

CURRENT STATE OF NEGOTIATIONS ON TRADE IN SERVICES AND IMPLICATIONS FOR TECHNOLOGY-INTENSIVE INDUSTRIES

Andrew L. Stoler
Executive Director
Institute for International Business, Economics and Law

*University of Adelaide
17 October 2003*

Only twenty years ago, nobody was negotiating the liberalisation of trade in services across borders. Today, services trade liberalisation is integral to any trade agreement, whether it be the multilateral trade negotiations under WTO auspices or bilateral free trade agreements such as those Australia put in place with New Zealand and Singapore and is now negotiating with the United States.

From construction and engineering to professional services to telecommunications and financial services, internationally-traded services have long since become the single largest sectors in many modern economies. We are living and working in a post-manufacturing services economy, even if agriculture and manufacturing continue to employ a minority of Australian workers.

More people are employed in the services sector than elsewhere and in addition to providing the bulk of employment and income in many countries, services provide vital input for the production of other goods and services. As basic building blocks of the modern economy the efficiency with which services are supplied is crucial to the prosperity of other industries relying on these services and to the overall economy. Technology intensive industries are particularly dependent upon the efficient, low-cost provision of supporting services.

Rules for services trade and the world's first round of services trade liberalisation were fixed in the World Trade Organisation's Uruguay Round of trade negotiations that ended in 1994. That first series of negotiations was importantly complemented in 1997 by two sectoral agreements: the Agreement on Trade in Basic Telecommunications Services and the Agreement on Trade in Financial Services.

Now we are in the middle of a new global trade negotiation. This latest round of multilateral services negotiations started in January 2000 and was melded into the WTO's Doha Round in Qatar in November 2001. The round is due to conclude in December, 2004. That said, the recent collapse in Cancun of the WTO's Fifth Ministerial Conference makes on-time completion of the services negotiations look doubtful.

Concurrently, Australia and the United States are in the midst of negotiating a free trade agreement due to be completed at the end of this year. Many of the same issues are at stake in the negotiations.

Clearly, the performance of all services sectors will impact most peoples' businesses at some point in one way or another. Most of us need lawyers, advertising agents, freight forwarders and bankers, just to name a few of the sectors under negotiation. I am not going to neglect these services sectors in my talk today, but I want to start with a discussion of those services sectors with the greatest impact on technology-intensive industries: **telecommunications services and computer and information technologies services**. Countries and companies that want to benefit from the growth opportunities

provided by an increasingly networked global economy will need to attract extensive private investment to build an infrastructure of telecommunications and computer facilities.

In 2001, the global telecommunications market was worth over \$US one trillion – making it the critical services market for global development. This market is relatively open, but it wasn't always that way. Before the WTO's 1997 basic telecoms agreement, only 17 percent of the world's top twenty telecommunications markets were open to effective competition by foreign firms. Today more than 95 percent of global telecommunications markets are open to access by foreign competitors. At the same time, electronic commerce has grown wildly. Notwithstanding the bursting of the dot-com bubble, a majority of companies in developed country markets now sell online. In the United States, advertising revenue on the internet approaches US\$ 10 billion.

In the WTO negotiations, a large number of proposals have been tabled addressed to countries' goals in the latest round of telecommunications services negotiations. They are remarkably uniform in calling for further improvements in market access and more widespread adoption of the competition policy regulatory principles agreed as a part of the 1997 agreement.

Among the barriers most commonly mentioned are limits on the number of suppliers (including continuance of monopoly rights) and foreign equity restrictions. Regulatory issues raised in the proposals tend to focus on requirements relating to universal service, management of the radio spectrum, licensing requirements and technical standards. In developed countries and in many developing countries, there is now substantial support for full liberalisation of basic and value added telecommunications services, including full market access and national treatment for both broadband communications platforms and narrow band platforms on a technology neutral basis.

Because so much relies on an efficient telecommunications infrastructure, stronger trade disciplines to ensure cost basis, non-discriminatory access to unbundled elements of basic telecommunications networks and services are increasingly seen as the basic building blocks of an environment where new technologies used in conjunction with telecoms services can most efficiently contribute to overall economic growth.

What are some of the concrete issues that come into play in these negotiations? A good place to start is with Australia's own negotiating proposal for telecommunications services liberalisation. Australia has proposed that WTO Member governments agree to treat the following five points in the talks:

First, all WTO Member governments should adopt in full the provisions of the so-called reference paper on basic telecommunications and the paper's pro-competitive provisions should be strengthened through additional clarification in the negotiations. In the negotiations, Australia wants to see stronger pro-competitive principles and significantly enhanced interconnection principles. It has been working closely with APEC member governments to bring the results of that organization's work on interconnection into the WTO.

Australia also believes that the current reference paper text's provisions designed to guaranteed the independence of regulators could be improved and that many members are not fully implementing transparency obligations. Furthermore, Australia wants to promote the transparent and non-discriminatory allocation of scarce resources. Canberra believes that technical requirements or standards on the use of the spectrum should not be imposed beyond what is essential and should be applied equally to all users of the same category of spectrum resources

As a second priority objective in this sector of the negotiations, Australia has proposed that all international telecommunications services should be recognised as traded services and that international settlements arising from such services should be subject to negotiated principles under the

WTO. The termination of a telephone call or similar service that originates in another WTO member is an exported service. In this connection, Australia has stated that discrimination in accounting rates for internationally traded telecommunications services should be fully disciplined under the WTO agreement.

The third objective reflected in Australia's negotiating proposal is that where there are dominant players or de facto monopolies, WTO Member governments must play a role in promoting fair competition with regard to international internet charging arrangements. Australian negotiators have pointed out that small and medium-sized enterprises, including in developing countries, may have the potential to secure the greatest improvements in global market access through the use of electronic commerce and has consequently proposed that internet delivery services (packet-switched data transmission services) are a basic telecommunications service that should be subject to all of the competitive disciplines of other basic telecoms services.

To this effect, Australia has stated its position that internet charging arrangements between providers of network services should be commercially negotiated and, among other issues, reflect: (a) the contribution of each network to the communication; (b) the use by each party of the interconnected network resources; and (c) the end to end costs of international transport link capacity.

As a fourth objective, Australia argues that limitations on market access, such as those which restrict the legal form commercial presence may take or which privileges some satellite operators, should be removed. Current requirements by some countries that impose joint venture arrangements, inhibit the development of an efficient telecommunications industry and should be removed from countries' current GATS schedules.

Finally, Australia considers that technical standards and licensing requirements can constitute a significant barrier to the provision of telecommunications services and has proposed that domestic regulation of telecommunications services should be the most transparent and least trade-restrictive as possible.

All of these Australian objectives are important and very many of these goals for the negotiations are shared by other developed and developing countries alike. In fact, a lot of the background work behind these proposals took place in the APEC context where the organisation has been actively promoting cooperation on telecom regulatory matters for many years.

According to a soon to be released paper of the Paris-based OECD, the growth effects of telecommunications liberalisation can be demonstrated by studying the positive link that exists between performance in the telecommunications sector and economic growth. Empirical evidence makes clear that liberalisation leads to an improved performance in the telecom sector. For example, countries with some degree of telecom liberalisation have been found to grow by up to 0.15% faster than countries with a monopolistic market for telecoms, where inward FDI is banned and no regulator exists. Countries with full telecom liberalisation tend to grow up to 1 percent faster than others. Developing countries with full telecom liberalisation tend to grow almost 2 percent faster than other developing countries. Pretty important stuff – and nobody would argue today that telecoms are not at the heart of the technology-intensive modern economy.

If telecoms are the basic building block, it should also be clear that information and communications technologies – in both goods and services are the next step up the ladder in building the basis for the modern economy. Not surprisingly, both feature importantly in the current negotiations. That ICTs can make an important contribution to economic growth is evident from the impact they have already been measured to have had where their widespread use was earliest and most prevalent.

Take the United States as an example. ICT accounts for about 8 percent of US GDP but 29 percent of US goods and services exports and has been identified as responsible for 50 percent of the increase in the average annual rate of US non-farm labour productivity growth in the past five years.

Software and communications advances, particularly the advent of the internet as a global information infrastructure, have led to the increasing use of this infrastructure to deliver computer and software services. While the internet increases the potential for cross-border trade, the physical location of computers and other equipment and personnel can affect the delivery of many services. For this reason, commercial establishment rights and rules governing the movement of personnel across borders retain their importance for many services suppliers.

Computer services today often blend aspects of consultancy services, software development and/or implementation, data processing, database services as well as systems integration and maintenance. They are also frequently provided in a networked environment where data can be distributed across multiple physical locations simultaneously and information is transmitted back and forth between the service provider and the end user in real time.

Access to computer services is becoming increasingly important as customers rely more and more on information technology services suppliers to meet their information systems needs. Last year, for the first time, worldwide spending on information technology services (at US\$ 426 billion) exceeded worldwide spending on IT hardware (at US\$ 376 billion). No wonder that in the request/offer process of the current WTO services negotiations, both developed and developing countries are pushing for increased access for data processing services, software and hardware-related services and other computer-related services.

Your first reaction might be to think that these are issues of primary importance to companies in the developed world, but some recent case studies by the OECD demonstrate the importance of these services for developing countries in a very dramatic way. Take Tata Consultancy Services – an Indian software company established in 1983 and headquartered in Mumbai. It now has more than 600 clients worldwide, several of them Fortune 500 companies. Exports in 2001-2002 were valued at US\$ 814 million with markets including the USA, Canada, Australia, Southeast Asia and Latin America.

Altogether, India has generated US\$ 10 billion in exports of IT and business services and around 185 Fortune 500 companies have outsourced some part of their software requirement to Indian companies. Indosuez has been outsourcing activities to India for ten years, while international companies such as Hewlett Packard, Motorola, Texas Instruments and Verifone have all opened outlets in Bangalore. And it's not just Indians. According to the OECD, today there are more than 100 software development companies operating in Costa Rica, employing more than 1,000 professionals and exporting to countries in Latin America, the Caribbean, North America, Europe and Africa.

On October 7, the Australian's IT Business Special Report on Broadband featured an article that ties the importance of all of this together from a very practical standpoint. Under the title "Monopoly suppliers delay fast net access" the Australian's writers document the importance of a competitive telecommunications environment (a key objective of the services negotiations) for access to broadband, broadband speeds once accessed and the costs to users of these services in various markets.

Last year, the number of subscribers to broadband technology grew 72 percent and now totals 62 million subscribers worldwide (which says something about the potential for this technology's growth in the years to come). In the Japanese broadband market, where there is fierce competition between a wide range of providers, broadband services are by far the fastest and cheapest. Prices are thirty-five times less than in the USA for access and download speeds. A Japanese user can download an entire movie over the internet in 20 minutes. It takes six hours to do that in the USA and 12 hours in

Switzerland. Trying to download the movie over a standard dial-up modem would take up to seven days.

In economies where there is no competition, where there is really no choice except for the incumbent provider – such as Swisscom in Switzerland, prices are higher and speeds are slower. In France, where France Telecom still dominates the telecommunications business, broadband services are 100 times more expensive than in Japan. In Switzerland they are 110 times more expensive. If you need broadband for business, think of what these differences can mean to your competitiveness. And probably most technology-intensive sectors have good reasons to use broadband for business.

Any wonder why these services are so critically important in the trade negotiations?

I said I would not spend all of my time on telecom and ICT services and I won't. Many other services sectors are key to the success of technology-intensive industries. Take distribution services for example. There was an article I read last week in the Australian Financial Review about how UPS had just managed to find a way to chop a full day off the time it takes the company to ship items by ground between more than half of America's fifty biggest metropolitan areas. To get there, UPS has employed changes in its package sorting deadlines and locations, a streamlined tractor-trailer network, improved technology and quicker train service. The company is not charging extra for the faster service – but it is using it to its competitive advantage vis a vis Fedex and other competitors.

Now suppose your industry depends on just-in-time receipt of parts and components to build your high tech product. The faster you can get the pieces, the less you need to keep in inventory and the lower you can keep your costs. Imagine you're located in a country where one company has a monopoly on package distribution services and a company like UPS cannot offer you its new and improved service.

What's that going to do to your competitive position vis others making the same or similar product? You have a real interest in what happens in the services negotiations in areas like this as well as telecom.

And while we're at it and talking about shipping and distribution services, here's another development to note.

The manner in which we exchange our goods and services across borders will also impact on the way we produce our products for market.

The other day, I read an article in the Los Angeles Times about radio-tagged product codes. Radio-tagged product codes are a kind of souped-up wireless bar code that is now moving off the drawing board and into the physical world. In part for inventory control purposes and in part to address security-related concerns in international trade, large retailers and producers like Wal-Mart in the USA and Proctor & Gamble globally have already started to mandate the use of radio-tagged product codes by their suppliers in order to better track product movements. So what, why do we care?

We need to care because this technological innovation and its practical application to the real world means that in a few short years, end consumers are going to be able to check a radio-tagged product code and be able to tell:

- where a product was produced,
- who produced it and with what kind of inputs and chemical processes,
- how the product was shipped,
- the route it took to the point of retail,
- its nutritional content (if a food),
- whether it was produced in accordance with sustainable development principles and so-on.

Information overload? Maybe. The point, however, is that consumers that are this well informed are likely, where they can afford it, to buy a product not on the basis of its final physical characteristics but rather on the basis of how comfortable they are with the way in which the good was produced. And this has undeniably important commercial consequences for producers. It's just one more example of technology as applied to international trade in services changing our commercial environment.

The WTO services negotiations are now in what is called the "offer" phase where governments respond to the requests others have made of them to liberalise their services regimes. This is the real bargaining phase of the negotiation and the time when governments have to decide how forthcoming they will be in the WTO. In the WTO negotiations, only the services a government offers to cover are eventually included in its national schedule of concessions and binding on its future behaviour. If others do not think a country has put enough out on the table, they will be tempted to take something off the table until a balance is struck.

With 148 governments in the WTO and even more participating in the negotiations, the opportunities for important liberalisation of international trade in services are immense. We don't know yet how much the Cancun meeting might set back the WTO – it could be by many years or it could be a short hiccup. Clearly, the delay is a big opportunity cost for all of us.

In the meantime, there is the FTA negotiation with the USA. But the FTA negotiations with the USA are different from the WTO. For a start, we know the target for completing the talks is set for the end of this year. That's very soon.

Second – and very significantly, the FTA negotiation will be what is called a top-down services negotiation. This means that instead of deciding what to offer, a country needs to decide instead what it cannot offer. The negotiation becomes about creating a negative list. From a liberalisation standpoint, this is a good approach. To the extent that technology intensive industries stand to benefit from services trade liberalisation it is also good. So, while we might have to wait a bit for the WTO to move forward, there are some early prospects for benefits under the FTA with America.

What I have tried to do today is to briefly outline some of the discussions taking place that are likely to produce changes in the commercial environment over the next few years. Today's globalised economy is a services economy and all of us, whatever business we are in, are dependent upon support from what we hope will be efficient and competitive services suppliers. The eventual successful outcome of these negotiations will have important implications for the ways in which we do business in the future – particularly for those of you in technology-intensive industries. Thanks for your attention.