



TRADE BEAT

MONTHLY NEWSLETTER OF THE INTERNATIONAL
LIAISON UNIT

Inside this issue



This issue will inform readers about .

What are Services?

GATS modes of supply for Trade in services

Barriers to Trade

The importance of Trade in Services

Trade in Services

Promoting Economic Growth and Development

Covering fields as diverse as dentistry, construction and transport, services are activities not easily identified, due to its often close association with a good, as in the case of a medical consultation (service) with the administering of a good (medicine). The major criterion is the non-physical nature of services which are often intangible and impossible to store or transport. No transfer of possession or ownership takes place when services are sold, they are instantly perishable and come into existence when they are bought or consumed. When the sale or delivery of intangible products occur between producer and consumer that are based in different countries or economies, then this activity is referred to as international trade in services.



Trade in services play a vital role in the modern economy, and an efficient services sector is considered critical to international trade and a nation's economic growth. In this era of globalization and the interconnectivity of countries, it is imperative to achieve dynamism in the respective economies. Trade in services is one of the most relevant ways to achieve this, and industries such as finance, tourism, logistics and communications have become increasingly important to the economy. These industries heavily rely on trade in services, and the success of this sector can ensure a country's economic resilience and capacity to survive. With more and more information being shared across borders and goods being traded, an increase in trade in services may boost economic growth, as well as improve the performance of other sectors, since services can provide key intermediate inputs into the production process.





According to the World Trade Organization Secretariat, international trade in services is any service or labour activity across borders that fulfill the needs of the recipient or consumer, except sale of physical goods (although the service may be 'me' incorporated into physical goods) or to furnish an input for a producer of goods and/or services. Services are the largest and most dynamic component of both developed and developing countries' economies. Important in their own right, they also serve as crucial inputs into the production of most goods.

The inclusion of services in the Uruguay Round of trade negotiations led to the adoption of the General Agreement on Trade in Service (GATS). GATS, which entered into force in January 1995, aimed to ensure increased transparency and predictability of relevant rules and regulations. It was also to promote progressive liberalisation through successive rounds of negotiations. Article 1:2 of the General Agreement on Trade in Services (GATS) sets out four modes of supply for trade in services:

- Mode 1 concerns cross-border supply, meaning that the service crosses the border, but neither consumer nor supplier does; for instance, an international phone call;
- Mode 2 refers to consumption abroad, meaning that the consumer consumes the service while abroad, for example, by repairing a ship in a foreign port;
- Mode 3 means commercial presence, essentially entailing foreign investment, for example, when a foreign bank establishes a branch or a subsidiary and supplies services;
- Mode 4 presupposes migration and presence of natural persons, meaning that the service provider crosses the border, for example, a specialist from one country gives training to employees of a given company in another country.



All members of the World Trade Organization (WTO) are signatories to the GATS and have to assume the resulting obligations. However, GATS members are free to choose which sectors are to be progressively "liberalised", which modes of supply as set out in GATS Article 1:2 would apply to a particular sector, and to what extent services are liberalised over a given period of time. Traditionally, the biggest concern regarding liberalisation of services relates to possible loss of jobs to other countries. Nevertheless, many services cannot be transferred due to cultural perceptions, language barriers and the need to be close to the consumer.



BARRIERS TO TRADE

To protect their markets, countries often impose barriers to trade through non-tariff measures usually taking the form of quotas and bans limiting foreign participation in the marketplace. Discriminatory rules and practices like subsidies and discriminatory access to distribution networks are the frequent methods employed. When a service supplier offers a service in another country through, an agency, branch, subsidiary or joint venture this is referred to as commercial presence (mode 3), and is often required in countries where services are provided. Complications may be had with this type of intervention as minimum obligatory foreign investment levels may be set and recognition of qualifications and rules on migration can also have an impact on the provision of services. The barriers are highest in financial and business services which are strictly regulated, as well as in sectors with protection of businesses such as the construction sector.

Some services restrictions serve legitimate and recognized purposes and as such will be required. There are however, restrictions that are "protectionist" by nature which trade negotiations and the resulting international agreements seek to address.

WHY IS TRADE IN SERVICES IMPORTANT?

The services sector plays an integral role in economic development; therefore areas such as construction, finances, telecommunication and transportation rely on the efficient provision of services.

Trading in services offers significant opportunities both in terms of improved exports and imports, aimed at enhancing competitiveness, stimulating economic development and ultimately improving welfare and reducing poverty. The potential benefits of expanding the range of services available to consumers, decreasing costs and increasing quality, including through the attraction of foreign investments, is often cited as a benefit from greater services imports.



On the export side of trade, apart from the obvious benefit of generating income/foreign exchange, there are many other benefits to developing an internationally competitive services export sector. For one, a successful services company does not necessarily require large start-up capital, numerous employees or large financial investments to export successfully. Therefore the potential for micro services companies to develop and trade successfully is quite feasible – a particularly important consideration in developing countries, where firms tend to be smaller and more capital scarce. This possibility can lead to the establishment of new businesses, the expansion of specialty services, employment opportunities and potentially reduce the ‘brain drain’ that is often associated with developing country service professionals.

Furthermore, readily available local premium services will not only add value to businesses across all sectors, but will also reduce the need of having to import these services from elsewhere, and correspondingly lower import expenses. The availability of local high quality services is an attraction in securing foreign direct investment as well, as this will also reduce investors’ needs to import the necessary services to maintain international competitiveness.

For developing countries and least developed countries (LDCs), service trade is the new frontier for enhancing their input in international trade, and in turn, realizing development gains. However, positively integrating developing countries, especially LDCs into the global services economy and increasing their participation in services trade, particularly in modes and sectors of export interest to them, remains a major development challenge.

It is therefore essential to increase public and private sector advocacy and awareness, to mobilize policy attention and resources to boost the sector's contribution to growth and development in developing countries and LDCs. Given the comprehensive contribution of services to national economy and trade, it is critically important to design and implement a services-driven development strategy within a sound and widespread policy framework, ensuring linkages with other policy areas and overall national development objectives.



International Liaison Unit

922-5140-8 ext. 3028/3182

Email: International.liaison@jacustoms.gov.jm

Website: <http://www.jacustoms.gov.jm>