

The Doha Round and US Service Sector Interests

Statement by

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Introduction

Thank you, Mr. Chairman, for the opportunity to testify today on US service industry interests and priorities in the Doha Round. I am speaking today on behalf of The Coalition of Service Industries (CSI), the leading business organization dedicated to the reduction of barriers to US services exports.

Our overriding objective is to obtain commercially significant trade liberalization in the WTO and in other forums for services trade: financial and payments services, express delivery and logistics, telecommunications, energy services, computer and related services, travel and tourism, audio-visual services, and accounting and legal services. We believe such liberalization is a vital US national interest and will also contribute to economic modernization and growth in emerging markets and the developing world.

Along with agriculture and goods, services is one of the three main "pillars" of negotiation in the Doha Round. The services sector represents the largest part of US employment and economic output, and the US is the world's largest services trader. But the attention accorded to services in trade negotiations, at least until recently, was not equal to that of the other two pillars. Several issues threaten to put a meaningful outcome on services beyond reach. Such a failure would be a tremendous loss for the United States. It would be impossible for our sector to support a Round that did not achieve substantial liberalization in services.

The Importance of Services

I want to highlight just how important services are to our economy, our foreign trade, and to American jobs.

- ❑ Services account for nearly four-fifths of US economic output.
- ❑ 90 million Americans are employed in the service sector - 80% of the private sector workforce.
- ❑ The US is the world's largest services exporter, with cross border exports of services having grown steadily in recent years, reaching \$340 billion last year.
- ❑ The US enjoys a surplus in services trade of about \$50 billion, offsetting a small portion of our goods deficit.
- ❑ Sales of services by US affiliates in foreign markets are even larger, rising from \$190 billion in 1995 to over \$477 billion in 2003. The operations of these affiliates are vital to US companies' global competitiveness, and thus to American jobs.
- ❑ The Labor Department estimates that 90% of all the new jobs created in the US between now and 2012 will be in the service sector.
- ❑ In the last decade, the service sector added 18 million new American jobs.

The importance for the United States of securing meaningful services liberalization in the Doha Round is clear.

Problems with services negotiations

WTO members' participation in the Doha Round services negotiations has been uneven and generally weak, and the talks are far behind schedule as a result.

Roughly 20 WTO members (counting the EU as one) submitted initial services offers by the Doha Declaration deadline of March 31, 2003. At this point, 69 initial offers have been put forward, meaning that more than 20 WTO members that are obligated to do so still have not yet tabled an initial offer¹. The "July Package" adopted by WTO members last year called for the submission of revised (meaning improved) offers by May 31 of this year, an obligation met by 28 members.

These are meager results. Why? There are two sets of reasons. The first involve the lack of progress in areas of interest to others in the negotiations, which have left other countries with the sense that there are few benefits from concluding a successful Round. The second involve how the services negotiations have been conducted.

¹ The least-developed WTO members are not obligated to table services offers.

Areas of interest to others

Agriculture. First and foremost, an agriculture breakthrough is the key to the entire Doha Round undertaking. Agriculture has been the central issue in this Round from the outset, and many developing countries have linked their willingness to liberalize services trade with progress in the agriculture negotiations.

In that regard, we strongly supported Ambassador Portman's bold proposal in Zurich earlier this month, in which he outlined US proposals for the reduction of subsidies and other forms of support that distort agricultural trade. Reciprocation by the EU would generate positive momentum for the Round. Those countries that have made services conditional on progress in agriculture would then have no further excuse not to negotiate services in earnest. But the EU response has fallen far short. Until agriculture is resolved, the services negotiations will progress slowly, if at all.

Business Travel Facilitation. US business needs a new business travel facilitation program for two reasons. First, a number of important trading partners have made it clear that their willingness to liberalize in our priority sectors is dependent on the willingness of the United States to discuss business travel facilitation. Second, existing programs do not meet our own companies' needs.

We are unable to engage in such discussions in the Doha Round because there is no agreement in the United States on how to proceed. This inability is adversely affecting the efforts of US services companies to expand their market share in key foreign countries.

The Congress, US trade negotiators and the business community need to work together to shape a business travel facilitation initiative. To move forward, the business community has fashioned a proposal to facilitate the temporary entry of key business personnel, by which we mean professionals, managers, consultants, and highly skilled experts and technicians. We want to work with the Congress in the coming months to develop and refine this proposal. Should it be possible to garner Congressional support, it would give us a much-needed way forward on business travel problems, and valuable negotiating leverage in the Round.

Emergency Safeguard Mechanism. A group of developing countries, spearheaded by the ASEAN nations, has advocated an Emergency Safeguard Mechanism (ESM) for services, similar to anti-dumping remedies for goods. The US and a large number of other WTO members have taken the position that an ESM for services is neither feasible nor desirable. The nature of services trade is such that it would be extremely difficult, if not impossible, to demonstrate damage from increased service imports. It would be even more difficult to determine remedies. For goods, the remedies are quantitative, in the form of tariffs and quotas, options which are not possible in services. Moreover, the record of the use and abuse of the escape clause for goods should make anyone interested in free trade hesitant in trying to apply it to services.

Despite the inherent problems with ESMs, demanders have taken a firm line, and are unlikely to abandon this demand. An effort will therefore have to be made to find some acceptable compromise. It is possible without sacrificing core US interests.

The process of services negotiations

Incentives to Negotiate. A fundamental problem in the services negotiations is that of insufficient incentives for WTO members to negotiate. Tremendous effort is often needed in

order to build domestic support for liberalization. Any move to liberalize a service such as banking, telecommunications, transportation, etc. necessarily entails negotiations within governments -- between trade ministries and the various ministries or agencies that regulate the service for which liberalization is being negotiated. Thus, extensive internal heavy lifting is needed in order for countries to formulate and table truly meaningful offers. (Services is also distinguished in this way from trade in goods and agriculture, where responsibility for developing negotiating positions lies within a single ministry).

Unfortunately, many countries do not expect trade liberalization to generate sufficient economic gains to make this political effort worthwhile. Moreover, in some countries there is simply no domestic constituency advocating liberalization, or such constituencies are weaker than opposing interests. Some developing and less developed countries do not understand how they might benefit from liberalization, or do not have the resources to identify their own services export potential. These are all contributing factors to the submission of late, poor offers, and a lack of interest in engaging in the services negotiations.

Request offer and the search for complementary approaches. Services negotiations are by their nature complex and time-consuming. They are based on a request-offer process, requiring multiple intensive negotiating sessions in which initial offers are followed by further negotiations, (and by the domestic political legwork mentioned above) leading to improved offers, followed by further negotiation. These negotiations are undertaken trading partner by trading partner, sector by sector, across the range of service sectors in which concessions are being sought. It is easy to see how effective services negotiations can take, at a minimum, many months. Unfortunately, this process has thus far not gained traction in the Doha Round.

For this reason, a number of WTO Members have advocated "complementary approaches" that would supplement the request offer process by setting benchmarks or creating formulas that Members would use as guidelines in scheduling commitments. Several different proposals have been tabled, most of which propose multilaterally agreed baseline levels of commitments, combined with a plurilateral approach, whereby a critical mass of interested Members agrees to a higher level of liberalization for a particular service sector in which those Members have shared interests. Those higher levels of liberalization are then offered on an MFN basis to all WTO members. None of the complementary approaches advocate doing away with the request-offer process, which will remain the principal negotiating mechanism.

An example of a complementary approach is the European Commission proposal by which WTO members would agree to liberalization in a given percentage of the 156 service subsectors identified in the General Agreement on Trade in Services (GATS). Developed countries would have to make commitments in x percent of subsectors, and developing countries in some lesser percentage.

However, developing countries object to the proposals from the EC and others on a couple grounds:

--The GATS agreement specifically says that countries are free to choose whether, and in which sectors, they will liberalize. A prescriptive number undercuts this flexibility.

--Developing countries generally have made commitments in a small portion of the subsectors identified in the GATS (about 15-20%), while the portion is higher for developed countries (about 60%). Developing countries thus would be required to do more than developed countries, who might have to make relatively few new commitments, depending on the percentage of

subsectors adopted as the benchmark.

A further flaw is that countries could meet the numerical requirement simply by making commitments in sectors in which we have no interest, while making no new commitments in priority sectors for the US, like financial services. The US, in cooperation with India, has therefore been working on compromise proposals to bridge the gap between the EU and developing countries.

The discussions on complementary approaches have been helpful in drawing attention to the problems with the request offer process specifically, and the services negotiations generally. If ways to improve and streamline request offer can be identified and agreed upon, so much the better. However, it is important that the dialogue on complementary approaches not become a negotiation in itself, and distract from the objective of seeking liberalization.

As the one-time negotiator for financial services in the Uruguay Round, I can tell you that there are no magical short-cuts to the negotiation process that will bring a solution. What is needed is leadership by the United States, working with others who are committed to a successful round with meaningful progress on services.

Conclusion

Without a decisive push by the US and other key WTO members, the Doha Round could reach a point where, even if agreement is reached on agricultural liberalization, there simply will not be sufficient time left to adequately address services before the Round's scheduled conclusion. Resources and energy must be directed toward a successful conclusion to the services negotiations.

It is encouraging that efforts are being made, as evidenced by Ambassador Portman's work, by the recent attempts to supplement the request-offer process, and by the support of other key officials. WTO Director-General Pascal Lamy, for example, noted in an October 5 speech that "a satisfactory result [for services] is a sine qua non for the whole [Doha Round] project." And he highlighted the need to improve offers now, rather than wait for a solution in agriculture, because there may not be sufficient time to do so.²

The US and India co-chair a new "core group" on services. Formed on September 23, the group also includes Brazil, China, EU, Mexico, Australia, South Korea, Malaysia, Singapore, Japan, Argentina, Chile and Canada. Already dubbed "the New Quad", we hope that this group can provide the leadership necessary to overcome the impediments to progress in the services negotiations.

Mr. Chairman, all the issues cited above may require concessions by the United States which have been offered in agriculture and can be offered without any sacrifice of vital interests in temporary entry and safeguards. Continued demonstration of US willingness to engage is the best way to elicit the needed offers in the sectors of greatest commercial value to our service industries.

² "Export of Services: Hype or High Potential? Implications for Strategy-Makers." Address by WTO Director-General Pascal Lamy to the International Trade Centre Executive Forum on National Export Strategy, Montreux, Switzerland, October 5, 2005.

We therefore need the support of the Congress in these areas. In addition we need clear signals from Congress that services liberalization is a critical US interest and that no agreement without this is acceptable. With these elements, we will be in a very good position to press priority countries for substantial services liberalization.

An important message that must continually be emphasized is that services liberalization is first and foremost in the interest of the liberalizing country. Services such as banking and insurance, telecommunications, transportation and logistics, legal and accounting and others form the infrastructure essential to economic development and are crucial to other areas of an economy. Countries therefore need to stop viewing services as something to trade off; countries where world class services are available are more attractive places to invest. The cost of investment, and associated risks for US service providers, are higher in markets where there are not bound commitments and hence development lags. Services liberalization also serves the interests of US farmers and goods exporters by fostering stronger markets abroad.

Multilateral trade Rounds occur roughly twice per generation. International trade moves much more quickly than the rules that govern it, and global trade in services currently operates within the framework adopted at the conclusion of the Uruguay Round more than ten years ago. In the fast-changing world of those of us who work in the services sectors, this is an epoch.

Failure to negotiate commercially meaningful commitments for services would mean that the trade rules for services would fall far behind the reality of markets. This would mean lost opportunities for both US services producers and for countries that failed to modernize their services trade. The US services sector could not support a Doha round outcome that failed in this respect. We would enthusiastically support a conclusion of the Round that moved significantly forward in liberalizing services.

I thank you for your time, and would be glad to answer any questions you might have.