value of the world trade in merchandise. However, restrictions on market access (including cabotage), ownership and control, the right of establishment, capacity, frequencies, intermodal operations in connection with air services, wet leasing, customs, groundhandling, the environment in particular local airport access times, all limit the ability of cargo carriers to plan their operations purely on the basis of commercial and operational considerations. A WTO framework could provide cargo carriers with clear rules addressing these problems and resulting in enhanced delivery options to the benefit of businesses, shippers and consumers worldwide.

Energy services have received little attention in trade negotiations to date. But drastic changes in the international and domestic business climate for this industry—which in the U.S. accounts for 1.4 million jobs and about 7 percent of U.S. GDP—have shown the need for global trading rules, which can provide new, common understandings on such key matters as monopoly power, anti-competitive practices and discrimination against new market entrants, including of course U.S. companies. Thus the energy services industry looks to the coming round as a critically important opportunity to map out a blueprint for market access and free competition in energy service.