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Trade in Services

Existing trade

Appendix Table 4 gives data on trade in services as reported to the IMF in balance of payments returns. Details are given for net balances in overall services and the transport and travel components. The positive balances on the travel account are largely due to tourism which has been making an increasingly important contribution to the current account balances of several countries, in particular Barbados, Jamaica and the OECS Islands, over the past decade. It shows a negative balance in Trinidad and Tobago, though the situation there is improving rapidly. Other services sectors where regional exports have been growing include data processing, software development and testing, in-country medical services and offshore financial services. For most countries the transport account is a negative item in the balance of payments and, in some cases a significant drain on foreign earnings. In Dominica, Grenada and St. Vincent and the Grenadines, it almost offsets the significant earnings on the travel account. A number of Caribbean countries have insisted in recent years on the importance of improving their own air services for tourists.

Negotiations for GATS

The negotiations were complicated by the conflict of interests between the developing and the developed countries. Developed countries were particularly interested in the right to establish a commercial presence in other developed and developing countries, whereas developing countries were more interested in the liberalisation of labour-intensive services exports. Up till now many developing countries have had restrictions on the imports of services from developed countries to protect national institutions and to keep national independence on rule-setting in the sector. Especially in the financial services sector, developing countries are concerned that liberalisation will intensify the competition to the extent that foreign suppliers of services will take over their national markets. On the other hand, the developed countries are concerned about the implications for the movement of labour in the liberalisation of trade in labour-intensive services.

The process of negotiation was through voluntary commitments to keep certain services sectors open to foreign competition. Participating countries could, and can still, decide whether to make an offer or not for a particular service. If an offer is made, a country can register restrictions on market access, limitations on national treatment of suppliers or derogations from the MFN rule. Restrictions may be specified as bound or not.

The approach has had two important side-effects, one benign and one hostile to trade in services. On the one hand, for services which are offered and for which the regulations are registered and bound, the information now found in many of the services offers will remove one of the major *de facto* barriers, lack of an accessible way for exporters to know what the restrictions are. On the other hand, inviting countries to list restrictions, could also be to invite regulation where it had not hitherto existed. This problem was not a feature of the Commonwealth Caribbean offers which were almost totally free of limitations or MFN exemptions.

Negotiations continue in three sectors, financial services, telecommunications and maritime services. The first is mainly of interest to the

Table 15: **Summary of services offers to the Uruguay Round; numbers of sub-sector commitments in each sector**

	Business	Communic'ns	Education	Financial	Health	Tourism	Recreational	Transport
Antigua	12			1		2	1	2
Barbados	3	1		1			1	
Dominica		1		1		1	2	
Grenada		1		1		1	2	
Guyana	5	1		5		2		5
Jamaica	18		3	4	1	2	1	2 (a)
St. Lucia				1	1		2	4
St. Vincent and the Grenadines				1	1	1	2	3
Trinidad (b)	7		1	1	3	3	2	3 (a)

Notified MFN exemptions:

a: Cargo reservation under the UN Convention on a Code of Conduct on Liner Conferences to fulfil obligations as a contracting party to the Convention.

b: Privileges accorded to signatories of bilateral investment promotion and protection treaties only.

Source: Services offers to GATT

Commonwealth Caribbean countries on the import side. The US wanted a code approach, that is, open access would be limited to those countries entering reciprocal commitments. This was rejected but the US is still threatening that, unless sufficient numbers of countries open their financial sectors, it will restrict national treatment to countries offering reciprocity. Shipping services were also treated differently because of US reluctance to liberalise. Here, all offers are still provisional. Maritime transport services are treated in Appendix B of this report.

The critical issue of the movement of labour-supplying services, important to developing countries, is addressed in an Annex to the GATS. It states that, although labour at managerial and technical level connected with the mobility of capital is not restricted, the Agreement does not apply to measures affecting the movement of natural persons providing services or residence on a permanent basis. This favours developed countries' suppliers of services. It means that the GATS will not advance the realisation of any comparative advantage in the supply of labour intensive services. The Commonwealth Caribbean countries, along with other developing countries, would have benefited through the liberalisation of the rules governing labour services, such as nursing or construction, performed in the importing country, particularly the United States.

For 19 of the 69 ACP States that are members of GATT, trade in services contributed substantially (over 50 per cent) to their export earnings over the period 1990-91. Out of these 19, six countries are in the Commonwealth Caribbean: Antigua and Barbuda (91 per cent), The Bahamas (82 per cent), Barbados (82 per cent), Grenada (72 per cent), St. Kitts and Nevis (72 per cent) and St. Lucia (60 per cent)[14].

For some of these countries the liberalisation of trade in services will increase export earnings. The most important export for the Commonwealth Caribbean countries is, by far and away, tourism. Another service of some significance in Caribbean exports is information processing, often in the form of keyboard entry. This is included among business services. Tourism and data-processing have been opened up completely by the EU and Japan, which only maintain some reserves on labour movement. In the US, minor restrictions are imposed on tourism offices but, apart from that, these services enjoy free market access and national treatment. Since these services have not been restricted by significant barriers in the past, the gain from liberalisation may be only small.

Imports of most services in most Commonwealth Caribbean countries are scarcely restricted by regulatory or other barriers. If there is surprisingly little – to someone coming from Europe – in the way of foreign-owned financial services establishments, it is largely because of market factors plus a lack of facilitation, rather than obstruction, on the part of the authorities.

Almost all the developing countries that have made offers have included the tourism sector, often to the exclusion of all others. Of course, tourism is in itself a service export industry. The offers, however, concern the import of services for the tourist industry, such as rules over the establishment of hotels.

An important motivation behind many of the offers is thus to demonstrate willingness, indeed enthusiasm, for foreign direct investment (which may be restricted to joint ventures with domestic investors or, at least, require some local participation) in sectors which can then proceed to export services. Many of the Commonwealth Caribbean offers were of this nature. Such a motivation can be seen in the recreational, transport and some of the business services as well as in the tourism subsectors.

Another motivation stems from the desire to attract FDI in areas where managerial or technical expertise available domestically may not be adequate to fill the requirements of local households (health, education, transport) or business requirements (e.g. legal services for exporters, telecommunications, computing, vocational education). In some cases, restrictions may be such that foreign-owned establishments are only permitted to fill in the gaps left open by domestic providers.

Of course a commitment to trade liberalisation does not require an ulterior motive. Still, the prospect of receipts of FDI inflows must encourage a certain liberalism as regards invitations to service suppliers to establish a commercial presence in the country.

The Commonwealth Caribbean countries' offers

Table 15 shows the main sectors where the Commonwealth Caribbean countries have made offers. For each country the exercise was novel and each approached it in an individualistic way. To give some idea of the range of activities involved, the Jamaican offer – which is the most comprehensive among the Commonwealth Caribbean countries – can be summarised. The list well illustrates the alternative motives for liberalising and/or giving publicity to the openness of a country to foreign service providers who might want to establish a commercial presence. In all cases where no restrictions are given, registration and licensing must be obtained.

Jamaica's offer on services: a summary

Business

- Legal services: consultancy in home law of the service provider and international law; local certification required
- Accounting, auditing and book-keeping services; licensing required
- Taxation services; licensing required
- Architectural services; joint ventures preferred. Board examinations, registration, licensing required
- Engineering services; joint ventures preferred. Board examinations, licensing required
- Urban planning and landscape architectural services; registration, board examinations, licensing required
- Medical services; registration, licensing, board examination required
- Services provided by nurses
- Software implementation services
- Data processing services

- ❖ Data base services
- ❖ R&D services on natural sciences
- ❖ R&D services on social sciences and humanities
- ❖ Interdisciplinary R&D services
- ❖ Real estate services involving owned or leased property; joint ventures preferred on a fee or contract basis
- ❖ Advertising services
- ❖ Market research and public opinion polling services
- ❖ Management consultancy services; local certification required

Education

- ❖ Primary Education Services; registration and local certification required
- ❖ Secondary Education Services; registration and local certification required
- ❖ Higher Education Services; local certification, registration, licensing required

Finance

- ❖ Life, accident and health insurances services
- ❖ Non-life insurances services
- ❖ Reinsurance and retrocession
- ❖ Services auxiliary to insurance (including broking and agency services)

(Under the current policy, financial entities should be at least 51 per cent Jamaican. This policy is now being reviewed with the objective of allowing fully-owned foreign establishments. However, permission is granted subject to a review of the applications on a case-by-case basis. The Superintendent of Insurance must be satisfied that the covers being offered by these companies will be supplemental to the industry in situations where there is limited capacity in the market. In addition, he must also be satisfied that adequate funds will be deposited to cover the domestic liabilities of these companies.)

Health

- ❖ Hospital services; registration, licensing, local certification required

Tourism and travel

- ❖ Hotels and Restaurants
- ❖ Travel Agencies and Tour Operators

Recreational

- ❖ Entertainment Services

Transport

- ❖ Maritime freight transportation
- ❖ Passenger road transportation

Conclusions

Broadly speaking, because the offers on services in the UR are voluntary, and restrictions to the principles of national treatment and MFN can be registered, the economic effects of the Round in terms of generating trade will be small. At this stage, countries are not required to open their markets by liberalising their regulations. Since the regulations in place before the offers were made were not themselves reported, it is difficult to know to what extent liberalisation has taken place.

Contrasting interests and concerns made far-reaching liberalisation of trade in services difficult. Therefore the establishment of a good framework with clear rules and obligations for trade in services has proceeded further than the provisions for market access and national treatment. The GATS sets out the general obligations, such as transparency requirements, obligations relating to recognition requirements and the application of the MFN principle. The establishment of GATT-type rules for services means that liberalisation will continue, possibly quite rapidly, in future MTN rounds.

In general, the increased transparency of trade in services and the simplification of the regulations targeted by the GATS will ultimately benefit all suppliers of services. Developing countries will benefit from an increase in foreign direct investment and advanced technological know-how which is likely to be attracted by the improvement of access to developing countries' markets. Nevertheless, future liberalisation in the services sector will pose some threat to countries which have to open up their markets for, especially capital-intensive, services from developed countries. Service suppliers in the developing countries will face stronger competition making the development of potential national service sectors in these countries more difficult.

In the case of the Commonwealth Caribbean countries, the main justification for active participation in the GATS is the contribution of this sector to the momentum towards these ultimate gains. They have little to gain from other countries' liberalisation since labour services abroad are generally not covered and most of the other services of interest to the Caribbean countries are in unrestricted areas, in particular tourism. Insofar as their own offers are concerned, since their markets have in general been open to foreign providers in the past, these can only serve to spread information about those opportunities. To the extent they do attract additional FDI, they will have served a useful purpose.