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**The Role of Services Related Trade Policies and
Trade Negotiations for Structural Adjustment**

by

Pascal Kerneis
Managing Director
European Services Forum

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Executive Summary

There is a need for a paradigm shift in trade policy. The presentation gives figures for international trade in services and the consequences for trade policy and the services sector.

There new trends in the real economy that are led by the private sector need to be reflected in the trade policy. As we are in an ever-growing globalised world where everything is becoming interlinked, there is a need to adapt the trade policy methods to this new world. Trade policy is continuously negotiated in “pillars”. All sectors are negotiated separately which is becoming inefficient. The world economy and world trade are moving a rapid pace and trade in goods and trade in services are now completely integrated. To negotiate separately Chapters “trade in goods”, “trade in services”, “public procurement”, “intellectual property rights”, “investment” etc. does not allow trade policy to rapidly adapt to the new model by innovation and digital economy. This is where the private sector must take the lead. The private sector must now grasp the totality of the trade policy, instead of looking exclusively to their own sector in silo.

A graph showing EU services Exports and imports per sectors shows the bar for “other business sectors” at 27.5%. “other business services” is a the biggest “sector” in all services statistics. There is no data showing the breakdown of the services in it. So “other business services” are a mixture of lots of services, which are in fact often services around the products, or services embedded into the products. There is an urgent need to collect more detailed figures on these exports.

If we look at the importance of trade in services, there is a stark difference in the measuring methods. The Balance of Payment (BOP) records products coming into the country as a whole. It does not take into account that goods and services are more and more bought and sold together. Services are

embodied or embedded into the products, but the BOP method does not take them into consideration, even when the bulk of the value of a product is in fact due to the services embedded into that product; for instance a computer without its software does not have much value! With this in mind the World Trade Organisation (WTO) and the Organisation for Economic Co-Operation and Development (OECD) teamed up to create a data base taking these factors into account. In 2011 world exports in BOP was 77.6% in goods and 22.4% in services, however if you use the TIVA (Trade in Value Added) indicator it tells a different story. World exports in goods in 2011 were 42.3% in goods and 57.7% in services. So, 57.7% of the value of world exports are coming from services. The relevance of this database is significant and it highlights the importance of services and shows the great importance they have in the world economy.

There is a new concept in the world economy, which is called “Servicification”. It is a word that is coined by the Swedish National Board of Trade. There is a shift from traditional trade in finished products to trade in intermediates story. The United Nations estimates that intra-firm trade accounts for as much as one third of global trade (33%). Services are so important as intermediates in every sector, that efficiency, including regulatory efficiency, in the service sector has become paramount to remain competitive in exporting manufactured goods and services. The digital economy is fostering this trend and is a great example of it. The policy challenge is to get the enabling factors right, so that business can move up the value chain into higher value-added tasks.

The business community is supporting the EU Bilateral Trade Policy, which strives to have a “Deep and Comprehensive FTA” in a single undertaking with its trading partners. Trade in Services is focused on cross border transfers and movement of people, and increasing market access. But all companies need also to ensure that an FTA will look at Intellectual Property Rights (IPR) and covers copyrights, patents, data flows etc. Public Procurement chapter is also very important and commitments must cover central, regional, local and public entities, etc. The “servicification” of the economy goes far beyond the General Agreement on Trade in Services.

Since the conclusion of the Uruguay Round and the adoption of the GATS and the countries commitments, there have been some significant developments in trade in services negotiations in bilateral or regional (e.g. TPP) or plurilateral (e.g. TiSA) agreements. The market access commitments go into much more depth.

- The use of negative list approach in negotiations where openness is the default situation. This obliges the negotiators to make first a state of play of the real picture of the current practice.
- Standstill and ratchet clause for restrictions on existing measures (annex 1) allow spreading out of liberalisation without passing by the FTA revision process.
- Scheduling at higher level (2 digit of CPC classification), allowing automatic binding of new products.
- Commitments in schedules are not only for services sectors. (Mode1, Mode 3 and Mode 4 are for the whole economy!)

It is very important to understand that the “GATS Modes” apply to all economic sectors. The Mode 1 commitments are negotiated in the services schedules but are of direct concerns to the manufacturing industries (E-commerce (B2C), cross border data flows which covers 3D printing, IoT or M2M, digital manufacturing, etc).

The Mode 3 (Commercial presence abroad) commitments are also negotiated in the services and investment/establishment chapter but now include commitments on agriculture, mining, all manufacturing sectors and then in the services sectors.

Similarly, Mode 4 (temporary movement of natural persons) is typically negotiated in the service schedules, but covers all economic sectors like intra corporate transferees, experts, engineers, etc. from manufacturing companies.

The text on services related chapters go now into much more details which further increases the value of the commitments. The text on horizontal issues include domestic regulation & transparency into legislation (licensing procedure, authorisation processes etc), performance requirements and localisation rules, cross-border services, temporary entry for a business persons and establishment & investment (pre-access & protection).

The text on sector specific issues also now include more stringent rules for the signatories’ legislators or regulators. This is notably the case of the sector specific text on financial services, telecommunications and e-commerce and professional services, etc.

In the services chapters or annexes, horizontal or sectoral, new deals include new framework for regulatory cooperation. It includes mutual recognition agreement of diploma and licenses in professional services. It also includes exchanges between regulators on methods towards regulatory equivalence, to avoid duplication of costs.

Other parts of the agreement have a significant impact on the services sectors, like - to mention a few - Public procurement, disciplines on state-owned enterprises (SOEs) and disciplines on small and medium enterprises (SME's), trade and sustainability chapter.

What are we looking at in the future of EU Trade Policy? There are a number of agreements that have not yet been ratified. These include EU-Singapore FTA, EU- Canada CETA, EU-Vietnam FTA and EU-Japan EPA.

There are also ongoing FTA negotiations which include EU-Mercosur FTA, revision of EU-Mexico, EU-Philippines FTA, EU-Indonesia, EU-Malaysia and EU-China Bilateral Investment Agreement.

Some negotiations that should start soon include the revision of the EU-Turkey, EU-New-Zealand DCFTA, EU-Australia, and the revision of EU-Chile FTA mandate, the Taiwan BIA and Hong-Kong BIA. TISA is still on hold but hopefully negotiations will start to commence in the near future.
