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

by

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Managing Director
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« The voice of the European Service Industries for International Trade Negotiations in Services »

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Session 4. The role of services-related trade policies and trade negotiations for structural adjustment

Pascal Kerneis – Managing Director

European Services Forum

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"The need for a paradigm shift in trade policy"

1) The Figures
2) The consequences for trade policy and for services sectors?

New Trends for the private sector & trade policy

- Trade policy methods do not follow the real economy;
- Trade policy continue to negotiate in "Pillars". Issues in trade agreements continue to be negotiated in silo, when the world economy and word trade is evolving quickly in total "fusion".
- To negotiate separately Chapters "trade in goods", "trade in services", "public procurement", "IPR", "Investment", "Trade and …" do not allow the trade policy to rapidly adapt to the new model lead by innovation and digital economy.
- Hence, the private sector must now grasp the totality of the trade policy, instead of looking exclusively to their own sector in silo!

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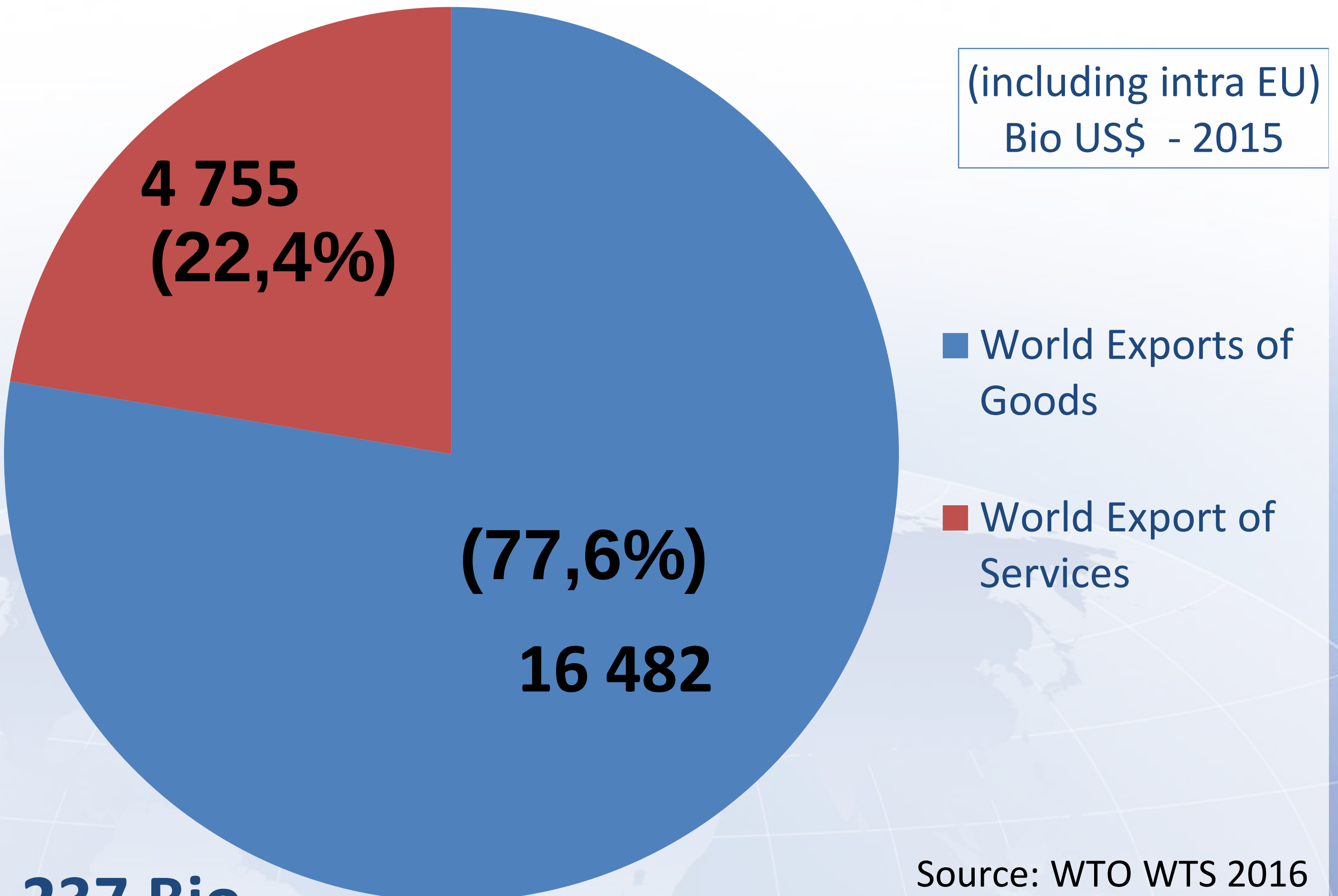
THE TRADITIONAL PICTURE

Size of global trade – Export of goods and services



Total: 21 237 Bio

Source: WTO WTS 2016

ESF

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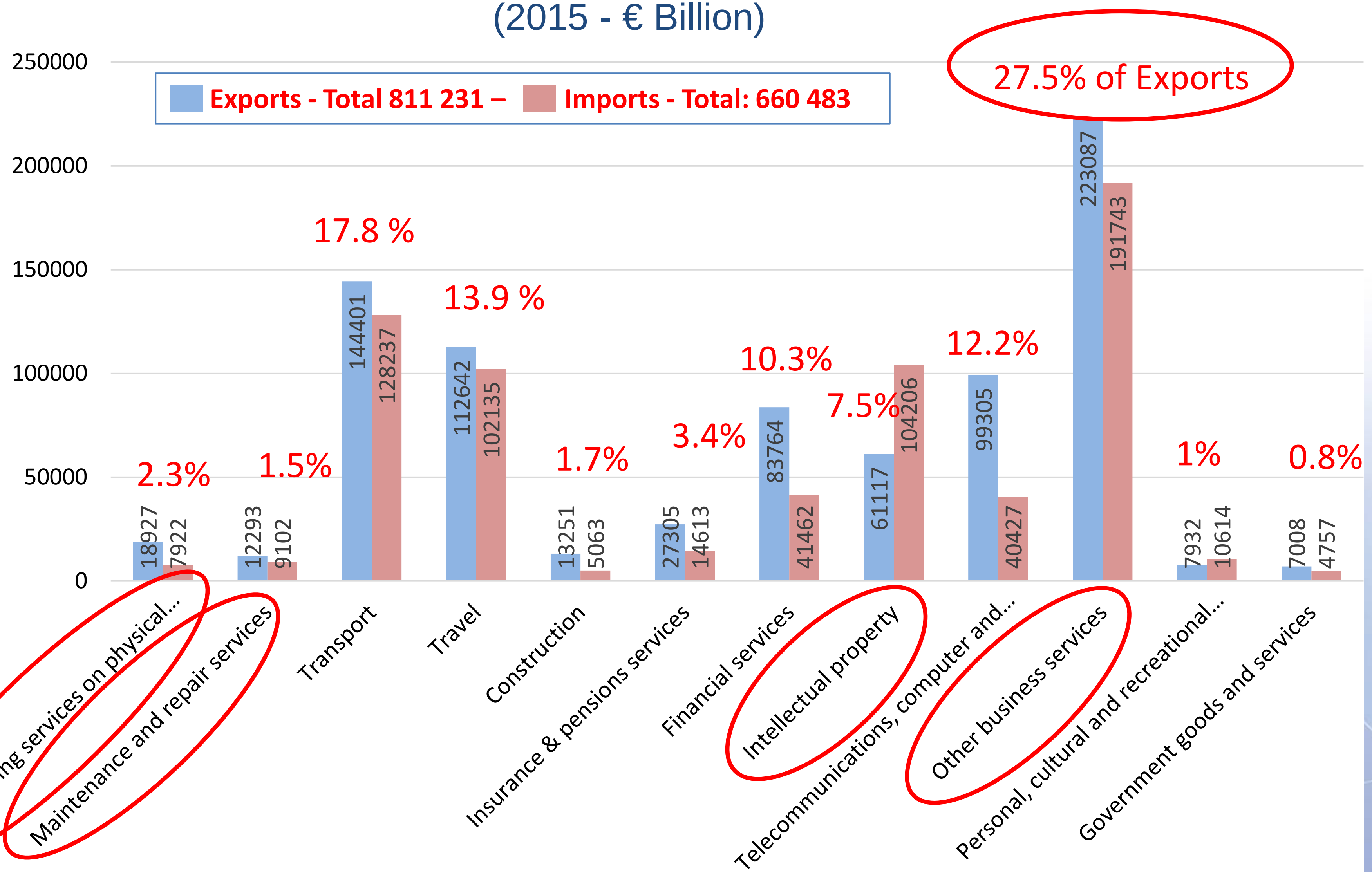
EU Services Exports and Imports per sectors

(2015 - € Billion)



Source: Eurostat 2016 – Note: Other business services comprise mainly: research and development, professional and management consulting services, technical, trade-related services.

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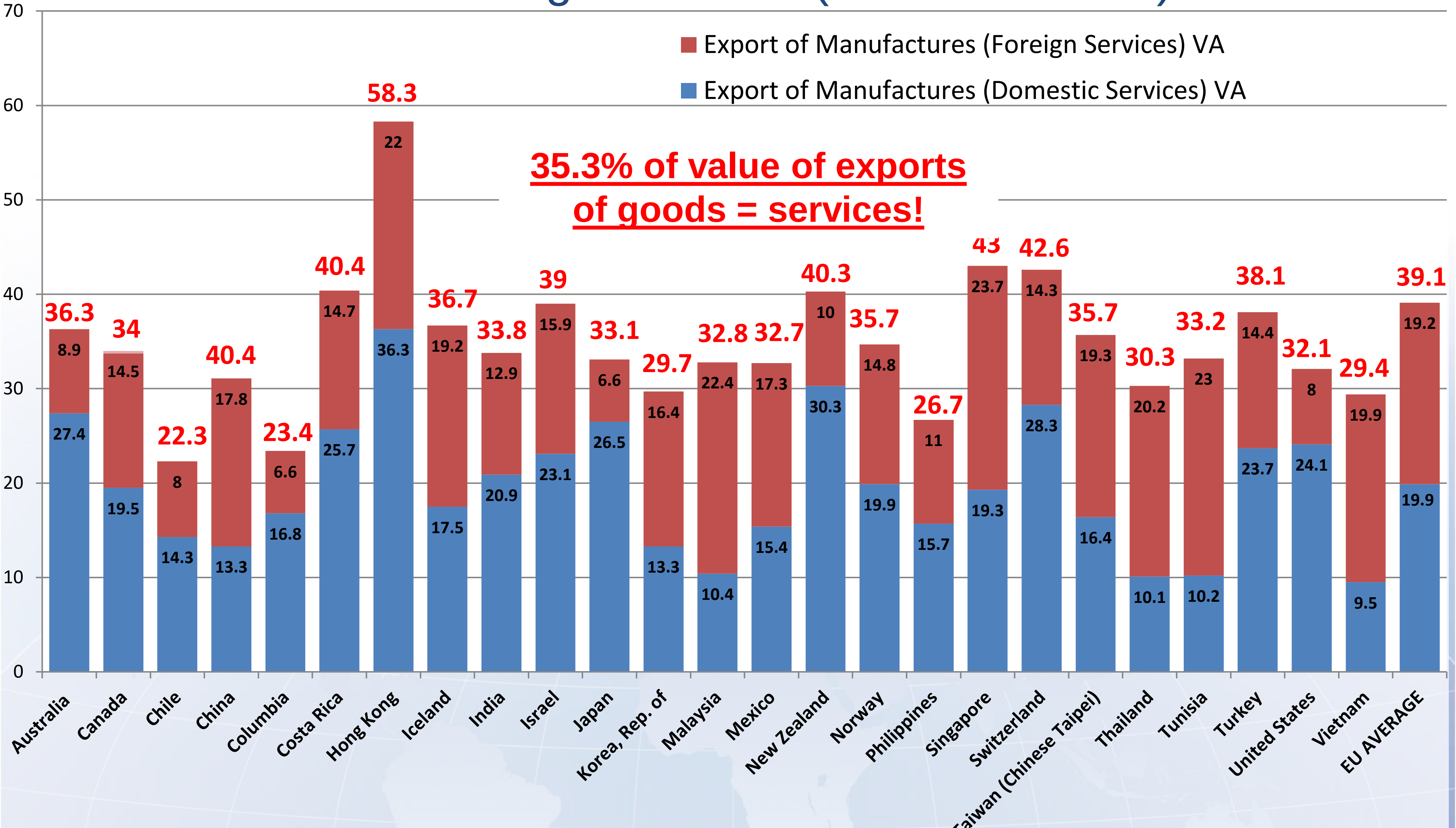
Share of Services in Export of Manufactured Goods

- Domestic and Foreign Services (*% Value added*) – 2011 -



Source: World Trade Organization, "Global Value Chains" 2011

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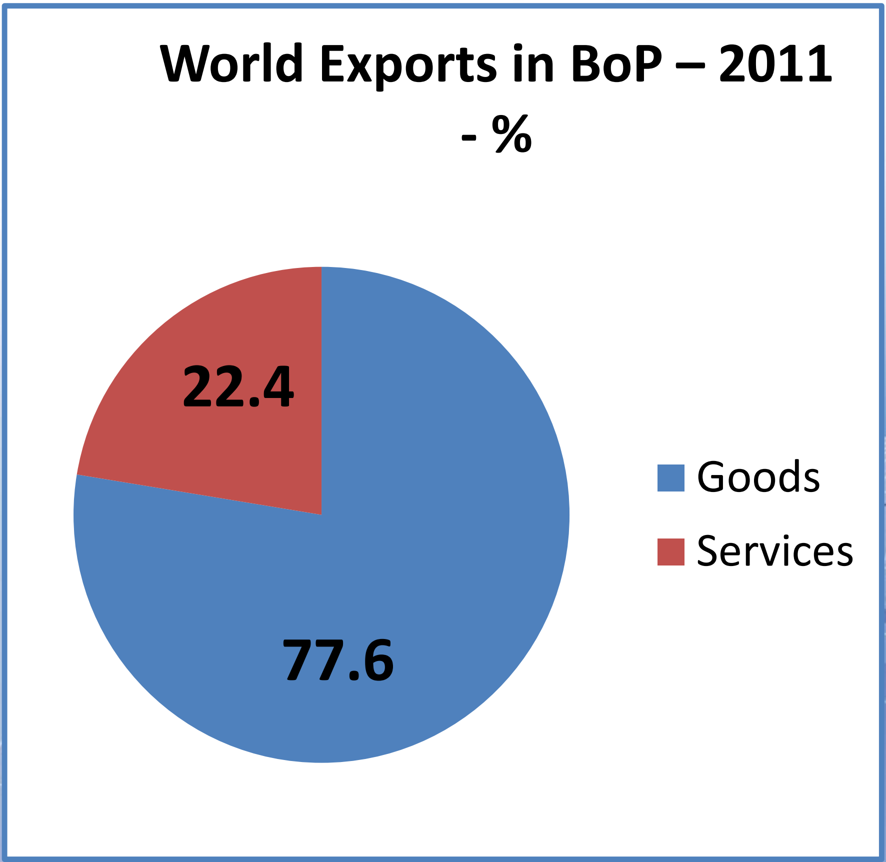
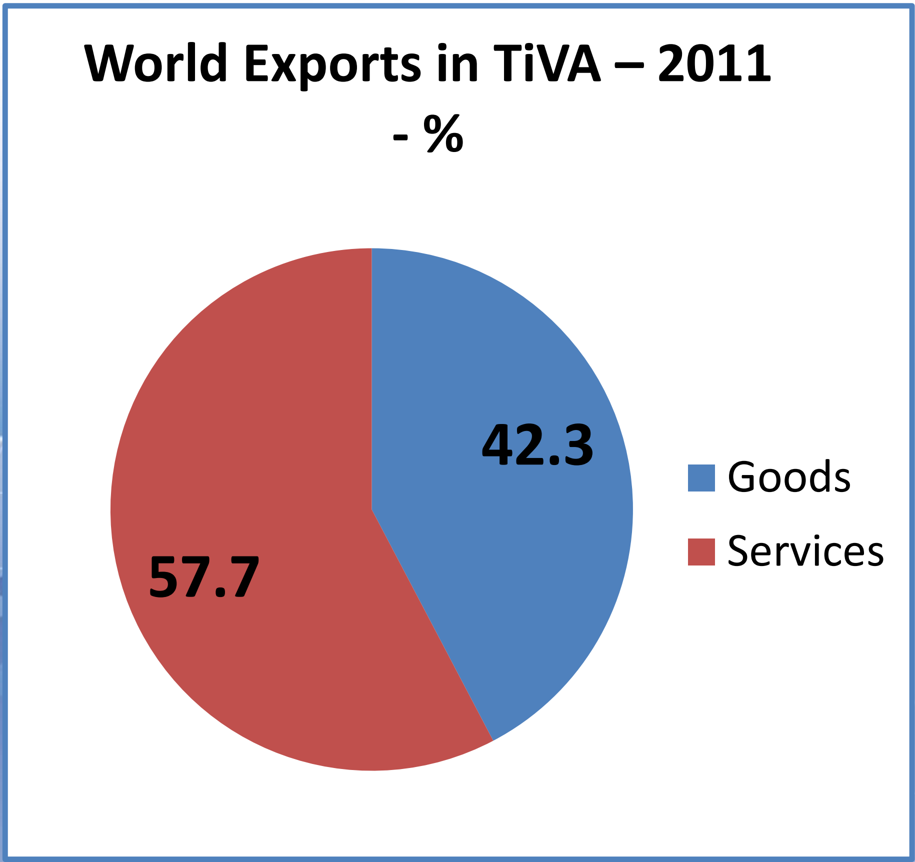
IMPORTANCE OF TRADE IN SERVICES

If we use the trade in value-added (TiVA) indicators,

57,7% of total EU Exports are Services





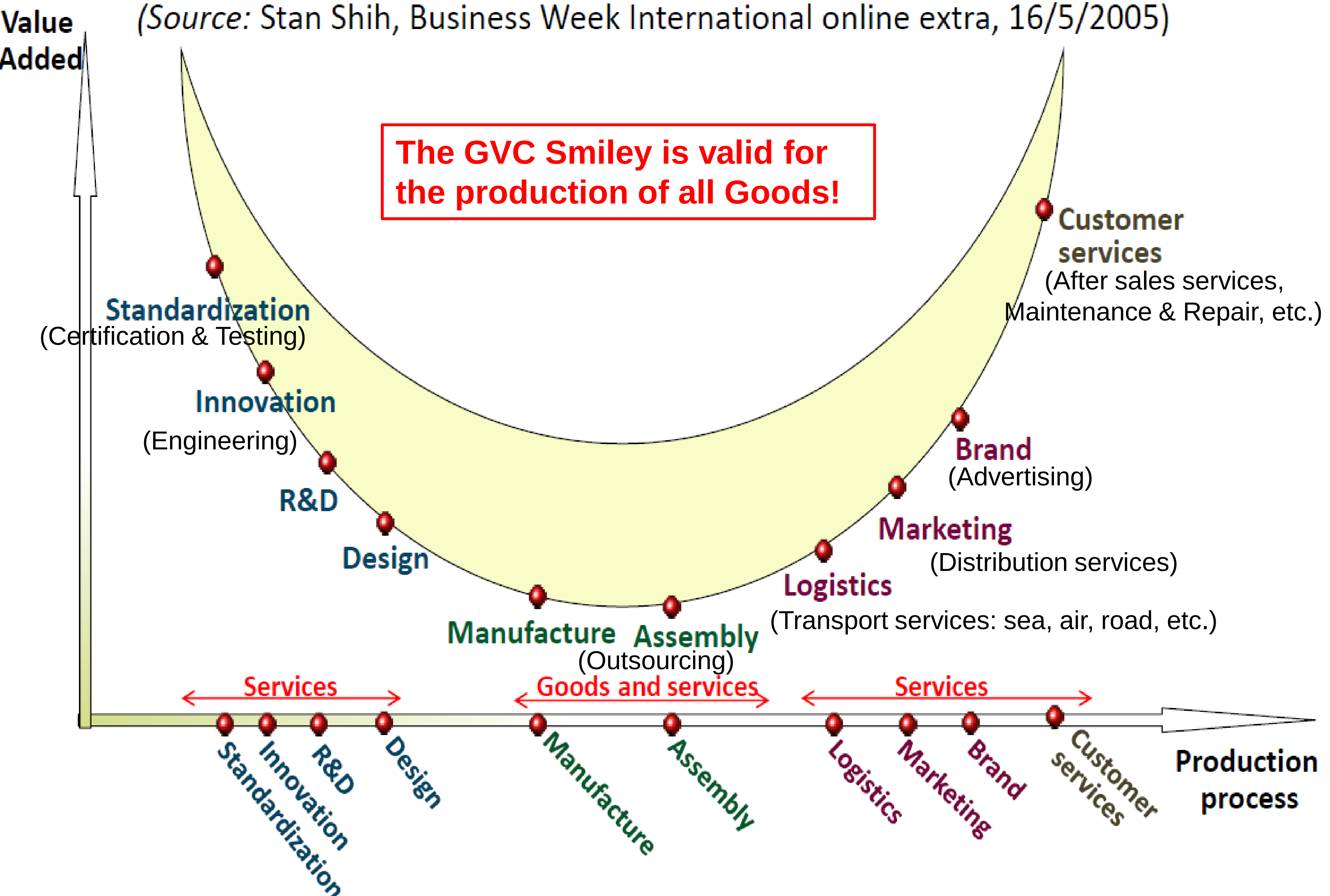
Source: WTO International Trade Statistics 2012 + OECD-WTO TiVA database - 2015

"Servicification"

- 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 services sector has become paramount to remain competitive in exporting manufactured goods, … and services. The Digital economy is fostering this trend!
- The policy challenge is to get the enabling factors right, so that business can move up the value chain into higher value-added tasks.
  - One of the best conceptual frameworks for understanding this is the "Smiley Face", originally drawn by Stan Shih of ACER computers.

V-A Attribution: Smiley Face

(*Source:* Stan Shih, Business Week International online extra, 16/5/2005)



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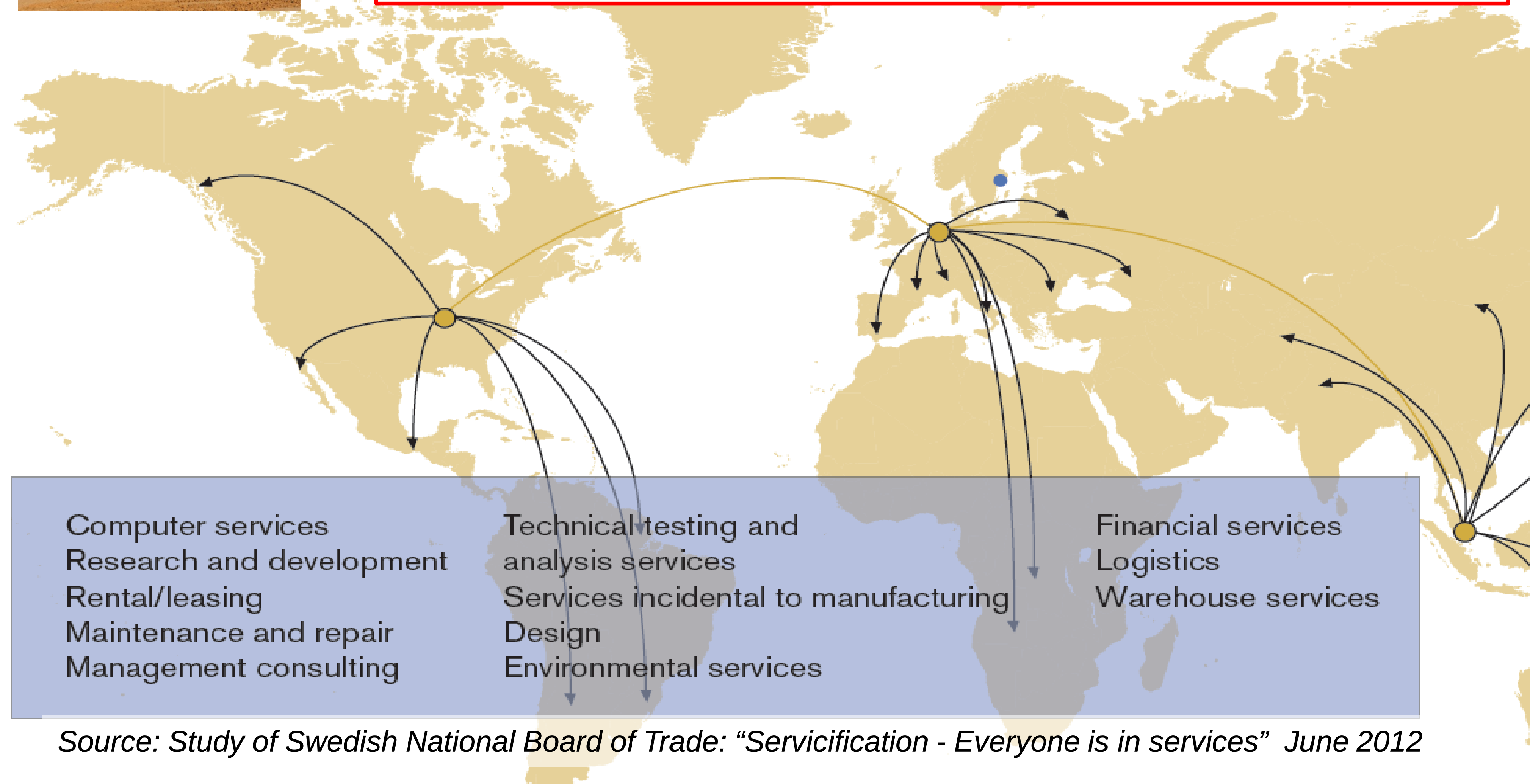
Picture 3: Services delivered to the customer

Embedded Services in the products➔ Essential elements of creation of value added and benefits for the production and export of goods !



Source: Study of Swedish National Board of Trade: "Servicification - Everyone is in services" June 2012

EU Bilateral Trade Policy = "Deep and Comprehensive FTA" – Single Undertaking

- Goods: tariffs cuts (+95%), NTBs, Rules of Origin,
- Trade in services (Cross border, Movement of people)
- Investment (Pre-establishment market access, post establishment protection)
- IPR (copyrights, patents, data flows, etc.)
- Public Procurement (central, regions, local, public entities)
- Competition (SOEs), dispute settlement
- Regulatory disciplines and cooperation

➔ **"Servicification" of the economy! Much beyond GATS!**

Significant developments in trade in services negotiations (1)

The Market access commitments go into more depth:

- Use of negative listing, where openness is the default situation. This oblige 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 I) 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 (Mode 1, Mode 3 and Mode 4: for the whole economy !!!)

➔ But also spreading the divide between those who do domestic reforms and who do sign FTAs <u>and</u> those who do not !

GATS' MODES APPLY TO ALL ECONOMIC SECTORS

- Mode 1: Cross border supply/trade:
  - ➔ Negotiated in the services schedules
  - ➔ Shipping, air cargo, etc.; E-commerce (B2C); cross-border data flows (3D printing; IoT or M2M, digital manufacturing, etc.)
  - ➔ Need for language on cross border data flows in FTAs.
  - ➔ To set principle & ban local servers requirements, etc.
- Mode 3: Commercial presence abroad = FDI
  - ➔ Negotiated in the services and investment/establishment chapter and offer/schedules
  - ➔ Include commitments on agriculture, mining, all manufacturing sectors and then the services sectors
- Mode 4: Temporary Movement of natural persons
  - ➔ Negotiated in the services schedules, but cover all economic sectors (intra corporate transferees, experts, engineers, etc.)

Need for manufacturing and primary industries to look at technical aspects of the services negotiations, since many CPC lines are of direct effect on the profitability of the products: CPC N°

- Business services
- Data processing services 843
- Research & Development services 851
- Rental & leasing services relating to machinery 831
- Other Business Services
  - Management consulting services 865
  - Technical testing and analysis services 867
  - Services incidental to agriculture 881
  - Services incidental to manufacturing 884
  - Maintenance & repair of equipment 633
- Distribution services (car industry, pharmaceutical, food & drink) 622
- Environmental services 940
- Financial services (leasing, OTC, foreign exchange, insurance, etc.) 813
- Transport services (maritime, road, air freight,
  - Storage and warehouse services, … 742

Significant developments in trade in services negotiations (2)

The text of the Services related chapters go into much more details, which further increases the value of the commitments

- Text on horizontal issues:
  - Domestic regulation & Transparency into legislation (licensing procedure, authorisation processes, etc.)
  - Performance requirements and localisation rules
  - Cross-border services,
  - Temporary Entry for Business Persons
  - Establishment & Investment (pre-access & protection)
- Text on sector specific issues (either in core text or in annexes – See FTAs, TPP, TiSA)
  - Financial services,
  - Telecommunications and e-commerce,
  - Professional services, etc.

Significant developments in trade in services negotiations (3)

- In the services chapter or as annexes, horizontal or sectoral, new deals include now framework for **regulatory cooperation**:
  - Mutual recognition agreement of diploma & licenses in professional services
  - Exchange between regulators on methods towards regulatory equivalence, to avoid duplication of costs…
- Other parts of the agreements have a significant impact on the services sectors
  - Public procurement (transparency rules, bigger market access (i) larger scope: central, sub-central, public entities; (ii) lower thresholds (goods, services, infrastructure works)
  - Disciplines on State-Owned Enterprises (SOEs)
  - Disciplines on Small & Medium Enterprise (SMEs)

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What are we looking at in the EU Trade Policy?

I. Concluded Agreements (not yet ratified) :

1. EU-Singapore FTA (Political deal: December 2012, Initialled; September 2013 – wait for ECJ Opinion – 16/05/2017 + Ratification in EP?)
   → ECJ Opinion on EU Competence on Trade 16/05/2017
2. EU-Canada CETA (Signed 10/2016 Ratification:02/2017 – Provisionnal appl: 21/09/2017);
3. EU-Vietnam FTA (Political deal: August 2015)
4. EU-Japan EPA (Political deal: 6 July 2017)

II. On-Going FTA negotiations:

1. EU-MERCOSUR FTA (Argentina, Brazil, Uruguay, Paraguay) (started in 1999 –blocked in 2004 – restarted in 2008) (exchange of offers in May 2016) – Conclusion in 2017?
2. Revision of EU-Mexico: 1st Round: week 13 June 2016! “to be accelerated in 2017”?
3. EU-Indonesia CEPA; EU-Philippines FTA (?); **EU-Malaysia** (to resume in 07/2017)
4. EU-China Bilateral Investment Agreement: (mandate: Nov 2013; 12 Rounds – 2017?

III. EU Bilateral FTA to be started soon?

1. Revision of EU-Turkey Custom Union: Draft Mandate? Start 2018?
2. **EU-Australia** & EU-New Zealand DCFTA; & Revision EU-Chile FTA: Mandate : Nov 2017.
3. Taiwan BIA? Hong-Kong BIA

IV. Multilateral and Plurilateral:

1. WTO MC11 (Dom Reg & E-commerce);
2. TiSA? 3. EGA?

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Thank you for ATTENTION !

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