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**“WHY SERVICES ARE CRUCIAL FOR CONCLUDING THE DOHA ROUND”**

15 October 2007 – 17:00 – 18:30

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## **SPEAKING NOTES**

**by Peter Sutherland**

Judging by the extent of the media coverage, the Doha Development Round seems to be exclusively about agriculture and goods, although the Doha mandate also includes liberalisation of trade in services. Why is this so, when services are so much a more important part of modern economic activity and a crucial component in securing faster progress on development?

Of course, there are good historical reasons why progress on agriculture and goods must be made in the Doha Round and I do not want to suggest that progress in these areas are unimportant. On the contrary, it is clear that there will be no agreement unless the negotiations on agriculture and goods are steered to a successful conclusion.

Yet, there is a disturbing imbalance in the negotiations to date. By neglecting the services component negotiators are placing the Round as a whole at serious risk. No country, not even the largest, stands to gain by letting the Doha Round fail. For the smaller countries and weaker developing economies, the stakes are more critical. Apart from forfeiting the considerable economic benefits to be secured from a successful outcome, the damage to the multilateral rules-based system would rapidly become evident and this would undermine the global economic framework which is important to maintain economic progress and development. Nor should the potential for political conflicts and tensions arising from such a collapse be underestimated.

Why has it been so difficult for the negotiators to truly engage on services?

Firstly, in contrast to agriculture and goods, global services trade is relatively new to the WTO system. The basic framework for services was established at the conclusion of the Uruguay Round in 1993 by the General Agreement on Trade in Services (GATS). The scheduled commitments on services at the end of the Uruguay Round and the subsequent sectoral negotiations on IT, telecommunications and financial services were quite modest. So the experience in dealing with services within the GATS is not extensive.

Secondly, services are in many respects more complex than agriculture and goods, where tariff concessions, subsidies and domestic support can be encapsulated in ranges of figures or formulae, making it more straightforward (although not necessarily politically easier) for negotiators to get to grips with. Services require a lot more work because of the specificities of each sub-sector and because some services are extensively regulated. A successful negotiation on services requires negotiators to develop considerable knowledge of each sub-sector and of their offensive and defensive interests in those sub-sectors in their negotiations with their trading partners.

Thirdly, services negotiations because of the need for discussion of detail need more than Trade Ministries to be involved in the negotiations. Other domestic Ministries, agencies and regulatory bodies (which may not be as familiar with the GATS system) have to be engaged directly in the details of the negotiations. Co-ordination between these agencies is inevitably complex and time consuming and other priorities consume political attention. So getting and maintaining focussed attention on services negotiations is not easy.

Fourthly, in contrast with institutions that have a strong executive or secretariat, the WTO sees itself as a member driven organisation. Thus the power of initiative largely resides with the members. But if the members themselves have difficulty in coming to grips with the substance of services, there can be an absence of leadership which is not conducive to shaping an economically beneficial agenda.

When one considers these factors, it is perhaps not surprising that the discussions in Geneva on services have tended to be dominated by process instead of substance. In addition, it is evident that a tactical game has been at play so the substance of work on services has been delayed in order to put tactical pressure on the US and EU on agriculture. It was only after the Hong Kong Ministerial Meeting in December 2005 that a plurilateral process was initiated which for the first time produced any level of engagement on services. That work was useful. But if we examine the indications to date of movement from WTO members and the offers on services which have been tabled so far, we are very far from having a result on services that would have a meaningful impact on trade liberalisation or development.

I congratulate Pascal Lamy in coming here to make the point that a more ambitious result on services is necessary to conclude the Doha Round.

For it is actually in services where WTO members have the most to gain from these negotiations provided they rise to challenge of not only binding all existing levels of market access but also adding significant new liberalisation measures. Over the past few decades, services have become the dominant sector of the global economy. Services now represent some 50% to 60% of economic activity in most developing countries and over 70% in many industrialised countries. Employment in services has increased worldwide. Between 1995 and 2005, worldwide employment in the services sector increased from 34% to 39% of the global labour force. The potential international trade in services is large since services represent about 20% of global trade. One study has estimated that services sector liberalisation could result in global welfare gains of \$1.7 trillion, more than double the potential gains from liberalisation of trade in goods and 31 times the projected gain from agriculture liberalisation.

For developing countries, services trade supplies the means to participate much more extensively in the global economy. Telecommunications, IT and financial services are all key enabling services sectors that can promote stronger developing country integration into the global economy. Even SMEs that avail of these services can quickly reach customers in remote parts of the globe. The impact on economic growth and jobs can be enormous. That is why both developed and developing countries need to take services very seriously. All countries can do much more to schedule meaningful commitments on cross-border supply, freedom of commercial presence, consumption abroad and movement of natural persons.

Business has risen to the challenge. Many business sectors both in developed and developing countries have made it loud and clear what they need out of Doha. A number of them have tabled Model Schedules of WTO commitments that are appropriate for their industry and have explained both in capitals and to negotiators in Geneva why these proposals are necessary to support investment and trade. Take financial services. Each of the securities, banking and insurance industries has put forward detailed proposals. Freer cross-border supply of capital market related services is essential in today's global economy and can reduce significantly the cost of capital for enterprises and institutions. Likewise, many restrictions on the choice of corporate form (such as equity caps or imposed joint venture arrangements) by enterprises seeking to establish abroad need to be phased out or abolished completely. Suppliers of telecommunications, IT, legal, accountancy, transport services suppliers all need improved access to markets. And it is not only the developing countries which have to move. Developed countries too need to be more willing to make cross-border supply commitments and facilitate new players from Brazil, India and China to participate more effectively in developed country markets. Services liberalisation is a win-

win issue for both developed and developing countries alike. Doha is an opportunity to realise these significant benefits.

Finally, I would like to stress a political point which is this. It is extremely difficult to see how a coalition of supporting interests can be put together to ensure ratification of a Doha outcome unless that outcome also includes commercially meaningful commitments on services. Trade liberalisation is increasingly questioned by many, including in jurisdictions which previously could be relied upon to support freer trade. Dislocations arising from structural shifts stimulated by globalisation have given rise to uncertainty and anxiety among some. The constituencies that oppose liberalisation of agriculture and goods will be difficult to overcome unless the outcome is such that a substantial number of sectors find it in their interest to advocate positive support for Doha. The services sectors are clear candidates to provide that support. But to get them mobilised and active will require a Doha result that is touch with economic needs and realities and delivers not only binding of existing access but substantial new measures of market opening in both the developed and developing countries.

So I hope the negotiators can meet that challenge and redouble their efforts to secure an ambitious set of commitments in all the services sub-sectors. If they succeed, I am confident that we will be able to create the political will to complete and ratify the Doha Round and thus strengthen greatly the multilateral system which is crucial global economic progress and welfare.