



"Services: the Fast Speed Highways for Trade"

**European Services Forum and
the London School of Economics conference**

**Why services are crucial for concluding the WTO
Doha Round**

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It is a great pleasure for me to be with you this evening. Allow me to begin by thanking the European Services Forum – and in particular Lord Vallance of Tummel for his kind words – as well as the London School of Economics for hosting this event which gives me an opportunity to address a key issue in international trade relations – trade in services. Thanks also to Peter Sutherland for his presence among us.

A lot has been said about the role of technology in fostering globalization. Technology is important, sure, but it is just a means to perform all types of activities – and to render services. We live in the age of the services revolution. It is a revolution that has transformed the way we live and work. Rapid advances in digital and communications technologies have rendered the obstacles of time and space less relevant and opened the way for a new global services economy. A 3-minute telephone call from London to New York back in 1930 cost about \$250. Today it is just a few cents. Aided by technology, millions of financial, banking, insurance, accountancy, retail, media and travel transactions are conducted daily across borders. Even consulting a doctor can be done over the internet.

Conventional economic thought classified services as non-tradeables. That convention, which never accurately reflected commercial reality, is now long outdated. It is outdated because the world is interconnected as never before and services have outgrown national borders. It is also outdated by the WTO's General Agreement on Trade in Services (GATS), which created a new paradigm for international trade in services. The Agreement defined forms of services trade that had previously not been considered, such as commercial establishment, the movement of natural persons, and included the whole range of services sectors.

Services production is the dominant economic activity in the world and contributes to overall development

Henry Ford, once said, “A business absolutely devoted to service will have only one worry about profits. They will be embarrassingly large”. But I doubt that even the visionary Mr. Ford could have predicted that world exports in services would come close to \$ 2.8 trillion in 2006. However, even this large sum underestimates the real size of services trade since international trade statistics simply do not cover all trade in services as defined by the GATS. And it is not only the value of services trade that is impressive, but the pace of its growth. Indeed, since the 1980s, world services trade has actually been growing more rapidly than world production and merchandise trade. Today, more than half of annual world foreign direct investment flows are in services.

The services revolution does not stop with the creation of new commercial opportunities in the services sector. Services underpin virtually every economic activity needed in the production and distribution of other goods and services. Indeed, I would go as far as to say that we need services to help realise the economy-wide gains from trade and to amplify whatever market access might be achieved in agriculture and industrial products. Let me offer some reasons why.

Firstly, services are the fast speed highways for trade. No company can function without a telephone, nor can it grow without finance, or get its goods to a market without transportation. No modern enterprise can work efficiently without access to telecommunications, legal, accounting, computing and other business services. No economy can prosper without an efficient services infrastructure. Tellingly, a recent study on the Indian economy has found that when many services sectors were gradually opened during the 1990s, their

contribution to the growth of Indian manufacturing output increased from about 1% to 25%.

One of the success stories to emerge from Africa in recent years is the huge growth in Kenyan flower exports. Kenya is a competitive horticultural exporter, but its success depends on its ability to move perishable goods quickly and easily to markets. When Kenya first started exporting horticulture, volumes were low and producers could not justify the use of charter flights. Flowers were air freighted on passenger jets. To Kenya's good fortune, there was regular tourist traffic between Nairobi and the major world cities. In addition, the tourism industry increased the demand for high-quality products from hotels and restaurants catering to an international clientele, giving Kenyan farmers more experience in horticultural production. Thus, the success of Kenya's horticultural sector was linked to the development of its tourism-related services infrastructure.

Secondly, travel and transport services are key to international economic integration. It has been estimated that the travel time for merchandise exports from factory gate to ship loading is 49 days in Sub-Saharan Africa and 34 days in South Asia, as compared to 13 days in high-income OECD countries. The days lost due to poor logistics means that exports from Sub-Saharan Africa face an implicit tariff of about 40% even before the goods leave the country. The experience of many countries has been that the opening of trade in services has a positive impact on their overall trade. Opening the market of port services in Chile, for instance, led to a 50% reduction in operating cost over two years. The same occurred in Mexico. In Africa, once markets in telecommunications were opened, there was an explosion of mobile phones. In 2004 alone, Africa added 15 million new mobile phone subscribers – a number equal to the total number of subscribers in the whole continent in 1996. Today, almost 75% of all African telephone subscribers use mobile phones.

Thirdly, an inefficient and costly services infrastructure hampers overall economic growth. Agricultural producers will suffer if they do not have access to efficient logistic and transport services. Companies will face multiple delays and obstacles if communication networks and services are sub-standard. Manufacturers will also not be competitive if they have no access to the best and cheapest available finance. A study using a sample of 60 countries, for instance, found that those with fully open financial services sectors grew on average one percentage point faster than other countries over the past decade.

Indeed, the one consistent message from a broad range of studies is that the gains from further opening of trade in services far exceed those from opening trade in goods.

Services are a critical component of the Doha Round: positive results are needed in services so as to complete the single undertaking

The reality of the services revolution is that the old North-South negotiating divide of the GATT Uruguay Round is no longer true. In fact, the North-South divide, as it existed in the GATT, has no meaning today. The geopolitics of trade negotiations have changed dramatically: today, developing countries are not only *demandeurs* in agriculture – and several of them in industrial goods – but many developing countries have offensive interests in services. Today services production is the dominant economic activity in most countries of the world, regardless of their level of development. The services sector is also a major source of jobs and is often a larger share of employment than of GDP. Many services are labour intensive. With large labour markets, developing countries are well suited to take advantage of this. Productivity gains in services can in turn be vitally important for job creation.

We all know about the Indian services phenomenon. But it does not start and end with India. Developing countries as a whole have participated strongly in the growth of world services trade. Least-developed countries are also seeing gains. Tourist receipts for Tanzania, for instance, are as important a share of export revenues as they are for Spain or Greece. Given the size of the services economy, which is estimated at about 68% of world GDP, and the rapid advancement in technology, the potential for further growth is tremendous. This is precisely why the services negotiations are a critical component of the Doha Round.

There is no therefore no doubt that a successful conclusion of the Doha Round must include satisfactory results on services. This is what we agreed as part of the Doha mandate. The question though is how do we best sequence the negotiations, so that we all arrive at the end point, at the same time and having satisfactorily achieved our objectives.

Some of you, if you are as "young" as I am, may recall a mechanical puzzle called the Rubik's Cube. For those of you who don't, the Rubik's Cube has 6 colours, one on each side, which is further sub-divided into 9 mini-squares. When the puzzle is solved, each face of the cube is one single colour. Completing the Doha Round is, as some have remarked, like solving a Rubik's Cube – to get all the colours to line-up, a particular sequence must be followed. One wrong turn and everything is in disarray. But there are 3 big differences: firstly, in the Doha Round we have more than 6 colours to solve; secondly, we have 151 Rubik Cube Masters in the WTO – who often disagree on the turns to make; and thirdly, we have a narrow window of opportunity to get the sequence right.

The negotiating reality of the Doha Round is that agricultural subsidies, agriculture tariffs and industrial tariffs are the gateway issues to the rest of the

Doha Round package. Without settling these we simply cannot progress to the final stage of the Doha Round. This does not mean that the services negotiations are not equally crucial, not least because until everything is agreed, nothing is agreed.

Negotiations on trade in services are unlike those on agriculture and industrial goods, as there are no tariffs in services and barriers are not easily quantifiable. We cannot, therefore, use general formulae of general percentage reductions. This is a traditional request-and-offer negotiation. Each Member decides what it wishes to request of its trading partners. It also decides in which sectors it will offer new opening commitments and on how it wishes to respond to the requests it has received. Even more specifically, Members decide in which of the four modes of delivery they wish to undertake commitments: cross border supply or Mode 1; consumption abroad or Mode 2; commercial presence or Mode 3; and temporary entry of professionals or Mode 4. This makes the services negotiations run on a different – even if parallel – track, with its own specificities.

There is a tendency to see Mode 4 as a North-South issue. This is not true. Opening Mode 4 may generate benefits for both originating and receiving countries, as well as have beneficial spin-off effects on other modes of supply. The benefits to the originating country in terms of remittances and the development of human capital are well documented. But let us not forget that the receiving country also benefits from the increased mobility of service suppliers. Mode 4 can therefore be a win-win game. Let us remind ourselves that Mode 4 is about the temporary entry of professionals to supply a service and not about immigration or permanent migration.

State of play

The services negotiations have not been standing still. At the Hong Kong Ministerial Conference in 2005, Ministers agreed on precise objectives, clear approaches and a sequence for the conclusion of the services negotiations. We therefore already have detailed collective objectives including commitments on enhanced foreign equity participation, greater flexibility on types of legal entities permitted, the binding of existing – more open – access conditions in cross-border trade, new and improved commitments on categories of natural persons not linked to commercial presence or the removal of economic needs test.

Last year, we already launched plurilateral requests. This new approach has provided a sharper focus in identifying the sectors and modes of supply of priority interest, the strategic players as well as the market access requested in each of those areas. In other words, it has helped to identify what would be a critical mass of commitments, which at the end may constitute a satisfactory outcome. The process has also provided an opportunity for closer engagement between different groups of Members regarding the contents of requests. As I am sure that these requests were formulated in close consultation with you in the services business, I am confident that they reflect the areas of concern and interest to your respective sectors.

Plurilateral request/offer negotiations have now run their course and we are focusing on more intensive bilateral negotiations. In this phase, Members have to work on a "best case scenario" and be ready to submit their final revised offer in services.

The onus is thus on the demandeurs to drive the market access negotiations forward. The process, so far, has gone as well as could be

expected. Having the right process is important and we need to continually seek improvements, but let us be clear. It is not the process in Geneva which determines progress. Nor should it be attributed to the negotiating techniques used. Such techniques may not be perfect but as you know they are tried and tested, and have produced very substantial results in previous negotiations, most obviously in past negotiations on financial and telecom services.

Rather, the main stumbling block has been insufficient political will. Achievement of ambitious results will depend on the extent of engagement of individual Members in the bilateral negotiations both in Geneva and in their respective capitals. As we prepare for the final stretch of the Doha Round, Members must start engaging seriously on the "must haves" that they need for a satisfactory outcome to the services negotiations.

Undoubtedly, there are difficult challenges that need to be faced in politically sensitive areas and that contributions must come from both developed and developing country Members. But these hurdles are not insurmountable if there is the political resolve to address them and a willingness to "give and take".

The other component of the service negotiations that is gradually getting into place are the negotiations on domestic regulation. By focusing on the requirements foreign service suppliers have to meet in order to operate in a market, for instance on licensing or technical standards, the aim is to ensure that such requirements do not frustrate the original intent of market opening. Here again, we are seeing movement. On emergency safeguard measures, although technical and procedural discussions have been useful in identifying the central issues of concern, the finishing line is still further away. The same is also true for the negotiations on subsidies and government procurement in services.

The way forward

Looking ahead, we are working in a very tight time frame. There is understandably a wish to see a Services compromise text in parallel with revised compromise texts on agriculture and industrial goods in the coming weeks. But let us not forget that given the request-offer nature of the services negotiations, we are not negotiating an alternative to decisions taken at the Hong Kong Ministerial Conference. We can use the text to reaffirm our common objectives, to take stock of progress and to make that push for higher ambition in offers. But it is not the answer in itself. Real progress has to come in terms of how close the revised offers in services meet the mode-by-mode objectives agreed in Hong Kong.

Greater ambition in the services negotiations presupposes careful domestic preparation and coordination across a wide range of Ministries and agencies. And that coordination can only come about with clear and sustained political direction from the very top. As advocates of services opening, this is where your efforts need to be directed. Time is short and we need to mobilise the necessary political energy and ensure the full engagement of capitals and their constituencies.

At the same time, we need to be mindful of the concerns of Members, especially those whose regulatory systems are not well developed. But that should not come at the cost of ambition. If the reluctance to bind commitments is due to the lack of necessary institutions and regulatory frameworks to accompany market opening, then we need to be creative and find ways to help. The GATS offers a number of ways to enable governments to properly sequence reforms and to take precautionary measures. It provides Members with enough leeway to fine-tune their commitments and to phase them in over transition periods. Also, Members are not constrained to open public services to

competition. These flexibilities, far from weakening the level of ambition in services, should be an encouragement for further commitments.

Finally, Aid for Trade presents a new opportunity to mobilize technical assistance to address the regulatory challenges of market opening in services for developing countries. Simply sitting on the sidelines is not the answer.

We are living through a period of global uncertainty and apprehension in both developed and developing countries. Moments of changing tides are among the most difficult for policy makers. The temptation to resist change is high – particularly as the voices clamouring for protection tend to shout louder than those supportive of further opening. But it must be clear that change and opening – especially in services trade – are key to economic growth.

In conclusion, let me reassure you that services occupies a central place in the Doha Development Agenda package. A successful conclusion of the Doha Round will need a positive outcome to the services negotiations. One by one the colours of the "Rubik's Cube" are starting to fall into place but it is not a done deal. In services, our challenge is to shift the negotiations into a higher gear. This is not an issue about the "Geneva process", which continues to effectively serve the negotiations. We all know that process can never substitute for substance. Political ambition – and ambition starts with political attention – is the element that has been missing from the services negotiations and which is urgently needed to ensure substantive progress. You, as representatives of the services industry, can play a key role in mobilizing the political energy to resolve this problem. We cannot allow ourselves to be distracted at this critical moment and must maintain our focus fully on substance, accelerating the pace of work in the days and weeks ahead.

I have always appreciated the support and engagement of the services industry, and I would ask you to redouble your efforts to push towards a breakthrough in the Doha Round. I believe this Rubik's cube is doable. So let's do it!

Thank you.