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TRADE IN SERVICES – MARKET ACCESS OPPORTUNITIES AND THE BENEFITS OF LIBERALIZATION FOR DEVELOPING ECONOMIES

by

Greg McGuire

Senior Economist
Economic Insights Pty Ltd.
1st Floor, 50 Leichhardt St., Spring Hill
Brisbane, Queensland, 4000
Australia

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ABSTRACT

The service sector is the most important sector for most developing economies. It is the largest contributor to gross domestic product, production and employment. Since it is such an important sector, developing economies need to identify their comparative advantage in services and potential export markets.

Developing economies have a comparative advantage in labour services. They have an abundance of low and semi-skilled labour that is a major input into tourism, construction and transport services. New potential export opportunities are also emerging in communications and computer services. However, the export of many of these services is limited by many restrictions on the temporary movement of labour imposed by their trading partners through domestic regulation. Developing economies can improve their export revenues by specifically identifying these restrictions and, where a movement of labour is required, promote the benefits to potential export markets of services trade liberalization.

Developing economies are projected to be better off by US$ 130 billion from services trade liberalization. Consistent with similar modelling exercises for trade in goods, while there are some benefits from improving market access to foreign markets, most of the benefits come for liberalizing one's own market. As developing economies remove their restrictions, their service sectors develop, primarily funded by foreign direct investment, and they become major exporters of services. The main restrictions on service suppliers that are preventing developing economies from realizing these benefits are limits on foreign direct investment, stringent licensing requirements and restrictions on expanding operations.

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The paper draws heavily on the work of the Australian Productivity Commission who, in recent years, have been at the forefront in measuring and modelling the benefits of services trade liberalization.

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INTRODUCTION

The economic and trade performance of an economy is dependent on the efficiency of its service sector. Not only do economies derive the bulk of their employment and income from the service sector, but also many services — financial, telecommunications and transport — are vital intermediate inputs for other sectors. The international competitiveness of traditional sectors of developing economies is heavily dependent on access to services at world prices. The best guarantee that services will be supplied at world prices is to open an economy to the pressures and opportunities of international competition or trade and investment liberalization.

Developing economies benefit from liberalization by gaining market access and exporting those services in which they have a relative strength or comparative advantage. Access to foreign services markets is important for developing countries to enable them to improve their export earnings and the employment opportunities of their nationals, as well as increase the efficiency in their own economies so as to mobilize resources for development. Global economic integration and technological developments have increased international trade in services and are providing many export opportunities for developing economies.

Developing economies have the potential to reap greater benefits from liberalization than developed economies, primarily by liberalizing their own service sector. Domestic liberalization permits resources to be allocated to their most efficient uses. A more efficient allocation of resources improves the price, choice and quality of services, and overall economic capacity, which facilitates trade in agriculture and manufacturing — a traditional export earner for developing economies. Central to building economic capacity and progressing development is an efficient financial services sector. Liberal and appropriately regulated financial services sectors efficiently mobilize savings for investment, provide payment mechanisms for business transactions and improve the stability of financial institutions.

Sophisticated general equilibrium modelling of liberalizing trade in services provide insights into the projected real-income gains from a more efficient allocation of resources for development. The results establish a framework for negotiating priorities when the gains from liberalizing trade in services are compared with those for agriculture and manufacturing. They also provide valuable information to negotiators and policy makers on the potential gains from improved market access as well as on approaches to liberalization.

The greatest benefits will come from liberalizing all services markets – domestic and foreign. Politically, this is extremely difficult, but a multilateral framework that achieves market access in foreign markets can be an impetus for liberalizing one's own market. While this paper covers market access in foreign markets, results from empirical research indicate that most of the gains are from domestic liberalization — what you do for yourself is more important than what others do for you.

I. AN OVERVIEW OF INTERNATIONAL TRADE IN SERVICES

In 2000, world exports of services were US$ 1,435 billion, or approximately 20 per cent of total world exports (WTO, 2001a). As would be expected, the flow of exports and imports of services is the greatest for Asia, North America and Western Europe (see figure 1). These three regions account for more than 88 per cent of service exports — the European Union (45 per cent), North America (22 per cent) and Asia (21 per cent). Asia and the "Rest of the world" are the largest net importers of services.

The production of services typically accounts for the largest share of gross domestic product (GDP) and employment in developed and developing economies. The service sector is about 40 to 60 per cent of GDP and employment for developing economies and 60 to 80 per cent for developed economies (Hardin and Holmes, 1997). While the proportion of GDP attributable to services is generally lower in developing than in developed economies, the rate of growth of service sectors in developing economies

Figure 1. World exports and imports of services for selected regions,[a,b,c] 2000