Multi-year Expert Meeting on
TRADE, SERVICES AND DEVELOPMENT
Geneva, 15-17 April 2014

SESSION 1:
TRENDS IN INFRASTRUCTURE SERVICES SECTORS

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Trade in services: European and global issues

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Disclaimer: the views expressed herein are personal and do not represent the views of the European Commission
Key points

• The role of services in competitiveness
  – Value added, job creation and productivity

• Beyond GATS modes of supply:
  – Mode 5 "services in boxes" exports

• Comparative advantages
  – The role of education

• Barriers to services trade
  – Some policy priorities
The role of services in competitiveness
EU trade in services: stats at first sight

EU-27 trade in services (extra-EU)

<table>
<thead>
<tr>
<th></th>
<th>Exp</th>
<th>Imp</th>
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<tr>
<td>Goods</td>
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<td>Services</td>
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The EU Single Market: the relevance of services

Notes: Totals also include O84 (Public Admin and defence), U99 and NRP; Source: LFS and Eurostat - National Accounts
Within services industries: business services stand out
Business services is big business

EU-27 services trade (share of total trade) 2011 by EBOPS groups
Comparative advantages vary: countries need each other

Net trade in labour by educational categories, (2009)

The EU Single Market: key lessons

• 1993 to 2003 – a decade of integration progress
  – Over 2.5 million extra jobs
  – nearly € 900 billion additional economic benefits
  – about € 6000 per family in the EU

• Unique integration experience among a large number of countries
  – Automatic recognition of professional qualifications

• Single Market is great but not complete!
  – E.g. roaming charges, energy, etc.
Canada: is grey matter the new commodity boom?

Comparison of International Education Services with Other Top Exports in Goods from Canada

Selected countries, 2008

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<th>Export/Ranked</th>
<th>China, People’s Republic of</th>
<th>Korea, Republic of</th>
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Source: RKA’s calculation of education services; Trade Data Online – Industry Canada
Beyond GATS modes of supply: mode 5 services
Services: tradability and measurement

• Main source of services' trade data is BoP which includes transactions between residents and non-residents (Mode 1, 2 and 4)
  – No data on Mode 3 – commercial presence
    • ESTAT Foreign affiliates statistics – FATS as a proxy? - we need to be very careful!
    • Mode 3 can be as important as cross border trade (WTO 2006 estimates)
  – No disaggregation by modes (1,2 and 4)
  – Yes disaggregation by sub-sector & bilateral but less detailed than goods

• Services are more tradable than measured?
  – The top export of Canada to China is "education services" (1.3 bil. in 2008) – estimates
  – "services in boxes" – mode 5 services exports
Trade, jobs and "servicification"

• New insights from studies on trade in value added: Services more and more embodied in trade of goods:
  – **Exports of manufactured goods** supported around 15.7 million jobs in 2007
    – 9 million jobs in the manufacturing sectors
    – around **6 million jobs were actually created in services sectors**.
  – **Between 2000 and 2007:**
    – export-supported employment in the manufacturing sectors barely increased (350,000 additional jobs)
    – in the services industries it increased by almost 3 million jobs.
'Mode 5' and international trade

Country A
Pre-manufacturing domestic services

Manufacturing Process
"services become goods"

Country B
"Services in a box"

Stages of production
The concept of 'mode 5'

Mode 1: Direct cross-border services
Mode 2: Consumption abroad
Mode 3: Cross-border capital flow
Mode 4: Cross-border labour movement
Mode 5: Services embodied in goods
'Mode 5' services exports*: Cross-country comparison

€300bn – the EU27 'mode 5' services exports, in absolute value (based on latest available TiVA data)

Source: Own calculations based on OECD TiVA database,
EU 'mode 5' service exports: Cross-sectoral breakdown

Source: TiVA database
Trade rules: GATS (and GATT)
Barriers: the WB - STRI

Notes: the index is built considering 5 sectors (transport, retail, some professional services, telecommunication and financial services) and mode 1, 3 and 4 of supply
'Mode 5' and customs valuation: from concepts to reality

- **Mode 1**: Direct cross-border services
- **Mode 2**: Consumption abroad
- **Mode 3**: Cross-border capital flow
- **Mode 4**: Cross-border labour movement

'Mode 5' service exports do usually pay duties.

The same service export under mode 1 does not pay duties.

Example: software in a laptop and a CD-ROM
Mode 5 services and high-tech products

GM's Volt: 10 Million Lines of Code

• When does software exports pay duties?
• What about design?
• Electric cars are new but Art. 8 of WTO CVA is old but relevant
Trade rules for the future
What do we know so far....

- Services trade are relevant for EU employment and EU value added
- Services are traded less than manufacturing but given the measurement issues (mode 5, FDI, servicefication) this is only the "tip of the iceberg"
- Market access provisions, if well crafted, tend to matter
Recent FTAs (will) matter

• EU-Korea FTA bound to create win-win services gains
  – Services market access closely intertwined with other rules (investment, procurement, TF, IPR, etc)
    • Public procurement – additional coverage on infrastructure services
    • Not just for MNCs: EU and Korean SMEs treated equally
    • relax foreign ownership requirements
    • non-discriminatory treatment in the use of port services and infrastructure
    • No obligatory subcontracting requirement for construction services
    • Improved legal certainty in e-commerce

• Similar examples in other FTAs
Older FTAs matter too...

Chile's services exports to EU vs FTA commitments

Fast FWD: past, present, future

- GATS, FTAs and trade rule matter across the board
  - Tariffs, services, NTMs, government procurement, IPR, state aid, competition, etc.

- New goods-services interface:
  - 'Mode 5' and future drivers of competitiveness

- Trade rules, GVCs, technology and innovation

- The (not so distant) future:
  - 3D printing and 'the internet of things'