Chapter 4

Implications for developing and transition economies

At the beginning of the Uruguay Round, many assumed that trade in services was a post-industrial issue. As discussions progressed, though, Members began to realize that most economies obtain the largest part of their gross domestic product from services industries. Re-examination of economic development showed that, of the countries commonly looked to as economic leaders, neither the United States nor Japan has ever been primarily a manufacturing economy. Both countries went from basically agricultural economies to mainly services economies at the beginning of this century. Some developing and transition economies continue to believe that protecting the emerging domestic services industries is critical to development. Actual experience has shown that, because services enterprises are both suppliers and users of services, they typically benefit overall from rapid liberalization initiatives and are constrained by any service inefficiencies that result from protection.

Services and economic development

Services facilitate all economic activities, including other services, as can be seen from table 19. No economy can function without transportation, communications, financial services, health services, education services and so forth. Services firms purchase over 60% of the equipment and supplies produced by the manufacturing sector; the survival therefore of manufacturing operations depends heavily on having a growing services sector. Services also account for up to 70% of the value added to manufactured goods and agricultural products. So, both services suppliers and goods producers are directly dependent on the quality of services inputs for their competitiveness.

Table 19 Examples of critical intersectoral linkages by sector

Linked to:	Sector			
	Computer services	Environmental services	Health services	Tourism
Accounting/auditing	✔	✔	✔	✔
Air transportation			✔	✔
Construction		✔		✔
Consulting engineering		✔		
Insurance			✔	✔
Legal services a/	✔	✔		
Local transportation				✔
Management consulting		✔		✔
Research and development		✔		
Telecommunications	✔	✔	✔	✔
Training	✔	✔	✔	✔

a/ Including the protection of intellectual property rights.

Note: The table illustrates that service providers in a given sector depend on other service inputs to be competitive. Computer service providers, for example, rely on accounting services, legal services, telecommunications and training services.

Developing and transition economies already benefit from the outputs of their domestic services industries, which earn foreign exchange and provide critical but often unacknowledged support to all domestic economic activities. Growth in services activities contributes to economic growth by creating jobs for skilled university graduates and a range of school-leavers who often find it hard to obtain work, expanding the domestic availability of speciality services (supported by an international customer base), and providing competitive substitutes for previously imported services inputs. The growth of services exports can also stem the brain drain from less developed regions to the extent that growth comes through Modes 1 and 2.

The status of developing and transition economies

Several development-related concerns have shaped the text of GATS. Initially, developing and transition economies were fearful that too rapid liberalization would result in massive foreign investment from more developed countries before their domestic services industries became fully competitive. Many developing and transition economies have substantial portions of their populations still living below the poverty line and often without basic social services; therefore, there was a clear need to be able to direct resources towards social issues, not just commercial competitiveness. Given that some sectors had been heavily protected, there was also a concern that too rapid deregulation and market opening would produce negative economic and social consequences. At the same time, a number of developing and transition economies recognized the potential benefits of having access to competitive services inputs and to the resources that foreign investors could bring.

Developed countries, on the other hand, felt that in certain sectors developing and transition economies were already very competitive. The rapid growth of back-office services exports from the latter countries (delivered at a distance using telecommunications and information technology) during the period of the Uruguay Round strengthened a perception that the competitive edge was not entirely with the developed countries. Perhaps the most hotly contested area of debate was in regard to Mode 4, with developed countries fearing an onslaught of qualified professionals from developing and transition economies vying for scarce high-skill jobs in their economies.

With 82% of WTO Members being developing and transition economies, it was critical to find a balance on development issues. The solution, in contrast to

GATT 1947, was to structure GATS as having only one class of membership with no special status for developing and transition economies. The importance of supporting developing and transition economies to become equal partners has been underscored in several ways in GATS:

- The preamble specifically mentions the importance of developing Members.
- Members are acknowledged to have the right to set and implement their own national policy objectives, including those for economic development.
- GATS provides the flexibility to developing and transition economies, especially the least developed among them, to schedule fewer sectors and liberalize fewer types of transactions.
- Developed countries are committed to provide market access in sectors and modes of supply where developing and transition economies have the strongest export interests.
- Developed countries are required to set up contact points to provide access to information to services suppliers from developing and transition economies on the commercial and technical aspects of the supply of services, the registration and obtaining of professional credentials, and the availability of services technology.
- The WTO Secretariat is to provide multilateral technical assistance to developing and transition economies at the request of the Council for Trade in Services.

Technical assistance commitments in GATS

Several forms of technical assistance have been made available to developing and transition economies in relation to GATS from five intergovernmental agencies:

- *WTO Secretariat.* Through its Technical Co-operation Division, the Secretariat carries out five main types of technical assistance activities:

  – Seminars at the national, subregional or regional level;

  – Workshops on particular areas of trade policy;

  – Technical missions to help with the drafting of legislation or regulations, or with meeting notification requirements;

  – Briefing sessions, generally for Geneva-based delegations; and

  – Trade policy courses for officials.

- *United Nations Conference on Trade and Development (UNCTAD).* One of UNCTAD's many programmes is the Integrated Country Programme for Trade-Related Technical Assistance, which includes technical assistance on services trade issues.

- *International Trade Centre UNCTAD/WTO (ITC).* ITC, through its Trade in Services Unit, has launched a series of technical assistance initiatives which include:

  – Workshops on the impact of GATS;

  – Publications on the services trade including the following: *Business Guide to the World Trading System*; *Information Technology Services: A Handbook for Exporters from Developing Countries*; *ISO 9000, A Workbook for Service Firms in Developing Countries*; *Environmental Engineering and Support Services, A Handbook for Exporters from Developing Countries*; *Turnkey Plants and Project Engineering Services, A Handbook for Exporters in Developing Countries*;

  – Profiles of market opportunities in key sectors;

  – Tools such as a *Services Export Readiness* diagnostic diskette; and

  – A *Services Exporting Homepage* (*http://www.intracen.org/servicexports*).

- *World Bank.* Jointly with WTO, the World Bank sponsors an on-line Trade and Development Centre (*http://www.itd.org*) which contains answers to frequently asked questions, links to World Bank sites of relevance to developing and transition economies, and a query/response function.

- *International Telecommunication Union (ITU).* As part of its strategic plan to launch pilot projects to stimulate the planning and deployment of telecommunications infrastructure, ITU has launched an electronic commerce pilot project with small and medium-sized enterprises (SMEs) in Africa. The pilot project, known as the EC-DC Model, is bringing even the smallest family businesses onto the information highway.

In addition, six agencies are responsible for the *Integrated Framework for Trade-Related Technical Assistance, including for Human and Institutional Capacity-Building, to Support Least-Developed Countries in Their Trade and Trade-Related Activities* which was approved at the Singapore Ministerial Conference in December 1996. To date, 34 countries have expressed interest in participating. The agencies involved are the International Monetary Fund, ITC, UNCTAD, UNDP, the World Bank and WTO. Work under the Framework is supervised by an Inter-Agency Working Group, whose day-to-day work is handled by an Administrative Unit at ITC.

In general, technical assistance from WTO, UNCTAD, and the World Bank is targeted primarily at Member governments; ITU works with private-sector firms; and ITC focuses on enterprises and associations. The WTO Secretariat's technical assistance initiatives are overseen by the WTO Committee on Trade and Development as well as by its Sub-committee on Least-Developed Countries. In October 1996, the Committee adopted *Guidelines for Technical Cooperation* which provide the basis for the WTO's technical cooperation and training activities, and define their objectives and principles.

One of the compelling lessons learned from technical assistance initiatives to date is that Members benefit from sharing their experiences. Developing and transition economies have found it extremely useful to hear from similar countries on their experiences with services liberalization. In some instances, case studies serve to allay fears about negative consequences; in others, these studies can help colleagues avoid pitfalls. Views from countries facing similar development challenges sometimes carry more credibility than statements from experts from the developed world.

Another lesson is that direct, pragmatic technical assistance brings benefits. Prior to the last round of negotiations on telecommunications, for example, the WTO Secretariat was given funds to carry out national technical workshops on relevant trade policy issues in 23 developing and transition countries over a nine-month period. As a result, 21 of these submitted liberalization schedules.

Maximizing benefits from the liberalization of the trade in services

In order to take further advantage of trade liberalization opportunities under GATS and thrive in an increasingly competitive global services environment, developing country firms will need their governments and other technical assistance agencies to ensure an enabling environment by providing:

- ❑ A world class telecommunications infrastructure in order to obtain cost-efficient access to the Internet and international telecommunications.
- ❑ Help in incorporating information technology into the provision of their services and adapting to an environment of electronic commerce.
- ❑ Opportunities for the continuous upgrading of skills and for keeping abreast of technical and professional advances (now much easier if they have cost-efficient access to the Internet).

- Assistance to meet and exceed international quality standards for services.

- The negotiated ability to travel on business to the widest possible range of foreign markets unimpeded by visa restrictions.

- A more sophisticated array of financing support, especially for export development (e.g. operating lines against accounts receivable).

- Access to appropriately skilled staff.

With appropriate support to services enterprises, developing and transition economies can expect to compete effectively in all of the services sectors covered by GATS. The most likely exception would be sectors constrained by factors such as a requirement for large hard currency reserves (e.g. financial services and insurance/reinsurance) or controlled through cartel agreements (e.g. transportation routes). Examples of niche opportunities include providing services like the following:

- Quality professional services at lower cost (e.g. architecture, consulting engineering, legal research, market research).

- Professional specialities linked to emerging concerns (e.g. sustainable design and forensic accounting, the use of intelligence gathering techniques and accountancy skills to assist lawyers to pursue or defend actions which may or may not be decided in a court of law).

- Technical assistance to other developing economies linked to experience with commonly used low- and medium-technology production processes (e.g. industrial engineering, industrial design).

- Back-office operations with higher value added than basic data entry (e.g. data capture and repair, adjudicating claims, management of electronic medical records).

- Services that leverage cultural or linguistic strengths (e.g. provision of multilingual offshore call-centre services).

Four different types of national competitive strategies are described below to illustrate that developing and transition economies may already have competitive strength in services.

- *Competing on cost.* Barbados was one of the first countries to attract back-office data processing operations, beginning with the American Airlines' Caribbean Data Services which now employs over 1,100 persons and has data-entry contracts with two dozen other major United States companies. It has diversified into a range of cost-competitive data capture and administrative support services such as the processing of credit card applications; direct mail-order processing; insurance claims processing; litigation support services; medical transcription; typesetting and other pre-press publishing activities; processing of warranty cards and claims; and computer-aided design. Other countries with lower labour costs and a skilled work force, such as China and Viet Nam, are now challenging Barbados for market share.

- *Marketing specialized expertise.* With the privatization of pension fund management in Chile, Chilean financial services firms have become highly sophisticated and successful. They are now exporting pension fund management services to other Latin American countries. Similarly, Ugandan engineers are successfully exporting their expertise in water utilities management to neighbouring countries. In a slightly different approach, China has developed a successful strategy for soliciting technical assistance from developed countries and then repackaging that expertise themselves for export to other developing economies.

- *Marketing excess capacity.* Cuba has positioned itself to attract 'health tourists'. Making use of extra capacity in its health-care facilities and the fact that its health-care professionals can provide quality care at very reasonable rates, Cuba has a strategy for attracting tourists for vacation plus low-cost medical treatment (such as physical check-ups or elective medical procedures).

- *Repositioning a service industry.* One of the most impressive success stories is the repositioning of India's software industry from virtually no international credibility to one of the world leaders with an estimated 12% of the global market for customized software. India's software exports have grown from under US$ 5 million in 1980 to over US$ 700 million in 1996, and are estimated to have reached US$ 1 billion in 1998. Over the past 10 years, growth in export earnings has averaged 54% a year, compared with 33% for growth in domestic software sales. Over 600 firms are involved in various types of data capture and software customization services. This phenomenal success is due to the availability of a large pool of university trained, technically qualified programmers and analysts plus careful adherence to international quality standards.

One additional potential benefit from national policy attention to the services industries is worth noting. Many developing and transition economies face brain drain. Jobs in the services sectors are generally skilled or highly skilled and so are attractive to precisely the types of professional workers that often emigrate abroad. India provides a good example in the software industry of how creating a growing number of well-paid, stimulating jobs has made staying in India even more attractive than living abroad.

Finally, there is the potential for a range of developing and transition economies to capture part of the US$ 438 billion market in back-office services. Given the proper information technology support, any service that does not require face-to-face contact with customers can be provided in an offshore back office because it is not bound to a particular location. Examples include not only the more traditional data capture and processing, but also electronic publishing, Web site design and management, customer call centres, medical records management, hotel reservations, credit card authorizations, remote secretarial services, technical on-line support, indexing and abstracting services, research and technical writing, and technical transcription. In addition, manufacturers are increasingly contracting out product design, logistics management, research and development, and customer services support.

Export planning and the GATS commitments

The sale of services to foreigners depends in large part upon the development of credibility in the international market place. Some markets are more viable than others, however, and an understanding of how to use GATS schedules in export planning can be highly beneficial. There are a series of common decision points where even the preliminary information in these schedules can be helpful:

Question #1: Is a particular services sector covered?

To find out whether or not a services sector has been the subject of possible liberalization commitments, review the listing in Appendix II to this Guide.

Question #2: Is the infrastructure needed covered?

Many services firms depend on telecommunications infrastructure, for example, to deliver services. Again, review the listing in Appendix II. For information about ensuring access to telecommunications infrastructure, refer to the *Annex on Telecommunications* and the *Annex on Negotiations in Basic Telecommunications* (Appendix I) and the negotiated commitments in basic telecommunications tabled in February 1997 (*see* the *Fourth Protocol on Basic Telecommunications* in Appendix III).

Question #3: Are related sectors covered?

Often services providers combine their services with those of complementary services to provide a one-stop service. Again, review the listing in Appendix II to see if those related services have been considered.

Question #4: Are there any major barriers in short-listed markets?

In developing an export plan, most firms have several countries (markets) that they consider seriously (their short list). Turning to the schedules for those countries, first check whether there are any horizontal limitations that would block one from entering the market in a preferred mode. For example, if one wants to set up a local office, are there *a priori* limits on Mode 3? Then check whether the service has been scheduled by the Member in question.

Question #5: What about barriers to market access? National treatment?

For the short list of countries, look up their schedules of commitments to see if any limits are listed.

Question #6: What about getting into the market?

Unless all business is done electronically, it is important to check carefully on horizontal and subsectoral commitments in Mode 4. Also, independent professionals or small service enterprises may wish to consider operating as consortia to improve competitive access to markets.

Question #7: What about transit visas?

If access to the target market requires travel through another country, be sure to check the temporary entry provisions for that country as well.

Question #8: What about an overall sense of the countries on the short list?

If the countries of interest have been through a WTO trade policy review, a country report will be available from the WTO Secretariat.

Question #9: What about on-line bidding opportunities?

All international financial institutions (such as the World Bank) now have on-line bidding information and procedures. Some Members also allow on-line access to government procurement opportunities, e.g. Canada, the European Communities, Finland, Japan, Mexico, Norway, Poland and the United States.

Question #10: What about specific questions on regulations?

If the questions are about developed countries, there should be a contact point through which to make the query. It is usually helpful to follow up with the specific ministry responsible for the services sector concerned.

Question #11: What about protecting intellectual property?

Check the Agreement on Trade-Related Aspects of Intellectual Property Rights.

Question #12: What about selling to governments?

Check whether or not both your government and the Member in question have signed the Agreement on Government Procurement.

An easy way to check country schedules on-line is to use the European Union GATS Web site (*http://gats-info.eu.int*; click on Legal Texts and Commitments, GATS Commitments by Country, the country of interest, and then your sector/subsector. Remember when checking the schedules that the European Communities' schedule covers the 12 members of the European Union as of 1994.

Private-sector strategies for influencing liberalization under GATS

Many Members are severely challenged to keep abreast of all WTO issues, especially if they have only small delegations in Geneva. Trade in services poses particular problems because of the lack of readily available trade statistics and background analyses. There are at least four ways in which private services firms in developing and transition economies can work with their Governments to influence liberalization in the services trade:

- *Raise awareness of the contribution of services exports to the economy*. Despite all the discussions over the past 12 years since the start of the Uruguay Round, it is still common for trade officials to be unaware of the contribution of the services trade to their own economies. Publishing success stories in the services export trade, urging services industry associations to collect and circulate information on the export activities of their members, and preparing briefing papers for officials responsible for trade issues can help ensure that those officials remain well informed on trade in services.

- *Help ensure that a schedule is complete and as liberal as possible*. Some developing and transition economies have been far-reaching and aggressively liberal in their scheduling; however, many have not. Two-thirds of the developing and transition economies that are WTO Members have made commitments in only half of the major sectors. Private-sector enterprises can help improve their country's liberalization process by making sure that:

  - All of the sectors are scheduled, even if there are a number of limitations.

  - All of the limitations stated in schedules are really necessary and desired by the private sector.

- All domestic regulations at both federal and subfederal levels that affect trade have been identified and scheduled.

❑ *Recommend technical assistance options for government officials if they are not already being used.* Key intergovernmental agencies are providing extensive technical assistance to developing and transition economies. Below are types of technical assistance that can be requested:

- Training of trade policy officials (and also of immigration and finance officials) in services trade policy.
- Improving services trade statistics.
- Gaining increased access for services firms in developing and transition economies to projects funded by international financial institutions (like the World Bank).
- Upgrading telecommunications infrastructure, including Internet access.
- Establishing and maintaining trade enquiry points, including the development of a comprehensive inventory of federal and subfederal domestic regulations affecting trade in services.

❑ *Lobby for a strong negotiating position in the next round of negotiations on services.* In preparation for the round scheduled to start by January 2000, there are several areas where services enterprises can provide input into trade policy planning, for example:

- Developing a joint private- and public-sector initiative to assess the impact (positive or negative) to date of the liberalization of trade in services.
- Ensuring a well-informed national position on each of the issues raised in chapter 5 of this Guide that are likely to be included in the agenda of the new round.

– Engaging immigration officials in a pragmatic discussion of temporary business travel issues in order to stimulate bilateral negotiations on visa-related issues and clarify priorities under Mode 4.

– Identifying priority subsectors where the private sector wants improved market access, along with a short list of the most attractive markets (keeping in mind the developed countries' commitment to addressing the needs of the priority sectors of developing and transition economies).

– Promoting among government officials the benefits that services firms gain from trade liberalization.