Liberalizing Trade in Services

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The services sector—certainly compared with other sectors—is well informed and ready to take advantage of the next round of World Trade Organization (WTO) services negotiations set to begin later this year. The United States has a particularly big stake in these negotiations, a stake rising to the level of a national economic security imperative.

I believe these negotiations will further expand U.S. global markets, enabling our service sector to increase its 77 percent share of U.S. employment, its 79 percent share of gross domestic product, its trade surplus of about $80 billion, and its 30 percent share of U.S. exports. Because foreigners have a great tendency 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 United States is very competitive in virtually every category of services trade (see appendix).

One recent suggestion has been that successful multilateral services negotiations could offset the structural goods deficit. Catherine Mann (1999: 9) wrote as follows:

> 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.

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Mann cites estimates by Gary Hufbauer and Tony Warren (1999) that comprehensive liberalization of services could raise global gross domestic product 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.

The Post-Seattle Agenda

Despite the setback in Seattle, WTO members can still make progress toward liberalizing trade in services. For the service sector a successful round of negotiations must

- Fulfill the mandate of the Uruguay Round's "built-in agenda" to start comprehensive services negotiations this year.
- Provide that negotiations be focused 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 my 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; and provide that electronic delivery of services falls within the scope of the General Agreement on Trade in Services, 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, 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.

Ambitious U.S. Goals for Services 2000

The United States should enter new negotiations with a bold agenda, calling for sweeping commitments to liberalization across as many sectors as possible. New sectors requiring attention in a new round should include energy services, health services, air cargo services, legal services, as well as 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, approaches designed to supplement the usual "request-offer" approach, save time, and bring better results.

These new approaches could include commitments that apply "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 were adopted, countries could engage each other in negotiations to improve the scope and depth of other countries' commitments.

One of the areas requiring fresh thinking here and abroad is the provisions used by countries, including the United States, 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. In the parlance of the General Agreement on Trade in Services, delivering services via transfer of natural persons is known as "Mode 4" of supply. The WTO has been unable to make any progress on achieving liberalization of this form of supply of services. Because it is increasingly important to U.S. firms, and to some other countries, it should be a major element of the coming negotiations.

Foreign companies entering new markets often face formidable barriers in the form of arbitrary and nontransparent 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. It involves 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 involves applying higher principles of how companies operate, such as ensuring solvency, promoting transparency in intracompany transactions and financial reporting, and improving the reliability of financial data to allow customers and investors to make better informed judgments.

Conclusion

Reducing barriers to trade in goods began many decades ago with the 1934 reciprocal trade agreements of the Roosevelt era. Reducing 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 General Agreement on Trade in Services. 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 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 subcategories.

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 was to be a preamble to the main event, the negotiation itself. But even more important is that the WTO members 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.

Appendix

Following are 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. That is the largest sectoral contribution to the overall services surplus. In addition, travel and tourism are estimated to support over 7 million direct jobs and generate roughly $71 billion in tax revenues for federal, state, and local governments.

Business, professional, and technical services are 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 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 United States to foreign markets.

The information technology industry also depends 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 United States. Today, U.S.-domiciled investment managers control 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 billion.

Foreign students coming to American schools, net after scholarship and local assistance, spent $8.3 billion in the United States. That is a U.S. services export. We have a surplus in trade in education services of $7 billion.

Although few doctors imagine themselves as U.S. exporters, medical services rendered in the United States 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, ground handling, the environment, and 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 United States accounts for 1.4 million jobs and about 7 percent of U.S. gross domestic product—have shown the need for global trading rules. Such rules can provide new, common understandings on key matters, for example, 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.

References

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