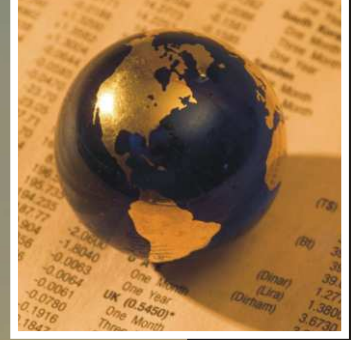


# Making the Most of the Doha Opportunity: Benefits from Services Liberalization



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## Key Findings

This paper seeks to demonstrate the tremendous importance of services trade liberalization to economic development. It argues that the Doha Development Agenda, or Doha “Round” of World Trade Organization (WTO) talks provides a once-in-a-generation opportunity to realize multilateral liberalization of international trade and investment in services. The paper describes dozens of instances in which liberalization has led to growth, with special emphasis on five key service sectors that make substantial and unique contributions to economic growth, development, and living standards: financial services, express delivery, business services, audiovisual services, and telecommunications.

Among the paper’s key findings:

- Services represent a dominant share of the global economy. Services account for 50-60% of economic activity in most developing countries and over 70% in some developed countries. Financial services, telecommunications, express delivery services, business services, audiovisual services, and many other services are essential inputs into virtually all products, including those in manufacturing and agriculture. Nonetheless, international trade in services is only 20% percent of global trade, demonstrating the need for liberalization in the Doha Round, and the great scope for growth of global services trade.
- Liberalization of trade in services can drive future economic development. If trade in services is liberalized, the potential welfare gains far exceed those in manufacturing and agriculture. By one estimate, service sector liberalization could yield a welfare gain for developing countries of US\$6 trillion from 2005-2015, four times more than goods liberalization. Liberalization of trade in services creates a dynamic environment that promotes infusions of capital and technology, in turn generating new economic growth. Services are a fundamental part of the economic infrastructure and a major determinant of a country’s success in exporting goods and agricultural products.
- Services liberalization promotes foreign direct investment (FDI) and facilitates exports. FDI is critical to economic development, as it brings in the crucial elements of capital and technology. Moreover, FDI generates better jobs, encourages best



practices, and promotes educational and training opportunities, raising the overall skill levels of the workforce. It raises the standards and efficiency of domestic businesses that serve local enterprises and consumers, and increases a nation's capacity to export services, as illustrated by India's remarkable success in business services.

- Services liberalization creates jobs. In both developed and developing countries, the service sector is creating jobs. From 1995-2005, worldwide employment in the service sector increased from 34% to 39% of the global workforce. During the same period, employment in agriculture declined from 44% to 40% of the global workforce, while the share of employment in industry has seen little change.
- Liberalization does not mean abandonment of market regulation. Liberalization in services should be accompanied by regulatory best practices, which, applied fairly and transparently to all economic actors ensure healthy long term competition. Regulatory best practices also help to hedge risks, protect the environment, and safeguard consumers and intellectual property rights. Increased competition resulting from liberalization requires more sophisticated regulatory frameworks, but building appropriate regulatory institutions is likely to be far less costly to consumers and businesses than the costs of protectionism and weak competition.
- Financial services. Liberalization of trade in financial services improves capital market efficiency, bolsters financial sector stability, and supports economic growth and job creation. Liberalization stimulates modernization and innovation, provides consumers with the broadest range of products and services at the lowest cost, and helps developing countries attract new foreign investment and capital. Developing countries that fully liberalize their financial services sectors could see an income gain of close to US\$300 billion by 2015, an amount equivalent to an extra 2% of GDP.
- Business services. Business services are essential to all modern economies. They intersect with a wide range of other sectors and are a key source of innovation and growth in both developing and developed countries. International trade in business services is growing rapidly, driven by business process outsourcing (BPO), the contracting out of a wide array of business services to outside providers. Both developed and developing countries will benefit from making binding commitments in the WTO in order to lock in existing levels of openness.



- **Express delivery services.** Express delivery services have become essential to international trade. They are necessary for efficient supply chain management, and make it possible for businesses everywhere, including small and medium enterprises, to compete in the international arena. Express delivery services dramatically lower the costs of handling imports and exports. Countries with liberalized express delivery services are cheaper to ship to and from, giving them important competitive advantages. Supply chain costs can be as high as one quarter of total production costs in emerging markets. The efficient movement of goods can dramatically lower costs for exporters and consumers.
  
- **Audiovisual services.** Many developing countries are already net exporters of audiovisual and cultural services. Liberalization will increase export opportunities and encourage investment in the digital infrastructure necessary to accommodate the increased availability of diverse content. Liberalization promotes job creation in areas such as production, dubbing, promotion and advertising, rental and retailing, and other services. Other spin-off benefits include increased tourism. But perhaps the most essential value of expanded trade in audiovisual services lies in increased understanding, freedom of expression, and the protection of multiculturalism that results when small producers in small countries use inexpensive new technologies to express themselves.
  
- **Telecommunications services.** Telecommunications networks enable the knowledge-based economy of the 21st Century to function. They are the backbone of the internet and electronic commerce. Cross-border trade depends on the telecommunications networks through which this mode of delivery of services mainly flows. Countries with WTO telecommunications commitments experience higher growth rates in telecom sector revenues, and higher penetration rates for fixed-line and mobile telephone services. Additional liberalization in the Doha Round will accelerate these benefits and support further economic growth.
  
- **The Doha Round of global trade talks is a once-in-a-generation opportunity to realize all these benefits through liberalization.** Developing countries have the opportunity both to benefit from liberalization of their service sectors, and to gain access to other WTO members' markets through reciprocal concessions. In order to achieve these benefits, WTO members must make bold offers to liberalize domestic service sectors, and make bold demands in return.

