



International Chamber of Commerce

The world business organization

Policy statement

The benefits of services trade liberalization

Commission on International Trade and Investment Policy, 7 September 1999

French version

The International Chamber of Commerce (ICC) has been an early and consistent advocate of services trade liberalization through multilateral negotiations. More than a decade ago ICC called for the development of a framework of rules to guide trade and investment by service companies and of multilateral disciplines on government regulation and intervention in the services marketplace. ICC also urged all governments engaged in the multilateral negotiating process to make specific market access and national treatment commitments in a wide range of service sectors. This advocacy contributed to the Uruguay Round's ultimate success in adopting the new General Agreement on Trade in Services (GATS) and creating the World Trade Organization (WTO) to oversee its implementation (along with the implementation of other significant trade agreements).

ICC has continued its activist role since the Uruguay Round by providing business advice during the subsequent negotiations on basic telecommunications, financial services, and professional services, each of which advanced the cause of trade liberalization. In light of this record it is only natural that ICC anticipates playing an active and constructive role as the voice of global business during the forthcoming "Services 2000" negotiations, expected to be launched at this year's WTO Third Ministerial Conference.

The growing importance of services in the world economy

ICC's interest in the services sector reflects the economic interests of its members in more than 130 developing and industrialized countries around the globe and the importance they attach to obtaining freer access to markets worldwide. Services are coming to dominate the economic activities of countries at virtually every stage of development, making services trade liberalization a necessity for the integration of the world economy.

In the high-income industrialized economies, the value added by services generally exceeds 60 per cent of total output; for example, 70 per cent in Australia, 71 per cent in France, 60 per cent in Japan, 72 per cent in the United States. In many emerging markets, services account for half or more of economic output; 55 per cent in the Czech Republic, 59 per cent in Hungary, 54 per cent in Poland. The same applies to many advanced developing or newly industrialized economies, such as Argentina, Brazil, Korea, Malaysia, Mexico and Thailand.

In many developing economies as well, the service sector is the single largest contributor to economic output, ahead of either agriculture or industry. Even allowing for the fact that governments are major service providers (education, healthcare, sanitation, etc.), the commercial market for services is huge and growing in virtually every country. And the trend is clear: as national economies develop and incomes rise, the commercial service sector accounts for an ever larger share of GDP.

Services in the information age

Services promise a quantum leap in world prosperity through the "information revolution." Modern, state-of-the-art information technology services are critical to improving productivity and maintaining the competitiveness of industries and economies throughout the world. Importantly, these capabilities

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are not geographically constrained by endowments of many of the traditional factors of production, but depend upon human resources, education, intellectual capital and electronic infrastructure. Hence, it is vital to build up skilled human resources and electronic infrastructure in developing countries in order to enable them to partake in the benefits of the knowledge economy.

Services spread the benefits of globalization

ICC's support for services trade liberalization is consistent with its long-standing support for open trade and investment. Freer trade in services enables countries to better enjoy the benefits of globalization and improves economic efficiency just as freer trade in goods does. It contributes to job creation, higher incomes, more consumer choice, downward pressure on inflation, and a better quality of life. Imports of services and foreign investment in services production stimulate the competition that improves the efficiency of domestic service industries. They add to the overall availability of services and to the variety from which individual and corporate consumers can choose. And they contribute to technological advancement. In short, freer trade leads to more, better and lower-cost services.

Services as essential economic "enablers"

More, better and lower cost services are important because services are the "enablers" that permit economies to function and prosper. Some form essential infrastructure - transport, communications, finance, information. Capital markets, for example, cannot function efficiently without abundant, high-quality information that can be quickly and frequently communicated. Other services are critical to the success of manufacturing and agriculture.

For some manufacturers, services provide a large second source of revenues and contribute significantly to company growth and job creation. For all manufacturers, services are essential to their success. For example, while manufacturing is at the core of the automobile industry, it is clear that this manufacturing centre must be surrounded by highly developed service functions if the industry is to be successful. These include: an extensive dealership network for distribution; highly developed financial services to finance dealer inventory and sales; readily available maintenance and repair services to protect the consumer's investment.

Moreover, the manufacturing process and the business of running manufacturing industries are infused with services functions from beginning to end: research and development, inventory management and control, transport, marketing, advertising, insurance, and "backroom" functions, such as accounting and legal services. Similar observations can be made of agriculture, where success also depends upon research and development, finance, insurance, storage, transport, distribution, marketing, and a host of technical services. The point is that modern and efficient services play an essential role in improving the performance of other sectors and of the economy as a whole.

Services encourage foreign direct investment

Liberalization of trade in services is an important means to encourage the continued rapid expansion of foreign direct investment, to integrate national economies more effectively and to reduce income and other disparities among countries. Because services production and consumption normally are proximate and simultaneous, services trade usually entails a significant transfer of technology and know-how from country to country. This is critical, especially for developing and emerging markets, which can acquire state-of-the-art skills relatively quickly and inexpensively through trade - at least in comparison with the time and expense that would be required to develop them *de novo*.

These state-of-the-art skills are essential, in turn, to building and maintaining the international competitiveness of other sectors. But services trade is not one-way, only from developed to developing nations. In fact, industrialized countries realize important economic welfare gains from the

import of services such as data processing, software design and implementation from developing countries. Developing economies have significant hard currency earnings from exporting tourism and labour, as well. And there is substantial scope for expanding services flows in both directions.

Implications of expanded trade in services

ICC does not underestimate the potential for a degree of economic dislocation from expanded trade in services. But this is no different from the dislocation caused by trade in goods and is likely to be substantially less than that caused by advancing technology. Dealing with these dislocations requires vibrant economies and effective adjustment policies, such as targeted income support and training programmes. Preventing or impeding the exchange of modern, cost-effective services would, in fact, contribute to even greater dislocations as other sectors are denied competitive inputs and become increasingly obsolete.

ICC believes that further reductions in barriers to trade in services through multilateral negotiations will result in immense economic gains. These gains will benefit both importing and exporting countries, in the industrialized and the developing world. For these reasons, ICC strongly supports the forthcoming "Services 2000" negotiations and intends to play an active and constructive role in helping bring them to a successful conclusion.

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