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CENTER FOR INTERNATIONAL  
TRADE & INVESTMENT



## **Trade in Services | Market Access and Regulatory Convergence Jakarta, 2016**

Center for International Trade and Investment

# Center for International Trade and Investment

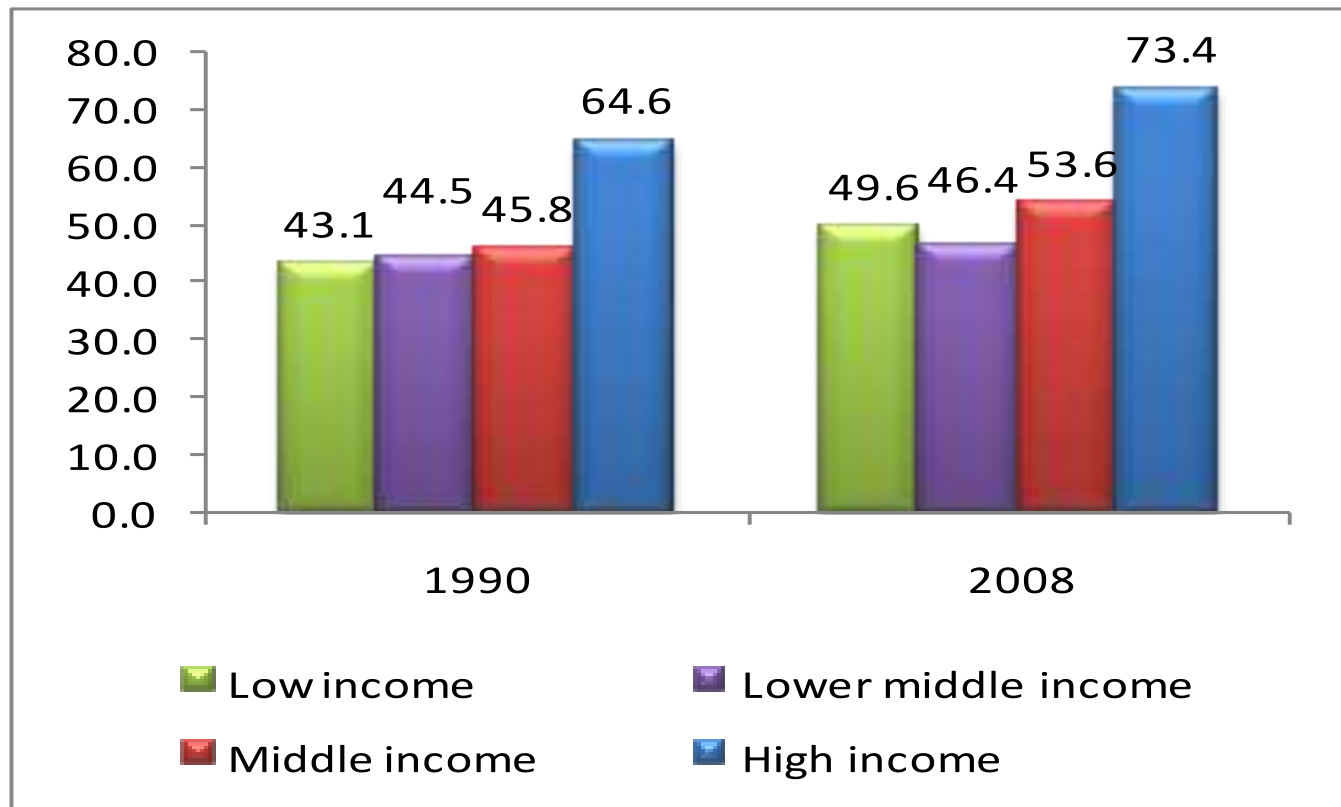
In this module we will discuss several issues:

- The rise and importance of trade in services in today's world economy.
- The role of services as intermediaries in international trade and its contribution to economic growth.
- A glimpse on the multilateral rules on trade in services, the General Agreement on Trade in Services.
- Current regulatory regime of trade in services.

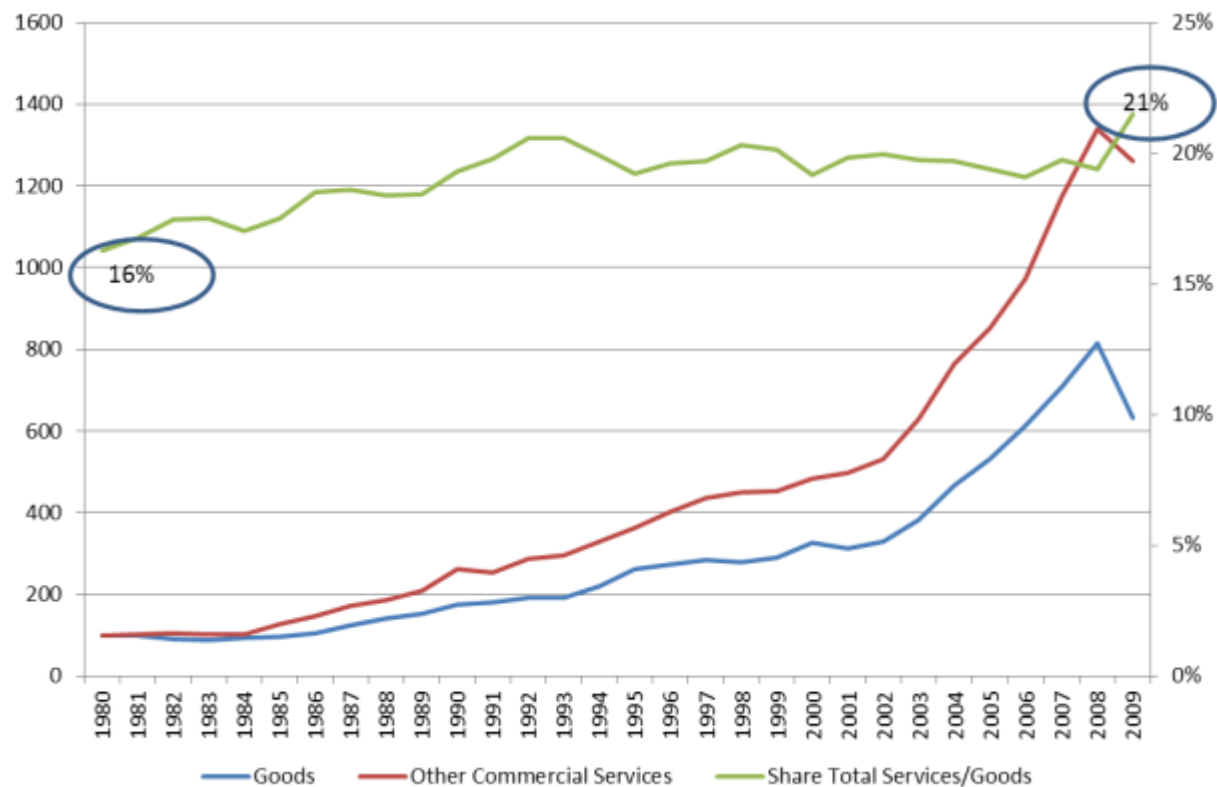
# Part 1

Rise of Services Trade

## On the rise: Services to GDP ratios



# International Trade Is No Longer Exclusively About Goods Crossing Borders

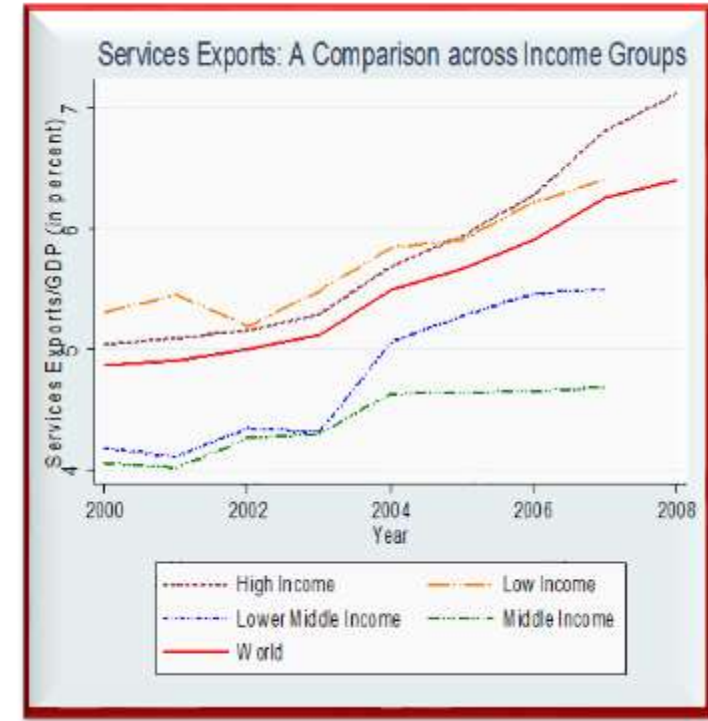


1980=100

## International Trade Is No Longer Exclusively About Goods Crossing Borders

- India's success is well known, but far from unique.
- Developing countries are exporting a wide range of services
- Services exports to GDP ratios are rising across all income groups

Source: World Bank, World Development Indicators



**Service Exports/GDP**

## Importance of services in the economy

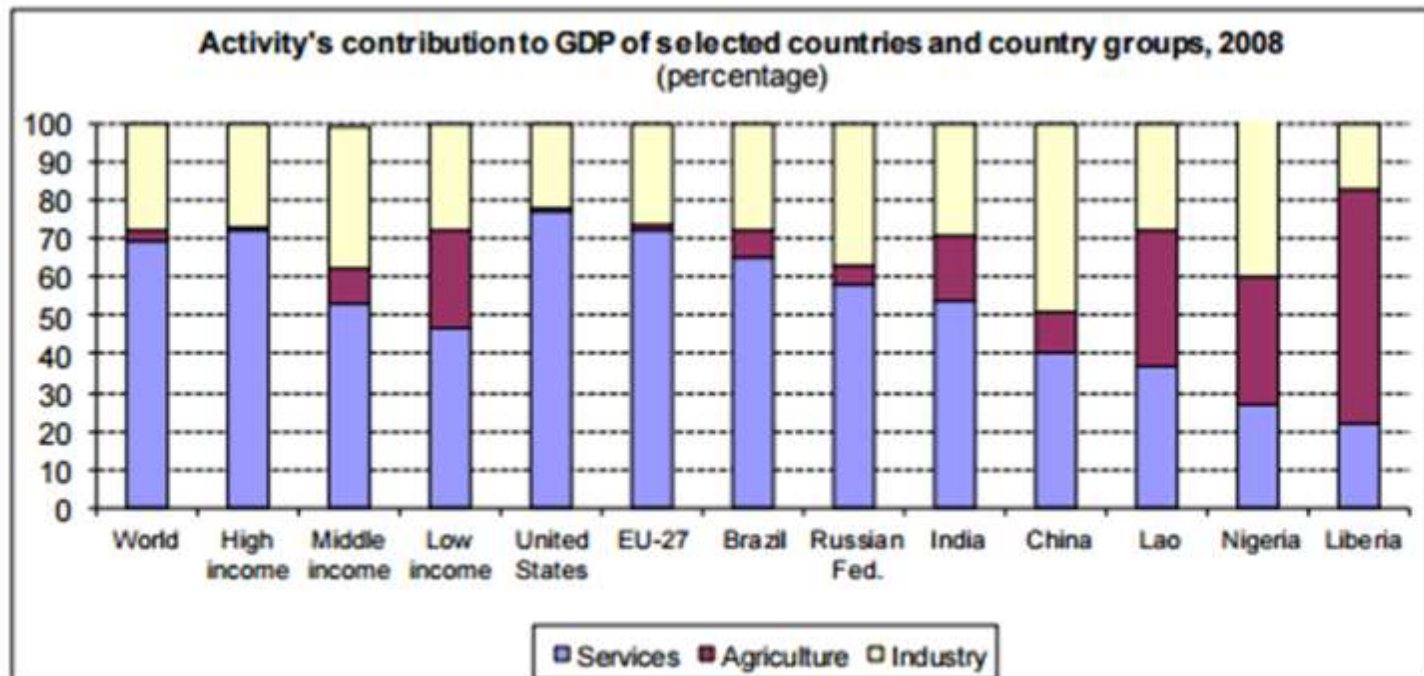
- Services are either the result of a production activity that changes the conditions of the consuming units (transformation services), or facilitate the exchange of products or financial assets (margin services).
- They can cover transport, telecommunication and computer services, construction, financial services, wholesale and retail distribution, hotel and catering, insurance, real estate, health and education, professional, marketing and other business support, government, community, audiovisual, recreational, and domestic services.
- Services have a significant impact on growth and efficiency across a wide range of industries and overall economic performance.

# Importance of services in the economy

- Services currently represent more than two thirds of World Gross Domestic Product (GDP).
- The share of services value added in GDP tends to rise significantly with the countries' level of income, standing at 73% on average in high income countries (77% in the United States), against 54% and 47% respectively in middle- and low- income countries.

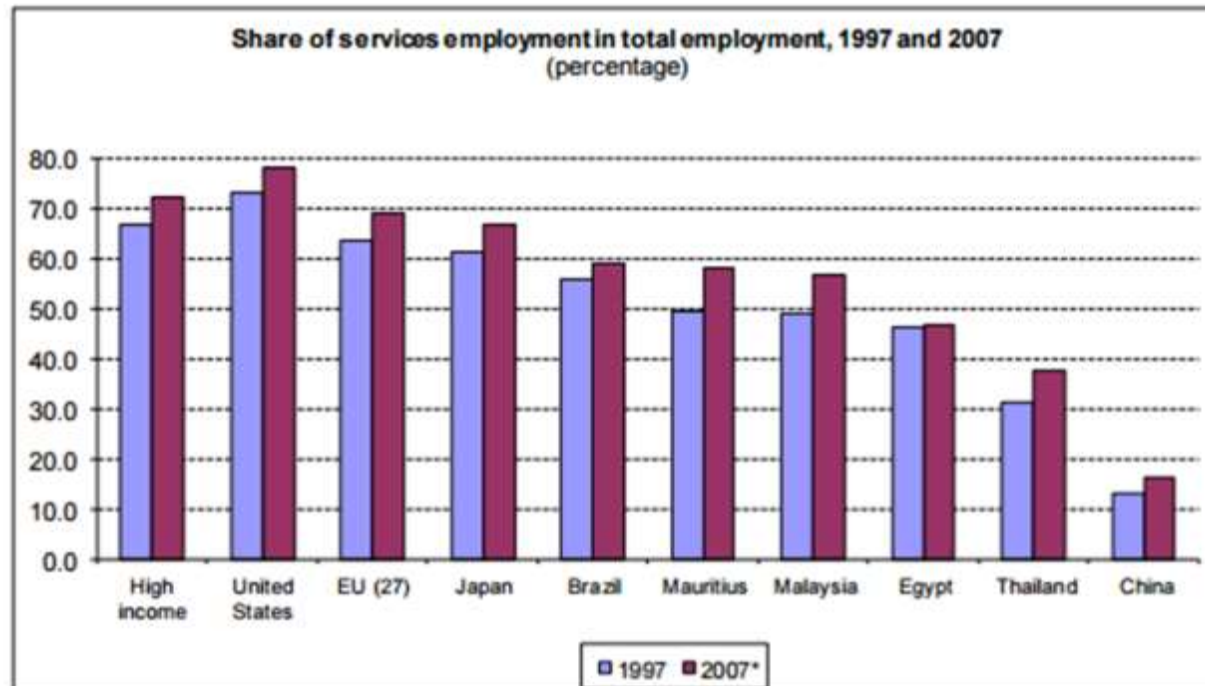


# Importance of services in the economy



Sources: World Bank, World Development Indicators (WDI) database online and Eurostat database (EU data) Theme 2 (Oct 2010) – note that "construction" is included in the industry sector.

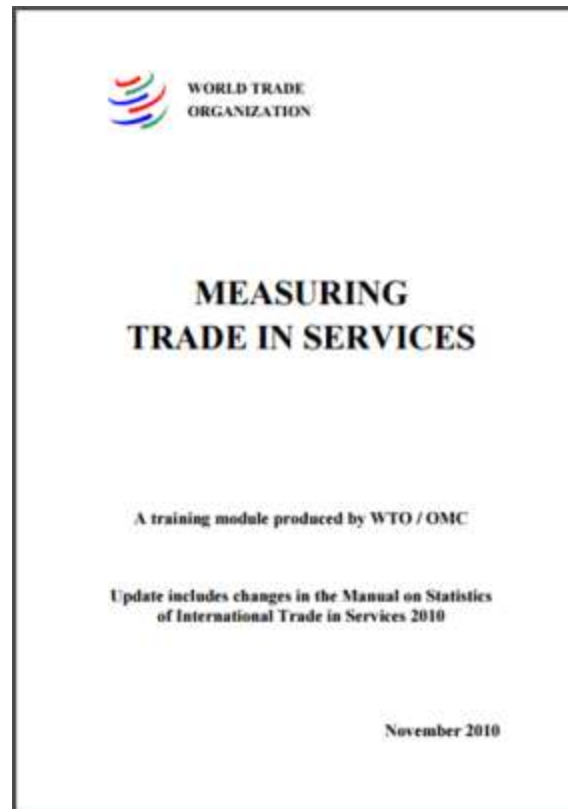
# Services contribution to employment



\* Except Brazil, 2006; Egypt, 2006; and China, 2002.

Sources: World Bank, World Development Indicators (WDI) database online and Eurostat New Cronos database (EU data) Theme 2 (Oct. 2010) – note that "construction" is included in the industry sector.

# Want to read more about importance of services in economy?



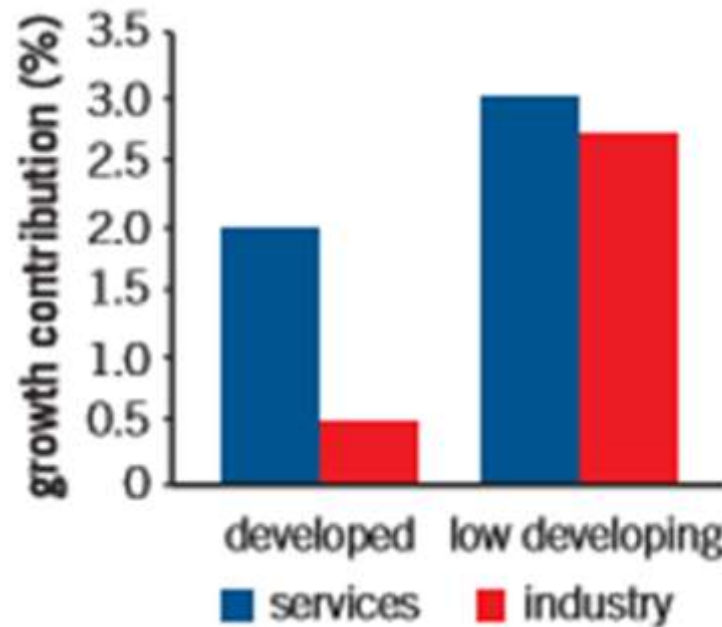
## Part 2

Services as intermediaries and its contribution to growth

## Why do Services Matter for Development?

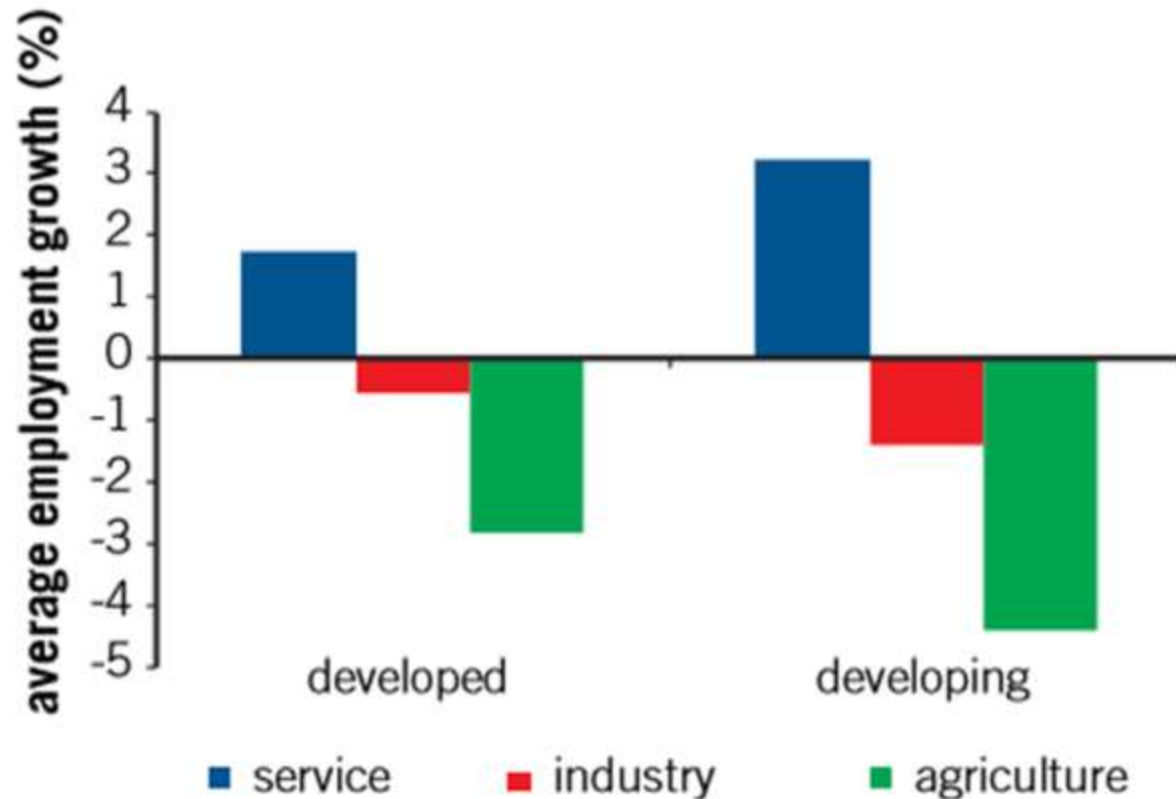
- One of the characteristics of services is intermediary, as it connect economic activities in different phase from producers to consumers.
- Efficient services not only provide a direct benefit to consumers, but also help shape overall economic performance.
- For example, improved efficiency in transportation services contribute to the efficient distribution of goods within a country, and are particularly important in influencing a country's ability to participate in global trade.

## Sources of Growth in Developed and Developing Countries (1980-2009)



Source: <http://siteresources.worldbank.org/EXTPREMNET/Resources/EP96.pdf>

## Sources of Job Creation in Developed and Developing Countries



Source: <http://siteresources.worldbank.org/EXTPREMNET/Resources/EP96.pdf>

# More readings on contribution of services to economic growth



NOVEMBER 2012 • Number 36

## Service with a Smile

[Jin Ouyang, Anil Kumar Ghoshal, and Heidi Winters]

*Can service be a growth engine? The world is experiencing its third industrial revolution, and services are at the forefront of this revolution. Services have already surpassed industry as a source of economic growth and job creation, in both developed and developing economies. In the industrial sector, technologies have matured and employment is declining. However, services are getting more sophisticated and jobs are expanding. Services growth is also more inclusive and sustainable. It increases the participation of women in the labor force and places a lighter burden on natural resources. The promise of the service revolution is that countries do not need to wait to get started with rapid development. There is a new best that development latecomers can take.*

### Fundamentals

For more than 200 years, it was argued that economic development and growth were associated with growth of the manufacturing sector (Baumol 1967, Kaldor 1960). Services were considered as manual, low skilled, and not very innovative (McCreesh and Fisher 2010). But today, services can be among the most dynamic sectors. The stage of services that can be digitized and traded globally is expanding: processing services, call centers, desktop publishing, compiling audits, completing tax returns, searching medical records, providing online education, and many more. Labor market matching is increasingly conducted online, and platforms like Odesk can connect employers and employees electronically across national boundaries. The old idea of services being nontransportable, nontradable, and nonstorable no longer holds. Services can be reworked and updated as a value chain just like goods, and exported at low cost (Bhagwati 1984).

But can developing countries benefit from the service revolution? Figure 1 compares the contribution of services

and industry to gross domestic product (GDP) growth in the last 30 years for developed and developing countries. In both cases, the contribution of services to total growth is higher than industry's contribution. In developing countries, services (and industry) contributed more to growth than in developed countries. The average growth of services exports from developing countries has exceeded that of developed countries (Ghani 2010). These services exports are growing faster than goods exports. In brief, the globalization of services has enabled developing countries to tap into a new, dynamic source of growth.

What about jobs? Although the conventional wisdom is that the manufacturing sector creates more jobs, recent data suggest otherwise. Employment growth has been most rapid in the services sector in developed and developing economies (Figure 1b). And in developed and developing countries alike, labor is being shed from both agriculture and manufacturing. The services sector is also more gender inclusive. Internationally, countries with high employment in services tend to have the highest participation of women in the labor market (Figure 1c).

[www.worldbank.org/economicpremise](http://www.worldbank.org/economicpremise)



MAY 2013 • Number 37

## The Service Revolution

[Jin Ouyang and Heidi Winters]

*The growth experience of India and other South Asian countries suggests that a "Service Revolution"—rapid income growth, job creation, gender equality, and poverty reduction led by services—is now possible. What is a service revolution? Can services be as dynamic as manufacturing? Can latecomers to development take advantage of the globalization of services? Can services be a driver of sustained growth, job creation, and poverty reduction? What kind of policies and institutions do developing countries need to benefit from service-led growth?*

Both China and India have been recognized for rapid economic growth. However, their growth patterns are dramatically different. China has a global reputation for exporting manufactured goods, and India has a reputation for exporting modern services. Indeed, India has outstepped the manufacturing sector and made the leap straight from agriculture into services. The differences in growth patterns between China and India are striking and raise big questions in development economics. Can developing countries jump straight from agriculture into services? Can services be as dynamic as manufacturing? Can services growth be a driver of job creation and poverty reduction?

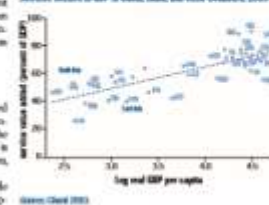
### Growth

Figure 1 compares the GDP shares of services value added in China, India, and countries of the Organisation for Economic Co-operation and Development. The share of the services sector in India and other South Asian countries is much larger than in China or other East Asian countries, given the country's stage of development.

India's growth pattern in the 21st century is remarkable because it contrasts to a seemingly iron-clad law of develop-

ment that has held true for almost 200 years, since the start of the Industrial Revolution (1 January 1800, Kaldor 1960). The law—also known as conventional wisdom—says that industrialization is the only route to rapid economic development.

Figure 1. Comparing the Contributions of the Manufacturing and Services Sectors to GDP in China, India, and OECD Countries, 2005.



(Source: Ghani 2010)

[www.worldbank.org/economicpremise](http://www.worldbank.org/economicpremise)

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# Part 3

The General Agreement on Trade in Services - Brief introduction

# GATS Agreement: History

- GATS was concluded during the Uruguay Round and entered into force on 1 January 1995 as the first set of multilaterally negotiated and legally enforceable rules covering international trade in commercial services.
- The purpose is creating GATS was to extend the multilateral trading system to the services sector, thereby liberalizing trade in services.
- However, public services supplied by government authority (such as postal, police, fire fighter, including aviation) are excluded from GATS.

# Four modes of supply in GATS

- Mode 1: **cross-border supply**, only the services crosses the border. For example: telephone, television, internet, lawyer in country A email his/her advice to client in country B
- Mode 2: **consumption abroad**, occurs when consumers go abroad to consume the services. For example: a student taking language course abroad; or a patient visiting abroad hospital
- Mode 3: **commercial presence**, when the service supplier establishes branch or subsidiary in another country. For example: A bank opening its branch in another country
- Mode 4: **presence of natural persons**, occurs when an individual travel across border to supply his/her service. For example: architect travelling abroad to supervise his/her construction project.

# GATS Agreement Scope

The GATS Agreement has a Services Sector Classifications portion which defines the list of all sectors that can be negotiated under the GATS

## LIST OF SECTORS: [back to top](#)

- **Business services and professional services**
  - [Accountancy services](#)
  - [Advertising services](#)
  - [Architectural and engineering services](#)
  - [Computer and related services](#)
  - [Legal services](#)
- **Communication services**
  - [Audiovisual services](#)
  - [Postal and courier, express mail services](#)
  - [Telecommunications](#)
- **[Construction and related services](#)**
- **[Distribution services](#)**

- **[Education services](#)**
- **[Energy services](#)**
- **[Environmental services](#)**
- **[Financial services](#)**
- **[Health and social services](#)**
- **[Tourism services](#)**
- **Transport services**
  - [Air transport services](#)
  - [Land transport services](#)
  - [Maritime transport services](#)
  - [Services auxiliary to all modes of transport](#)
- **[Movement of natural persons](#)**

# Basic Obligations under GATS

General Obligations	Specific Commitments
<p><b>Most-Favored Nations (MFN) Treatment</b></p> <p>Members shall accord treatment no less favorable than that accorded to like services and services suppliers of any other country.</p> <p>Derogations are possible upon the time of accession or by way of a waiver under Article IX:3.</p>	<p><b>Market Access</b></p> <p>Market access is a negotiated commitment in specified sectors. For example, limitations may be imposed on the number of services suppliers, service operations or employees in the sector; the value of transactions; the legal form of the service supplier; or the participation of foreign capital.</p>
<p><b>Transparency</b></p> <p>Members are required, <i>inter alia</i>, to publish all measures of general application and establish national enquiry points mandated to respond to other Member's information requests.</p>	<p><b>National Treatment</b></p> <p>A commitment to national treatment implies that the Member concerned does not operate discriminatory measures benefiting domestic services or service suppliers. Again, the extension of national treatment in any particular sector may be made subject to conditions and qualifications.</p>

# Part 4

Current regulatory regime and ongoing negotiations

# Current Regulatory Regime

- To date, GATS is the largest regulatory regime in trade in services, involving all WTO Members.
- By 2010, 76 services PTAs have been notified to the WTO and this number forms 28% of the world's PTAs.
- Aside from these, a mega-trade agreement in services is being negotiated called Trade in Services Agreement (TiSA).

## Trade in Services Agreement (TiSA)

- The Trade in Services Agreement (TiSA) is a trade agreement currently being negotiated by 23 members of the World Trade Organisation (WTO), including the EU. Together, the participating countries account for 70% of world trade in services.
- The talks started formally in March 2013, with participants agreeing on a basic text in September 2013. By the end of 2013, most participants had indicated which of their services markets they were prepared to open and to what extent.
- By February 2016, 16 negotiation rounds have taken place. The talks are progressing well. There is no formally set deadline for ending the negotiations.





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