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**ASEM Business Summit on Trade in Services
- Beijing, 20 – 21 October 2008 –**

Opening Ceremony

Speech of Mr. Christoffer Taxell
Chairman of the European Services Forum (ESF)

Dear Chairman,
Dear Ministers,
Excellencies,
Dear Colleagues,
Ladies and Gentlemen,

It is a great honor to be here today for the first ASEM Business Summit on Trade in Services. I would like to thank the Chinese government for taking this initiative in the context of the Asia-Europe Meeting. It is an initiative that we in Europe - and in particular in the European Services Forum - very much welcome.

To my knowledge this is the very first summit of its kind. We have had three World Services Congresses, including one in Hong Kong in 2001, invited together by the business community. But this time we have been invited by the governments to discuss specifically services.

Further, this takes place in a gathering that represents the largest market in world: ASEM brings together more than 3.5 billion consumers of services.

1. The importance of services in our economies

The full meaning of “services” is often not well apprehended. Even a quick look at their scope and role in our economies reveals that services are in fact in our daily life.

Services cover an almost endless variety of functions from tourism to professional services, from construction to financial services. Further, services are essential to other parts of the economy. Infrastructure services, such as energy distribution, telecommunications, banking, and logistics enable the development of other sectors like manufacturing and agriculture.

We are all consumers of services and services cover the largest part of our economies. This is not true only for the so-called developed economies but for almost all of them. In Europe, Japan or Korea services have represented about two thirds or three quarters of the GDP. Services also represent about half of the economy in most Asian countries. Then we have Hong Kong and Singapore where the figures are simply astonishing (90%). Our host country China is always rightly considered as the factory of the world – however, 40% of its economy is services.

2. The Importance of trade in services in world trade

But we are here to address **TRADE in services**, which means very different figures.

It is estimated by the WTO and World Bank that trade in services represents less than a quarter of total world trade. Agricultural trade represents around 7%, and other merchandise trade around 70%. However, it needs to be recalled that this quarter for services only represents their share in the balance of payment.

The difference between the role of services in national economies and in world trade is astonishing. It brings to mind one question: why? Perhaps - as is a part of our mission in ESF – efforts are needed to make services trade easier.

Before this can be done one must be more complete in what “trade in services” covers.

It is not sufficient to know the sectors. We need to understand where the impact is felt when trade policy decisions concern “trade in services”.

To begin, we have four ways to trade services:

1. Services can be supplied across the borders, for example by using the internet.

2. Consumer can come to the service supplier. When any of us foreign participants pay for services enjoyed while here in Beijing, these transactions will be counted as an export activity from China in the world trade balance.
3. A person who is a service supplier can also go to the consumer. This movement is what they call “Mode 4” in the jargon of trade negotiations.
4. Finally, one can supply a service by setting up a commercial presence abroad.

This last one, “Mode 3” in trade jargon, is by far the preferred way of services companies to trade internationally. And it is for most part not covered by international trade in services statistics. While the statistics do cover things such as profits crossing the borders towards the headquarters – this is only a fraction of the service trade in question. The biggest part of “Mode 3” trade is in fact found in the Foreign Direct Investments figures, which I will come back to in a minute.

The largest part of the foreign affiliates’ activities forms a part of the host country’s domestic economy. A foreign subsidiary will create local jobs, pay local taxes, and largely reinvest locally - all of this is a part of the host’s GDP. This is fine – as long as foreign markets are open to foreign service companies’ investment and business.

This means trade policy commitments. And this is why our companies support trade negotiations, whether multilateral, as we would prefer, regional or bilateral.

We do want to take this opportunity to call upon all government representatives here today to make the necessary efforts to conclude the DDA as soon as possible. We also call them, as a complimentary action, to engage actively in the Free Trade Agreements negotiations ongoing between the EU and many ASEM countries. (These are EU-India, EU-Korea and EU-ASEAN.)

Coming back to FDI, it is not often realised that the bulk of foreign direct investment goes to services sectors. While we are used to announcements of manufacturing

corporations setting up new plants in different parts of the world, there is almost silence as regards news on services investments.

However, as far as Europe is concerned, 86% of all inward investment is flooding in the services sectors. (This represented more than 340 Bio € in the first 4 years of this decade; 2001-2004). As for the EU outward FDI, more than 65% has been to services sectors. (Total of 446 Bio € in the same 4 years,) Unfortunately, the flow to and from Asia has remained small, and has even a trend to shrink.

The facts are there. Asia and Europe do not trade much when it comes to services, compared to similar activities of the EU with other regions in the world. There are many opportunities but these are not yet exploited between the EU and the ASEM countries.

When again asked why – it appears fair to say that many trade barriers continue to impede trade between the two regions. And can trade policy choices of the regions contribute to improving this situation? The answer is clearly: yes.

3. The importance of removing the barriers to trade in services

We can further strengthen the links between our regions by removing or reducing the barriers that prevent our services companies from trading and investing. Easier entry to each other's markets would bring more innovation, more transfer of expertise and technology, allow further competition and hence increase the competitiveness of our companies. This would benefit our clients and customers – that means all of us.

The list of barriers is long, too long. Removing them takes time and political will. This is the case for barriers in goods trade and even more so for barriers in services trade. Among the usual obligations imposed on foreign companies, we have joint venture requirement, geographic limitations; limitations on capital ownership, on legal form; local employment requirements, lack of independent regulator, etc. I don't need to

enumerate all these obstacles that our companies face when entering a foreign market. The most commonly quoted by companies are the long and burdensome administrative procedures and the lack of transparency in domestic regulation.

The right to regulate should, however, not be questioned. We in the European services industry are not in favour of deregulation - but we support better regulation. We have in the past weeks seen the consequences of lack of regulation in the securities and financial markets. For years we have called for better regulation and more transparency.

We also see every day the burden of bad regulation; preventing economic actors from doing business in a fair environment.

For instance, the most used obstacle in Asia, by far, is the discriminatory capital ownership limitation. And this has a direct link to the small FDI flows.

The asset of a services company is the know-how, the management expertise that it has developed and the fact that it has invented a service that its competitors don't have. And the company cannot give away this know-how, its main asset. This is why strict limitations in foreign ownership deprive a country of the real added value that the investment would bring. It is clear that without opportunity to control the company through over 50% ownership, an investor will never invest in the same way that it would if he had the opportunity for majority.

So the result is no transfer of expertise or technology related to those services. And, more importantly, the investors often just don't invest. Because they don't know the regulation well, they don't know whether their investment would be secure and profitable. The small FDI flow in services between our two regions is a clear evidence of that.

I am also aware that there remain barriers, which prevent Asian companies from trading and investing in Europe. In the ESF, we support all EU efforts to remove these obstacles. We also support the completion of the European Single Market in all services sectors, which will mean having the whole EU as our true home market. This is the aim of the so-called “Services Directive”, which by the way will benefit automatically also to foreign companies that are incorporated in any of the EU Member States.

What we are asking is that regulators regulate in a non-discriminatory manner. All players in a market should be subject to the same rules. We are asking for national treatment and for legal security for our investments.

One can understand the fears of governments and regulators that their “infant” services economy would run the risk of being taken over by big multinationals. But in reality this is a myth. It never happens, not even in the most open countries. It is a question of good governance. The problem lies in lack of sufficient knowledge between the negotiators and regulators of the two regions. And the resulting lack of movement to reduce obstacles has a dramatic negative effect.

Now more than ever, it is important to keep markets open and to open those that are closed. I would urge all governments to resist any protectionist pressure that will undoubtedly come with the financial and economic crisis. Now more than two weeks ago, it is important to defend the value of globalization and the mutual promotion of our economies.

For all the reasons mentioned, I would like to express once again my sincere thanks to the organizers for convening this summit. It is more than timely to exchange views to allow better mutual understanding, and work together to take the necessary steps to remove the barriers to trade in services between our two regions.

I wish the summit every success and thank you for your attention.