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SERVICES SECTOR REFORM AND DEVELOPMENT STRATEGIES:  
ISSUES AND RESEARCH PRIORITIES

by

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## **ABSTRACT**

The implementation of strategies for domestic policy reform, for General Agreement on Trade in Services (GATS) negotiations and for business development in the services sector of developing economies can be supported by the empirical work which is examined or proposed in this paper. The paper makes the case for a more coherent approach to the design of reform policy in the services sector. It stresses the importance of considering the interaction between services activities, between modes of supply and in some cases between goods and services. It also identifies limits to the progress towards the goal of coherent policy making in the services sector. These include lack of information and political economy constraints.

Moreover, the paper contains a review of recent work on the measurement of impediments to trade and investment, including research on banking, telecommunications, engineering, architecture, accounting, legal services, distribution and maritime services. There is evidence in this work of significant impediments to entry into services activities by all modes of supply and of significant discrimination against foreign suppliers. The implied price effects of these impediments in banking and telecommunications are high in some economies.

Furthermore, the paper also presents one set of modelling results of the effects of liberalization. These results highlight the value of a horizontal approach to policy making and the value of a focus on market access compared to national treatment issues. Suggestions are made about the next steps in a work programme on the nature of services sector policy and its impact. This includes wider participation by developing economies in empirical projects, more testing of methodologies being employed in those projects and the development of a framework for the consideration of issues of domestic regulation and the design of competition policy. All this work will have important spinoffs for the effectiveness of participating economies in GATS negotiations.

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## I. INTRODUCTION

Some years ago, a developing economy policy-maker or business-person looking at export opportunities in services might have concentrated on transport and tourism. They might also have expected to export labour services. However, recent developments in technology and in the organization of international business have broadened the scope of developing economy interests. Moreover, this year, negotiations on services commitments in the GATS have recommenced. This paper outlines some issues for decision-makers to consider and a series of related research projects to initiate, as they respond to shifts in the market place and as they plan their approach to the services negotiations.

The opportunities for developing economies in services markets were highlighted recently by the Global Services Network (GSN). This group identified a number of areas in which developing economies have “gained a foothold in knowledge-based and labor-intensive services”. GSN concluded that entry into these markets was facilitated by the opportunities created by new information technologies and subsequently by e-commerce. GSN cited the experience of some economies in establishing data processing sectors, or call centres, as well as software supply groups. In these cited examples, services were provided in the cross border mode of supply, that is, without the movement of either producer or consumer. GSN went on to list other areas which are “ripe for cross border trade.”<sup>1</sup> These areas included:

- Software programming;
- Data capture and repair;
- Management of electronic medical records;
- Translation services;
- Technical online supports services;

- Database management;
- Research & development;
- Inventory management;
- Website design and management;
- Medical transcription;
- Legal transcription;
- Backoffice services for airlines, brokerage firms, and credit card processing.

UNCTAD, for some time, has worked on the scope for developing economies to expand services exports through all modes of supply. The UNCTAD secretariat (1998) paper examined how globalization, liberalization and new information technologies are providing new opportunities for trade in services. Case studies included computer services, back office services, environmental services, health care services and tourism services. Moreover, UNCTAD has undertaken a series of expert group meetings in relation to these services.<sup>2</sup> The paper also examined the conditions required for developing economies to take advantage of new opportunities in the services sector. This included reference to developing economies’ participation in the negotiations associated with the GATS. It also included mention of a variety of measures that could be taken at the domestic level.

Despite the emerging opportunities, some commentators remain concerned that developing economies have yet to establish themselves among the leading services exporters. Mashayekhi (2000) for instance stresses that since the adoption of the GATS, the developing countries’ share of world services exports has only increased by 6 per cent and that this share is mainly due to the competitiveness of Asian developing economies.

Furthermore, Mashayekhi stresses that developed economies still account for three quarters of world services exports and that most of the top 20 exporters are developed economies.

While their aggregate shares may be low, there is evidence of the competitiveness of developing economies in many global services markets. Karsenty (1999) shows that many developing countries, including some least-developed economies already have a relatively high presence in services transactions by various modes. He shows this group has a relatively high specialization not just through the movement of natural persons but also in terms of the delivery of services across borders and the export of services in the mode of consumption abroad.<sup>3</sup>

Many issues are involved in expanding the ability of developing economies to take advantage of these emerging opportunities in the services sector. Market access is one issue. But also the openness of domestic services markets can help build the capacity to participate in global markets. Liberalization increases the efficiency of the operations of suppliers in intermediate services to all export sectors. Liberalization also brings in capital and technology. New business opportunities are not only influenced by policies affecting market access at home and offshore, but also by other national policy initiatives.

The effective participation of developing economies in the current services negotiations will be a contributing factor to maintaining reform in the services sector. A number of papers, including those by Hoekman and Messerlin (1999), Mashayekhi (2000), Mattoo (2000), Hoekman (1999) and Sauve (2000), have discussed the priorities in the developing economies' agenda in these negotiations.

Apart from participation in multilateral negotiations and national policy initiatives, there are other elements in a portfolio of strategies for

services development. These include the use of regional strategies and regional cooperative arrangements. These are topical and there is considerable work in progress in the application of regional arrangements. Important ground-breaking work, for example, is in progress in APEC. However, detailed examination of specific regional approaches to reform is a comprehensive topic and is beyond the scope of this paper.<sup>4</sup>

The purpose of this paper is to review some of the empirical work which can provide relevant inputs to the implementation of strategies for use in the GATS negotiations and for domestic policy reform. Section II provides a framework for the consideration of that information. It reviews a series of issues related to reform strategies in the services sector: it stresses the importance of considering the interaction between services sectors, between modes of supply and in some cases between goods and services. Section III identifies some issues in making progress toward the goal of coherent policy making in the services sector. These issues include lack of information and political economy constraints. The final section examines, in more detail, a series of practical matters for further attention by decision makers in Government and in business.

## ENDNOTES

<sup>1</sup> This material was distributed by e-mail to members of GSN on 15 August, 2000. Subscriptions to this e-mail service are available at [www.globalservicesnetwork.com](http://www.globalservicesnetwork.com).

<sup>2</sup> A much wider range of issues is involved in the development of e-commerce. For a detailed discussion, see UNCTAD (2000).

<sup>3</sup> Data on services FDI was not used in this study.

<sup>4</sup> For a review of different regional approaches to reform within APEC, see Stephenson (2000a). Stephenson (2000b) contains further discussion of regional approaches to reform in the western hemisphere.

## II. ISSUES IN SERVICES SECTOR REFORM

### A. Interactions between services activities

It was noted above that UNCTAD has nominated areas such as computer services, back office services, environmental services, health care services and tourism services for attention by developing economies. One of the key issues in the reform of the services sector is dealing with the interactions that exist between elements of that sector. A successful outcome for one service activity will usually depend on a package of initiatives or a cross-sectoral approach to the design of policy. The UNCTAD secretariat (1998) has also examined these sorts of linkages. It held that success in the nominated areas requires access to “world class telecommunications infrastructure”, alongside financial support, the ability to move people temporarily and access to skilled staff. Failure to develop telecommunications infrastructure will prevent developing economies from gaining access to international markets through electronic commerce.<sup>1</sup>

There are other examples of these sorts of linkages. Reform of the air transport system, for example, irrespective of policies applying to airport infrastructure may not change market outcomes.<sup>2</sup> UNCTAD (1998) also cites a similar issue within tourism sectors. Even when tourism operations in developing economies are competitively designed

groups make this connection. They argue for a better grouping of activities in services negotiations. For example the appropriate scope of energy services has been debated, with United States firms promoting a wide definition. There has also been developed a concept of an express freight activity that includes not just the transport component but also complementary on-ground services.<sup>5</sup> Debate about the appropriate scope to be considered in the definitions of tourism, health and environment has also emerged during the UNCTAD expert group meetings on those activities.

The presence of interactive effects have led to proposals for treatment in the policy making process of clusters of activities. Groups of services (and possibly goods as well) should be considered together in order to design a comprehensive reform programme. Clearly, some judgement on how to package activities together and how to measure the significance of various forms of impediments will be required.

### B. Interaction between modes of delivery

Not only are there important interactions to consider between services activities, but also links between the modes of supply. Neutrality in terms of mode is important in both static and dynamic

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