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TRADE IN SERVICES



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Trade in services¹

DMD paragraph 15 [Services]: “The negotiations on trade in services shall be conducted with a view to promoting the economic growth of all trading partners and the development of developing and least-developed countries.”

Services make up an increasing share of the world economy. This is both due to economic development (services tend to make up a larger proportion of developed economies as basic material needs are satisfied²) and to structural changes in the world economy³. Hence, the extent to which services are traded is becoming increasingly crucial to our societies.

Trade in services can, under certain circumstances, help in meeting global challenges. For instance, a shift of trade from goods to services may lower the impact on natural resource consumption⁴, and labour-intensive service sectors in developed countries may provide employment opportunities for under-employed work forces in developing countries.

However, whilst trade in services may, under some circumstances, be beneficial in meeting global challenges, what is the merit of GATS as a mechanism to boost this trade? It has been argued that commitments under GATS will provide foreign service providers with greater legal certainty – something which is particularly important where investments are involved (that is, under so-called GATS “mode 3”; service provision through commercial presence). But the evidence does not seem to show an increased flow of foreign direct investment (FDI) to these countries: An UNCTAD study found that *“there is no empirical evidence to link any significant increase in FDI flows to developing countries with the conclusion of GATS.”*⁵

If such benefits are not enjoyed, it seems difficult to find arguments for developing countries to negotiate restrictions on their policy space through specific commitments under GATS. If these countries are willing to make commitments at all, it is essential that these contain broad, horizontal conditions on market access and national treatment⁶. Countries should avoid comprehensive commitments in sectors that have not been fully developed domestically, or that have not been subject to careful strategic assessment. There are no service sectors where limits to market access

¹ See also separate position paper “Environmental goods and services” included in this folder.

² See Greg McGuire, “Trade in services – market access opportunities and the benefits of liberalization for developing economies”, UNCTAD/ITCD/TAB/20.

³ The “unbundling” of previously vertically integrated industries has led to increasing service inputs in value chains of merchandise that are becoming increasingly globalised through outsourcing and offshoring: An old-style manufacturer of shoes would take care of the entire value chain from manufacturing to marketing. Today, the “producer” of shoes will rely on services from a number of providers: Starting with the different stages of manufacturing through to logistics and marketing. This demonstrates the somewhat blurred and arbitrary nature of distinctions between goods and services.

⁴ Consider for instance the dematerialisation of information and entertainment from physical storage (books, CDs etc.).

⁵ UNCTAD “A Positive Agenda for Developing Countries: Issues for Future Trade Negotiations”, 2000.

⁶ The extent of such “specific commitments” regarding national treatment and market access is highly uncertain given the paucity of GATS case-law. “National treatment” comprises a ban on *de facto* discrimination, which could lead to policies being challenged where these have the effect of favouring domestic investors, even where these may be more environmentally sound. Also, the GATS general exceptions article is particularly weak: It implies a necessity test of measures taken by WTO Members and it does not include any reference to the impact of trade in services on the non-organic environment. See for instance WWF and CIEL discussion paper “GATS, water and the environment”, October 2003. See also E. Borrero and G. Raj, “GATS Conditions to Achieve Developing Country Policy Objectives”, Occasional Paper 13, South Centre, March 2005.

and national treatment of foreign service providers should be dismantled as a matter of principle. Rather, commitments should be made following full consideration of national and local contexts.

Any negotiations on trade in services should consider carefully the links to trade in goods. Indeed, any service will in one way or another have at least marginal impact on the consumption of goods and of natural resources. This means that negotiations on trade in goods and services should take place in an integrated manner to weigh different legitimate long and short-term interests. Liberalisation of trade in for example forest products should take account of different national regulations on forestry and of specific commitments that different countries are ready to make on forestry services under GATS. Conversely, negotiations on forestry services should consider the impact of tariffs and non-tariff measures related to forest products.

Some proposals for new leadership

In particular, governments should use their communication materials and political interventions to agree:

- on the need to evaluate the combined impact of liberalising trade in goods and services before concluding current services negotiations.
- that the contribution which trade in particular services will make to addressing global challenges will be context-specific, and must be reviewed on an on-going basis drawing on a broad range of expertise through a purpose-built international forum, whose recommendations should form the basis for negotiations.

Some proposals for modest progress

In the course of the negotiations, governments should agree

- that sustainability impact assessments of liberalisation of trade in services should be undertaken before proceeding further with negotiations on specific commitments or on additional GATS disciplines.
- on an emergency safeguard mechanism that provides effective protection against unintended consequences of any specific commitments, and which more generally protects developing countries' national policy objectives including the development of domestic service industries⁷.

⁷ Cf. ASEAN members paper outlining proposals and questions in this regard: WTO document symbol S/WPGR/W/30.

No backsliding!

If nothing else, governments should:

- not agree to benchmarking of offers for new specific commitments.
- not seek any new specific commitments on sectors from countries where they would constrain countries from implementing their development strategies.
- not agree to any disciplines on domestic regulation under GATS Article VI.4 that might restrict public policy choices.
- not develop subsidy disciplines for services based on existing WTO agreements and in particular not restrain developing countries' ability to subsidise domestic service providers.

If you would like to find out more about WWF's work on trade policy, please be in touch on trade@wwfint.org



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WWF's mission is to stop the degradation of the planet's natural environment and to build a future in which humans live in harmony with nature, by:

- conserving the world's biological diversity
- ensuring that the use of renewable natural resources is sustainable
- promoting the reduction of pollution and wasteful consumption

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