RESEARCH REPORT

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Trade Capacity Building in the Services Sector

A Resource Guide

SUBMITTED TO
USAID/Washington

SUBMITTED BY
Nathan Associates Inc.
TCB Project

UNDER CONTRACT NO.
PCE-I-00-98-00016-00
Task Order 13

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Nathan Associates Inc.
Support for Trade
Capacity-Building Activities
Arlington, Virginia

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Sponsored by USAID's Bureau of Economic Growth, Agriculture and Trade (EGAT) and implemented by Nathan Associates Inc., the Trade Capacity Building (TCB) Project, 2001–2004, helps developing countries assess their trade constraints and prioritize their trade-related technical assistance needs. The project provides trade experts for short-term technical assistance in developing countries and assists USAID Missions in designing, implementing, monitoring, and evaluating technical assistance that will stimulate economic growth and reduce poverty. Electronic copies of reports and materials related to trade needs assessments, resource guides, and trade training workshops are available at www.tcb-project.com. USAID Missions and Bureaus may seek assistance and funding for activities under this project by contacting John Ellis, USAID/EGAT, TCB Project Task Manager at jellis@usaid.gov.

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Executive Summary

The services sector encompasses a broad array of activities, from healthcare to restaurant services, from banking to cargo-handling services, and from data processing to building cleaning services. In addition, the services used to design, assemble, package, transport, and market finished products often have a much greater value than the products' physical raw materials and parts. For decades, services have exhibited growth rates that exceed overall economic performance. They are now an important and growing part of the global economy, accounting for the largest share of output and employment in developed and developing countries alike.

In most developing countries,[1] however, underdeveloped, inefficient, high-cost services sectors are a significant economic constraint, hindering growth in high value-added goods and in specialized services that incorporate other services as an input. These countries can improve the performance of their service sectors by means of unilateral reform or reform initiated through multilateral, regional, or bilateral trade negotiations.

Liberalization of the services sector, whether through negotiations or unilateral reform, can be a significant stimulus to economic growth. Efficient services sectors strengthen the domestic infrastructure; add value to manufactured, agricultural, and mining products; create knowledge-based and labor-intensive jobs; attract investment; facilitate the transfer of technology and "know-how;" and stimulate a competitive environment that encourages innovation, improves quality, and reduces costs—all of which ultimately benefits a number of stakeholders.

Developing countries often need technical assistance to implement services reform and to pursue liberalization. Technical assistance needs vary with each country's economic and legal

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[1] In this report, "developing countries" covers a spectrum ranging from least-developed (or lower-income) countries to middle-income and even higher-income developing countries. Many economies at the higher-income end of the spectrum (such as South Korea, Singapore, Hong Kong, and Taiwan) have advanced in their development such that they do not qualify for preferential access to the U.S. market under programs such as the Generalized System of Preferences, which are designed to benefit poorer countries. Our inclusion of such countries here for analytical purposes is consistent with the World Bank's use of the term "developing countries"; it should not be taken to imply a U.S. Government position about the classification of economies for trade policy purposes.

environment and services-related issues. These may include issues related to devising sound policy, strengthening the regulatory environment, enhancing participation in formulation of international standards, and ensuring access to services in the poorest areas. With the proliferation of multilateral, regional, and bilateral trade negotiations—most of which encompass services commitments to some extent— some developing countries find it difficult to manage a services trade agenda. These activities often entail comprehensive reviews of laws and regulations affecting each services sector, as well as consultations and collaboration between ministries and with regulatory bodies that formulate policy for each sector.

Technical assistance for services sector liberalization should focus on helping countries (1) identify sectors that suffer significant constraints, at home as well as abroad, and (2) remove those constraints, either through market access negotiations or through domestic reform. Identifying and prioritizing needs for services-related trade capacity building (TCB) and technical assistance is in itself a major task for most developing and least developed countries, and one for which they may also seek assistance. In addition, developing countries frequently seek assistance in identifying (1) sectors that are exporting or could successfully export services and (2) regulatory and procedural obstacles, domestic and foreign, to exports. This process of identification often necessitates new mechanisms for consultation with their own service sector representatives and trade associations to assess export capabilities and promising markets.

A variety of development and trade institutions provide services-related technical assistance to developing countries. From 1999-2003, the U.S. Government allocated more than $10 million for assistance related to the World Trade Organization's (WTO) General Agreement on Trade in Services (GATS), nearly 40 percent of that in 2003 alone. USAID, which accounts for nearly 75 percent of TCB provided by the U.S. Government to developing countries, offers assistance in removing obstacles to development, including barriers to services trade. USAID also has a variety of mechanisms and programs that support services development. These programs involve financial sector development and good governance, trade-facilitating e-commerce and information technology, trade-facilitating business services and training, tourism sector development, and other services development programs. Thus, while funding for GATS-related technical assistance is minimal, the broad scope of USAID's trade facilitation, reform, and development activities—all of which involve services—presents a truer picture of the influence of services on different aspects of an economy.

A number of regional and multilateral institutions also provide trade-related technical assistance. For example, developing countries often need assistance in designing and implementing regulatory reforms in service sectors. The IMF and the Bank for International Settlements, along with several financial regulatory agencies in developed countries, provide assistance in regulatory reform of financial services. The institutions most active in providing assistance or resources, or both, for services liberalization, reform, and capacity building with regard to services negotiations are the WTO, the World Bank, and the Organization of American States.

1. Introduction

Services are an important and growing part of the global economy, accounting for the largest share of output and employment in developed and developing countries alike (Table 1-1). For decades, services have exhibited growth rates that exceed overall economic performance. This is true in developing countries as well as in high-income countries.

Table 1-1
Contribution of Services to World Economy, 2000

Countries	Share of GDP (%)	Share of Employment (%)
OECD Members	74	72
Mid-level Development	59	63
Low-level Development	51	56

SOURCE: *OECD Value Added and Employment Statistics, World Bank World Development Indicators Database, 2002.*

The services sector encompasses a broad array of activities, from healthcare to restaurant services, from banking to cargo-handling services, and from data processing to building cleaning services. Certain sectors, such as financial services, may be subject to heavy domestic regulation, while others, such as street vending, may be subject to little or no regulation. The experiences and policies of individual countries vary substantially, even among similar services sectors. In general though, underdeveloped, inefficient, high-cost services sectors are a significant constraint in most developing countries, hindering growth in high value-added goods and in specialized services that incorporate other services as an input.

Service sector performance can be improved by means of unilateral reform or reform initiated through multilateral, regional, or bilateral trade negotiations. More often, sector reform takes place independently rather than through trade negotiations. Nonetheless, binding reform through trade negotiations is important in ensuring the stability and predictability of constructive changes in regulations affecting services, and many countries have further liberalized their service sectors because of international obligations assumed through negotiations.

Coverage of services in trade agreements is a relatively recent development. The North American Free Trade Agreement (NAFTA), concluded in 1992, was the first regional trade agreement to incorporate rules governing international trade in services and to have a developing country as a contracting party.[2] The Uruguay Round, concluded two years later, established the World Trade Organization in 1995 and encompassed a framework agreement on services, the General Agreement on Trade in Services (GATS). As agreed in the GATS, services are part of the "built-in agenda" for ongoing multilateral negotiations under the WTO's "Doha Development Agenda." In addition, services have assumed increasing importance in most trade negotiations of the past decade, including bilateral agreements the United States has concluded with Jordan, Singapore, Chile, Central America, Australia, and Morocco.

With the proliferation of multilateral, regional, and bilateral trade negotiations, some developing countries are finding it difficult to manage a services trade agenda. They are being pressured not only to improve or develop their own export interests in services, but also to address constraints on services in their own economies, including constraints identified by negotiating partners. These activities take enormous effort, often entailing comprehensive reviews of laws and regulations affecting each services sector, as well as consultations and collaboration between ministries and with regulatory bodies that formulate policy for each sector.

In addition, trade negotiations are often treated as adversarial fora in which countries try to negotiate the best possible deal for their constituents regardless of the payoff for their negotiating partner(s). But it is a country's own commitments to remove trade barriers and enable competition that are the greatest stimulus to economic growth. For example, a World Bank report finds that a 10 percent decrease in the cost of transportation services could increase trade in Africa by 25 percent.[3] An efficient services sector

- ***Strengthens domestic infrastructure,*** including financial, telecommunication, energy, and transportation services, providing a foundation for other economic activities;
- ***Adds value*** to manufactured, agricultural, and mining products by providing key input to processing and production, thereby contributing to product specialization, income growth, and economic modernization;
- ***Facilitates the transfer of technology and knowledge*** by constantly expanding the range of tradable services and the ability to export those services;

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[2] The U.S.– Canada Free Trade Agreement, the precursor to NAFTA, entered into force in 1987 and was the first bilateral trade agreement to include services provisions.

[3] World Bank. 2002. *Development, Trade, and the WTO: A Handbook*, p. 226. Available at http://publications.worldbank.org/catalog/content-download?revision_id=1526172.

- ***Creates both labor-intensive and knowledge-based jobs*** across the economic spectrum;
- ***Attracts investment*** in all economic activities by providing the communications, transport, and financial infrastructure that investors—foreign and domestic—require; and,
- ***Stimulates competition***, which in turn encourages innovation, improves product quality, reduces costs, and increases consumer choice.

Faced with the complexity of services issues in general, and with reform and liberalization objectives in particular, developing countries have increased their requests for services-related technical assistance. Such assistance should focus on helping countries identify services sectors that suffer significant constraints, at home as well as abroad, and then help remove those constraints, either through market access negotiations or through domestic reform. Developing countries should be encouraged to view these efforts as complementary. Attempts to expand exports to foreign markets, for example, may have disappointing results if domestic services remain inefficient and uncompetitively priced. Attention should also be paid to helping developing countries build enabling environments for both foreign and domestic service suppliers.

In Section 2 of this report, we describe the services sector, how a service is traded, and what services mean to the economy of a developing country. We include an overview of regulatory aspects of service sector liberalization and trends in service sector trade. In Section 3 we describe services-related challenges in developing countries and discuss specific capacity-building objectives, sequencing issues, and performance measurements for USAID missions designing new strategies or projects to support capacity building in the services sector. In Section 4 we conclude by describing USAID services-related assistance as well as sources of multilateral and regional donor assistance.

2. Services, Trade, and Developing Countries

Services comprise diverse economic activities that account for the lion's share of total economic output in most developed and developing countries. And the embedded value of services used to design, assemble, package, transport, and market finished products is often much greater than the value of physical raw materials and parts.

In its simplest form, a service involves a skill or knowledge, or both, that emphasizes intellectual capital. The intangibility of a service distinguishes it from other types of economic activity. A service can also be categorized as knowledge-based—computer software development or legal advice—or labor-intensive—construction or tourism activities, such as restaurant and hotel services (Table 2-1). Services such as back office support and management may also be a part of the manufacturing process. From a trade and regulatory perspective, however, such inputs do not constitute tradable services unless the manufacturer outsources them.

A service can be traded through four delivery "modes," each of which may be subject to domestic laws and regulations that may constrain either foreign or domestic service suppliers, or both (Table 2-2). The exchange of services may include the movement of labor or capital, or both. In contrast to manufacturing and other tangible goods, most services are highly perishable and cannot be stored; they are therefore usually consumed during production. Until recently, the most common way to deliver a service in another country was to establish a physical presence (e.g., bank branch), or to move the consumer to the place of consumption (e.g., patient visiting a doctor). As technology advances, however, it is becoming easier to deliver some services by digitizing content and sending products electronically.

Table 2-1
Classification of Service Sectors Covered by the WTO General Agreement on Trade in Services

Subsector	Services
Business	Professional, computer, research and development, real estate, rental/leasing without operators, other business services
Communication	Postal, courier, telecom, audiovisual, and other related services
Construction and related engineering	Buildings, civil engineering, installation and assembly work, building completion and finishing work
Distribution	Commission agents', wholesale trade, retailing, franchising
Education	Primary, secondary, higher, adult
Environment	Sewage, refuse disposal, sanitation
Financial	All insurance and related services, banking and other financial services
Health and other social services	Hospital, other human health services, social services
Tourism and travel	Hotels, restaurants, travel agencies, tour operators, tourist guides
Recreational, cultural, sporting	Entertainment, news agencies, libraries, archives, museums, sporting, recreational services
Transport	Maritime, internal waterways, air, space, road, pipeline, services auxiliary to all modes
Other	Services not covered elsewhere

Table 2-2
GATS — Four Modes of Supplying Services Across National Borders

Mode	Description	Example
Cross-border supply	Producer and consumer stay in their respective countries while the service moves across geographical borders.	International telephone call; telemedicine Canadian export of health services to Thailand—A Thai patient receives a diagnosis from a Canadian doctor by sending medical records electronically.
Consumption abroad	Consumer travels to location of service supplier to consume the service.	Education; tourism South African export of education services to Japan—A Japanese citizen is studying in South Africa.
Commercial presence	Service supplier establishes physical presence in host country to provide service.	Banking, franchising Salvadoran export of banking services—A Salvadoran bank has branches in Northern Virginia and Washington, DC.
Temporary movement of natural persons	Service supplier travels to host market to provide a service.	Consulting or construction A Sudanese export of consulting services to Yemen—A Sudanese travels to Yemen to provide consulting services to the Government of Yemen.

How Services Affect Trade and Development

Trade in services has direct and indirect impacts on economic growth and development. Direct impacts, for example, include the jobs, investment, and technology transfer generated by expansion in exports of certain services. Indirect impacts from trade in services (whether imports or exports) may contribute to a general rise in economic efficiency, as well as to improved competitiveness of a wide range of goods and other services. In fact, increasing competition, improving efficiency, and lowering costs of services is an important part of the development package and may be the most effective way for a developing country to build a modern commercial infrastructure consisting of efficient transportation and telecommunications, a diversified supply of knowledge-based services, and reliable utilities.

Opening up to international trade in services can be especially beneficial for poor countries that do not have a modern services infrastructure or a sophisticated market for business services, and for countries in which domestic competition is inadequate.[4] Complementary domestic reform of services sectors in developing countries, however, will frequently require a sustained, long-term effort by the government, which may also be influenced by many practical obstacles, such as the absence of regulatory capacity and the entrenched financial interests of those who resist change. In trade negotiations developing countries are usually permitted to liberalize their services sectors at a pace that suits each country's development agenda.[5] Nevertheless, policymakers should not ignore the positive consequences of service sector reform and liberalization: greater productivity, investment, and employment.

PRODUCTIVITY

A modern services infrastructure can foster productivity gains that in turn improve the competitiveness of manufacturers, commodity producers, and other service providers. When the cost of critical services is reduced, resources may be reallocated to more productive uses. Such gains can be quite substantial for some developing countries. However, the ability of one country to access foreign services and/or export specialized services may also depend on a trading partner's pursuit of similar liberalizing initiatives.

INVESTMENT

An expansion in services trade can promote capital accumulation and economic growth, directly and indirectly. Some modes of delivery require foreign direct investment (FDI) but for all modes of delivery indirect impacts are likely to be much greater than direct impacts.

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[4] Iwata, Kazumas. 2002. Comments on Impacts of Services Liberalization on Productivity: the Case of Korea. By Jong-Il Kim and June DongKim. In *Services Trade in the Asia Pacific Region*. Edited by A. Krueger and K. Iwata. Chicago University Press, Chicago.

[5] Progressive liberalization is a term used in trade negotiations that is associated with the concept that countries will further liberalize their economies during subsequent rounds of negotiations.

Domestic and international investors, for example, often require that locations for major, long-term capital commitments have reliable, competitively priced telecommunication, energy, and transport services.

Direct and indirect impacts can be substantial. Global FDI in services sectors increased from $325 billion in 1988 to $1.16 trillion in 2001. Although much of the investment flow continues to be between developed countries, services FDI flows to developing countries grew significantly in the past ten years. In Latin America, services FDI grew 28.3 percent annually over the 1988–1999 period compared to 15.3 percent in other industries;[6] and in East Asia and the Pacific the growth rates were an astonishing 46.4 percent compared to 38.1 percent in all other industries.

Simply liberalizing the domestic services sector, however, will not attract foreign and local investment. Investors need to feel secure that their assets will be protected and that they will have access to and can rely on efficient intermediate inputs and infrastructure. A good environment for FDI goes beyond regulatory certainty and may include a strong legal system, stable macroeconomic environment, and permission to repatriate profits.[7]

EMPLOYMENT

Services account for the largest share of employment in developed and developing countries. Employment has increased most rapidly in services associated with, or dependent on, information technology,[8] with the largest gains recorded in computer and data processing, financial and insurance services, health services, management and public relations, and security and commodities brokerage services. Countries that have been developing knowledge-based services sectors, such as the software industry, have begun to employ more people than countries that have neglected these sectors and their connection to value-added economic growth (Exhibit 2-1).

The growing demand for business and consumer services has spurred this growth in high-skill services employment. But meeting that demand requires access to skilled and educated workforce. Many firms making the transition to a knowledge-based, service-oriented economy are facing a shortage of skilled workers. Firms need to constantly train their workforces and adapt to new technologies and market conditions. Suppliers of business services, especially training and education services, have helped reduce the cost of meeting the demand for high-skill labor. Therefore, a dynamic and thriving market in business services not only employs high-skill knowledge workers, but also is essential in ensuring a workforce for high-skill manufacturing and agriculture jobs. In addition, when foreign firms

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[6] Comparison refers to services verses manufacturing plus agriculture. UNCTAD. 2000. World Investment Report. United Nations.
[7] World Bank. 2002. *Development, Trade, and the WTO: A Handbook.*
[8] OECD. 2001. Innovation and Productivity in Services. OECD, Paris.

employ a local workforce they transfer technology and management techniques through to that workforce. Once these "transfers" are introduced, local firms may adopt them as well, multiplying the development benefit.

Exhibit 2-1
India and the Software Industry

India has turned its large, educated, English-speaking workforce, infrastructure, and relatively low wages to competitive advantage in producing software and IT-enabled services. The Indian Government liberalized or deregulated key sectors to facilitate growth and integration into the global economy. In 1992-1993, India exported approximately US$225 million in software. In 1997-1998 it exported US$1.75 billion, representing an average annual growth rate of 51 percent. Employment has also increased dramatically, from 6,800 knowledge workers in 1985-1986 to approximately 522,000 software and services professionals in 2001-2002, of which 170,000 were engaged in IT software and services export.

SOURCE: National Association of Software and Service Companies.

Regulation and Services Liberalization

To be effective, liberalization of trade in services requires striking a balance among regulatory goals: protecting consumers and the environment, lowering costs, enhancing competition, and ensuring equal treatment of domestic and foreign services providers.

Regulations, for example, may aim to allow potential competitors to enter a market or to facilitate access to facilities or inputs of the production process that may be owned and operated by an incumbent. Thus, trade liberalization may entail reforming regulation of public utilities and other network-based services such as electricity, transport, and telecommunications that have traditionally operated as public monopolies. This type of regulation was originally justified by "natural" monopoly cost structures, but technological changes have led to the ability to "unbundle" or separate some services from monopolistic behavior (e.g., electricity or telecommunication services). Introducing competition along the production chain of such services requires new regulation that enhances market access. Other regulations encourage competition and direct subsidies to poor consumers in order to ensure universal service.[9]

Some critics mistakenly associate liberalization with deregulation. Trade agreements do not discourage regulation, or unnecessarily encourage deregulation. For example, the WTO GATS allows a country to regulate its service industries for the purposes of consumer protection,

[9] Universal service refers to providing basic services, for example telecommunications, in the poorest areas of a country regardless of whether the area can afford to pay for the services.

prudential management of the economy, control of natural monopolies, or the achievement of social goals. However, it does require that such regulations meet general standards of good regulatory practice, including transparency, predictability, and non-discriminatory competition. (See the appendix for principles of sound regulation). In a few instances, some agreements incorporate "best practice" provisions to ensure these standards. In this context, ensuring sound, predictable regulation in specific sectors is a part of services trade negotiations.

Trends in Services Trade

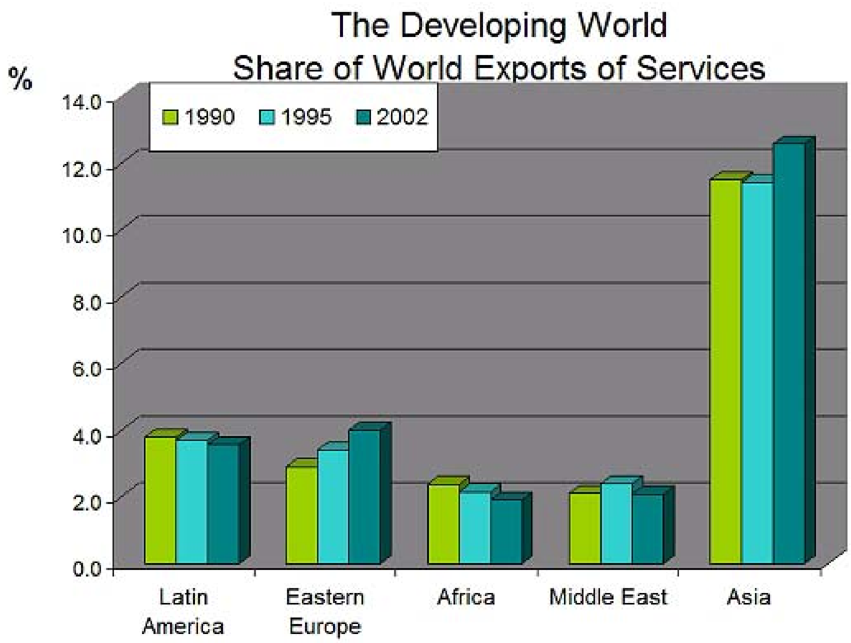
In the past two decades, trade in services grew at an average annual rate of 7 percent, while merchandise trade grew by 5 percent. The slightly faster growth rates in services trade increased the share of services in world trade from 15 percent in the 1980s to almost 20 percent by 2000. The contribution of services to world commerce would be even larger if growth rates had not slowed in the late 1990s after the Asian financial crisis and in the aftermath of the September 11, 2001 terrorist attacks.

In the early 1990s, services trade increased at an average annual rate of 10 percent thanks to fast export growth in services from several developing countries. Some of these countries—India, China, Cuba, Barbados, Hungary, Mauritius, the Philippines—enjoyed big booms. Asia grew the fastest during the last decade despite financial turbulence; and especially high growth rates are attributed to China, India, the Philippines, Australia, and New Zealand. Eastern European countries experienced rapid growth rates in services exports during the second part of the decade, while Latin America and North American services exports increased at the world average of 6 percent. Africa and Western Europe, including the European Union, were the only regions to experience growth rates below the average (see Figure 2-1 for developing country share of world services exports in 1990, 1995, and 2002). Tables 2-3 and 2-4 present data on leading developing country exporters and importers of commercial services in 2002.[10]

Despite the extraordinary growth rates of services trade in developing countries, more than 40 percent of trade in services continues to take place between the United States, the EU, and Japan.

[10] Data collection in services is not precise in most countries, and problems with data accuracy are greater in developing than in developed countries. Statistical data is accurately recorded when goods cross a national border, but not services. Services may "invisibly" cross borders via the internet, the telephone, or the movement of a person. The most reliable way to collect data on services trade (including investment returns) is through the projections of surveys of individual companies. Here accuracy depends on whether and how well each company responds to the survey. The collection of statistics has improved in a number of countries, but the results cannot be regarded as a completely accurate measures of sector activity.

Figure 2-1
Developing Country World Services Exports, 1990, 1995, 2002



SOURCE: *Mbekeani, Kennedy K. 2003. GATS Negotiations Must Focus on Services Liberalization: The Case of SADC.*

Table 2-2
Top Developing Country Exporters of Commercial Services, 2003

Exporter	Rank among Developing and Transition Economies (World Rank)	Value (US$ billions)	Share of Global Services Trade (%)	Annual Change (%)
China	1 (9)	44.5	2.5	…
Hong Kong	2 (10)	43.2	2.5	0
Korea, Republic of	3 (17)	31.2	1.8	15
Singapore	4 (19)	30.4	1.7	3
India	5 (20)	24.9	1.4	…
Chinese Taipei	6 (23)	23.0	1.3	7
Turkey	7 (26)	17.3	1.0	17
Russian Federation	8 (27)	15.9	0.9	18
Thailand	9 (28)	15.5	0.9	2
Malaysia	10 (29)	12.8	0.7	-13
Mexico	11 (30)	12.5	0.7	0

SOURCE: *World Trade 2003, Prospects for 2004. April 2004 Press Release. Available at http://www.wto.org/english/news_e/pres04_e/pr373_e.htm.*

Table 2-3
Top Developing Country Importers of Commercial Services, 2003

Importer	Rank among Developing and Transition Economies (World Rank)	Value (US$ billions)	Share of Global Services Trade (%)	Annual Change (%)
China	1 (8)	53.8	3.1	…
Korea, Republic of	2 (14)	38.7	2.2	10
Singapore	3 (17)	27.2	1.6	0
Russian Federation	4 (18)	26.7	1.5	13
Chinese Taipei	5 (19)	25.5	1.5	7
Hong Kong	6 (20)	23.5	1.3	-5
India	7 (23)	19.7	1.1	…
Thailand	8 (25)	18.1	1.0	9
Indonesia	9 (26)	17.7	1.0	…
Mexico	10 (27)	17.4	1.0	2
Malaysia	11 (28)	16.4	0.9	1
Brazil	12 (30)	14.6	0.8	7

SOURCE: *World Trade 2003, Prospects for 2004. April 2004 Press Release. Available at http://www.wto.org/english/news_e/pres04_e/pr373_e.htm.*

3. Services Challenges in Developing Countries

Developing countries often need multilateral and bilateral technical assistance to implement services reform and pursue liberalization objectives. Technical assistance needs vary with each country's economic and legal environment and services-related issues. These may include issues related to devising sound policy, strengthening the regulatory environment, enhancing participation in formulation of international standards, and ensuring access to services in the poorest areas.[11] Some countries have difficulty identifying negotiating objectives for services. Others, such as members of the Southern Africa Development Community (SADC), have indicated that export expansion is not a priority for negotiations. For these countries, the main priority is building domestic capacity in specific service sectors through the transfer of expertise from foreign firms.[12]

In this section, we examine the challenges that some developing countries must overcome in order to integrate into the global community, including challenges related to trade policy formulation, negotiation, and implementation; institutional, political, and domestic capacity development; and the ability to export services. We conclude with a brief discussion of how developing countries may want to begin identifying and prioritizing capacity building and technical assistance related to internal services reform as well as responding to economic opportunities for services trade.

Participating in Trade Negotiations

Trade negotiations are considerably more complex for services than for goods. While trade in goods is often limited by tariffs, trade in services is restricted by regulations. Such regulations are often necessary to achieve legitimate economic and social objectives (e.g., preventing anti-

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[11] World Bank. 2002. *Development, Trade, and the WTO: A Handbook.*

[12] World Bank Institute. 2003. Development Outreach. GATS Negotiations Must Focus on Services Liberalization: The Case of SADC. July.

competitive behavior and protecting worker or shareholder rights). In some cases, however, regulations may overtly or covertly discriminate against foreign suppliers and impede fair competition and trade. Since these distinctions are often complicated, a services trade negotiator must have a good grasp of regulatory objectives and details, both foreign and domestic, in order to develop a sound negotiating strategy for international trade talks.

Many countries are engaged simultaneously in a variety of trade negotiations, each with distinct partners, issues, and approaches, but most involving services sector liberalization. In November 2001, trade ministers launched multilateral trade negotiations under the WTO and the Doha Development Agenda (Exhibit 3-1). These negotiations are ongoing. In addition, a number of countries have recently entered into regional and bilateral trade negotiations with the United States, the European Union, regional trade partners, or with other developing countries. Many, though not all, of these negotiations cover trade in services as well as goods.

Exhibit 3-1
Developing Countries and WTO Services Negotiations

In 2000, WTO members launched multilateral services negotiations as part of the "built-in agenda" agreed to in the Uruguay Round. In November 2001 at the Doha Ministerial, WTO members reaffirmed their intention to make initial requests of trading partners by June 30, 2002, and to submit initial offers on services by March 31, 2003.

A year later, only 29 developing countries, or 23 percent of all developing country members, have submitted offers in services sectors that they are prepared to liberalize. Most of these offers are from middle- to high-income developing countries. Senegal is the only African country to have submitted an offer.

Negotiations for trade in services take two basic approaches: negative listing, in which all sectors are covered unless they are explicitly excluded, and positive listing, in which only listed sectors are covered.[13] The latter approach is followed under the GATS. Each approach requires negotiators to know how existing regulations and laws affect each sector at a local and national level. Negotiators need to interact with the domestic agencies that have jurisdiction over certain service sectors to (1) equip themselves to negotiate, (2) understand what they are negotiating, and (3) determine whether the current regime has the institutional and human capacity to implement obligations under the agreement. Negotiators will also be better prepared for international negotiations if they consult with members of the private

[13] The negative listing, or "top down," approach rests on the notion that all sectors are open except those that have specific restrictions listed in the schedule of commitments. The positive listing, or "bottom up," approach rests on the notion that only the sectors listed in the schedule of commitments are subject to liberalization under the agreement, but restrictions to those sectors also need to be identified. Under the positive approach, countries maintain the right to impose limitations on unlisted service sectors.

sector who understand regulatory requirements and other commercial conditions in international as well as domestic markets. Services negotiations require countries to decide if they are prepared to liberalize a service sector, and how far that liberalization can go. Services negotiations may also compel developing countries to accelerate domestic reform and improve market access to foreign markets.[14]

Developing countries need to be more involved in devising and refining international regulations, standards, and policy related to services, especially in new areas such as electronic commerce and new sectors such as energy services. If standards or policies continue to evolve without input from developing countries, agreements will reflect only the concerns of developed countries and could thus impede developing countries' trade in services. For instance, some multilateral and regional discussions are focusing on defining and taxing electronic commerce, which has profoundly influenced the delivery of services.[15] To protect their development objectives and interests, developing countries should be involved in these discussions.

Implementing Trade Commitments

Once an agreement is negotiated, developing countries need to be able to implement their own commitments and ensure that other countries are doing likewise. Implementing commitments in some service sectors may require changing regulations and laws, a complex undertaking often underestimated by negotiators, who may not have in-depth knowledge of the domestic regulations. Implementing commitments may also inflame political sensitivities, particularly among constituencies that will be exposed to greater competition. WTO members are responsible for reporting inconsistencies between the negotiated agreement and domestic policy to the WTO Secretariat Services Division. Violation of WTO or other international trade commitments could subject a country to WTO dispute settlement proceedings. Violations include, for example, discriminatory restrictions on foreign investment or burdensome licensing procedures for foreign services suppliers.

A general lack of expertise in devising and implementing sound policy, especially in relation to domestic regulation and trade, may hamper liberalization in some developing countries. Some may require assistance in reviewing existing and proposed regulations and laws, drafting new laws and regulations that are consistent with international obligations, and ensuring transparency for both domestic and foreign services and service providers. These are all major tasks. The ability to adequately and fairly address anti-competitive practices of foreign firms should be examined and included in implementation efforts.

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[14] World Bank. Global Economic Prospects, p. 69.

[15] Services that were considered technically incapable of being supplied through electronic means as the GATS negotiations concluded in 1995 (e.g., a medical diagnosis) now transcend national borders with relative ease.

Improving Regulatory Frameworks

Burdensome and unnecessary domestic regulation often limits growth and competition in services, especially in developing countries. Inappropriate or poorly designed regulations can impose substantial and unnecessary costs and inefficiencies on firms, sectors, and the economy as a whole (Table 3-1). Regulations that directly or indirectly restrict market competition can result in excess rents to capital or labor, or both.

Table 3-1
Discriminatory Restrictions That Act as Barriers to Services Trade

Type of Restriction	Example
Quantitative restrictions limit the amount of a service that can be supplied or the presence of foreign service providers.	Host country limits foreign life insurers to 50 percent foreign ownership in a joint venture with the partner of their choice.
Price-based instruments are restrictions that increase the cost of supplying services in a foreign market.	Host country requires that the service supplier be physically in the host country in order to provide investment portfolio research and advice to the public.
Licensing or certification requirements limit the supply of services by foreign providers.	Legislation that regulates private and foreign higher education institutions, subjecting them to lengthy registration (local institutions are exempt) as well as determining whether an institution is allowed "university" status. Such legislation also governs enrollment numbers and course offerings.
Discriminatory access to distribution and communications systems limits foreign service providers' access to facilities needed to supply services.	Host country requires international telecom traffic to go through a network monopoly.

Strengthening Government Institutions and Coordinating Mechanisms

Trade negotiators from developing countries should coordinate with government ministries and agencies that have policy jurisdiction over certain service sectors. For some this may be an imposing task, requiring a concerted effort to help officials in other agencies understand trade in services and how trade negotiations affect their sectors.

Inter- and intraministerial coordination is particularly important in ensuring that domestic and trade-related policies are consistent and do not constitute unnecessary barriers to trade. For example, financial services may fall under the National Treasury or Ministry of Finance; telecommunications may fall under the Ministry of Post and Telecommunications; certain aspects of health services may require input from Ministry of Health; and education services from the Ministry of Education, and so on. But it is often the Ministry of Trade that negotiates liberalizing commitments with trading partners. Technical assistance on coordinating and managing policy input from different ministries and agencies would be of great benefit to service negotiators from developing countries.

Building Domestic Expertise

Although many developing countries have made significant progress in building domestic expertise on services trade issues, many still need assistance to participate effectively in multiple negotiations. Many have difficulty in determining whether existing regulatory restrictions are consistent with GATS national treatment obligations.[16] Others have become overextended in dealing with the complicated and diverse issues that arise in services negotiations, not to mention concurrent regional and multilateral negotiations. Even in countries with domestic expertise, technical assistance may still be needed to facilitate an exchange of views on services issues and to ensure that negotiators, regulators, and academics have access to current information. And resources are further strained when the structure of negotiations differs from one set of negotiations to the next and when new negotiating concepts are introduced. Countries that have only a few negotiators should consider creating a committee to ensure that negotiators have sector-specific input and to ensure that domestic and external policies are consistent. Such a committee could consist of one or two government officials from each relevant ministry with expertise in specific sectors.

Developing Public–Private Sector Dialogue

Services negotiations and domestic policies related to services should take into account the concerns and experiences of the private sector. This requires that domestic stakeholders be informed about trade policy issues and that governments gather information and opinions from those stakeholders (Exhibit 3-2). At present, many developing countries lack coordinated or even ad-hoc dialogue between the public and private sectors. Such dialogue often begins when governments educate the business community on the framework and substance of negotiations. Negotiators, in turn, can use the practical insights of the business community to set negotiating priorities. Providers of services, for example, have a precise and practical understanding not only of domestic regulations that hinder their sectors and but also of regulations that prevent their doing business in other countries.

Technical assistance should focus on strengthening the participation of the services business community, producers as well as users, in negotiation preparations. Agriculture and manufacturing interests have tended to dominate developing countries' trade policymaking process. Involving service sector representatives may help correct disproportionate influences.

[16] National treatment obligations require that foreign suppliers be treated no worse than domestic suppliers in sectors for which countries have scheduled a commitment.

Civil society[17] participation can be critical in ensuring that services negotiators enjoy legitimacy and much needed political support. Domestic ownership of the reform process is essential to domestic acceptance and subsequent implementation of needed reforms. Domestic ownership may also avert backlash from associated interest groups if a country experiences a temporary decline in economic activity and employment. In many developing countries, the absence of informed discussion on the services trade negotiations has hampered progress in both trade liberalization and reform.

Exhibit 3-2

Building Public–Private Sector Dialogue in South Africa

South Africa recognizes that effective participation in WTO services negotiations requires an informed domestic service industry as well as informed ministries and regulatory agencies. With the help of USAID, South Africa's Department of Trade and Industry (DTI) sought to develop better ties between the private and public sectors with regard to trade in services. DTI met with relevant government ministries to discuss the current round of negotiations and the importance of domestic coordination to those negotiations. DTI also met with services firms and a local research group to discuss services trade negotiations, services exports, and domestic and foreign constraints on services. DTI also explained how it could represent South African industry in the multilateral trade arena. This three-week technical assistance program concluded with a two-day conference in which trade in services experts delivered presentations on the WTO, GATS negotiations, services liberalization, and the importance of inter- and intraministerial coordination and public-private sector dialogue. Representatives of ministries, regulatory agencies, the private sector, and research organizations attended the conference.

Overcoming Entrenched Interests

By reducing barriers to new entry, some developing countries may expose their domestic sectors to short-term adjustments and transition costs. Firms providing inefficient and expensive services will suffer from competition. In addition, those who benefit from existing market distortions often exert great power in resisting reform. For example, it is often very difficult to liberalize or reform important service sectors, such as financial, telecommunications, energy, and transport services. The agencies or ministries responsible for such services are often closely connected to entrenched interests (e.g., monopolies, state-owned enterprises). Bureaucratic problems also arise when a regulating agency fears loss of control to international trade obligations.

[17] Civil society refers to broader interest groups that may have a stake in trade negotiations and may include among others, non-governmental organizations that represent business and other sectors of production, labor and environment, as well as academia.

Regulatory reform entails establishing regulatory institutions that are independent of service providers; but ensuring this independence can be difficult.[18] Such independence, however, is important to potential foreign investors, especially in telecommunications, electricity, and transport, which involve large capital investments. The absence of regulatory independence and predictability curbs competition or compels potential investors to demand higher returns to cover regulatory risks.

Gaining International Credibility

Exporters in developing countries must often raise the quality of their services to meet international standards or the standards of other countries. Doing so also raises the quality of services available to domestic consumers. Firms in developing countries may require technical assistance to raise the quality of their services. For example, domestic accounting, legal, and healthcare services may not be subject to international standards, and domestic training and examination requirements for these services often vary from country to country. Such disparities can impede the export of services.[19] Doctors, for instance, may not be recognized as such in other countries, and may face difficulty in obtaining licenses because of concerns for consumer safety.

Reversing "Brain Drain"

Preventing an exodus of educated and well-trained professionals, such as software engineers, financial representatives, and accountants, to countries offering better compensation is a challenge for developing and least-developed countries. The loss of such professionals can affect a country's ability to provide services to domestic and foreign consumers, which may, in turn, influence the travel and investment decisions of such consumers. In addition, a lack of qualified professionals curtails a country's ability to develop services exports. In some cases, the problem is so severe that countries enter into agreements with neighboring countries to limit or restrict recruitment of scarce professionals. Consider, for example, the effects of a nursing shortage. Country A experiences a shortage of nurses, so it recruits nurses temporarily from Country B. Country B's ability to provide healthcare services to its own population and to attract consumers from neighboring countries to receive quality care at lower costs is curtailed. In meeting Country A's temporary need, Country B fails to build its own healthcare sector. If nurses remained in Country B, their services could create revenue and jobs for a broader group of healthcare professionals and facilities.

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[18] Alexander and Estache 1999
[19] World Bank. 2002. *Development, Trade, and the WTO: A Handbook*, p. 216.

Building Physical Infrastructure

Approximately 38-50 percent of service sector production consists of services sold to other businesses. These include infrastructure services—financial, telecommunications, and electricity services—that contribute to value-added production and/or movement of goods to their final destination. To participate in global production networks, developing countries must have an efficient, cost-effective services infrastructure.[20] The effects of one inefficient or costly service can be felt across an entire economy, potentially weakening or eroding the competitiveness of exports of other goods and services. Thus, services capacity building should focus initially on "backbone" services, such as banking, insurance, telecommunications, energy, and transportation. India, for example, attributes its success in software services partially to well-functioning support services such as telecommunications and electricity.[21] In fact, if India's software industry is to remain competitive the Government of India will need to continue dismantling regulatory hurdles that affect IT-enabled services and addressing potential infrastructure and talent bottlenecks.[22]

Most developing countries do not possess the expertise needed to assess the regulatory structure of these service sectors, nor to determine whether the services are delivered efficiently and cost-effectively.

Addressing Pressures Related to Privatization

Privatization of state-owned monopolies is important in liberalizing and regulating certain service sectors; however, a number of political and economic factors must be addressed before undertaking such a process. For instance, privatization is often heavily influenced by vested interests—including government ministries that want to maximize revenue—which can delay or even confound privatization attempts. And simply transferring ownership of state monopolies to private firms will require special attention to determine whether it makes sense to open that particular sector to competition immediately or in stages. If a state-owned monopoly is dismantled, but the sector remains closed to competition as a way of allowing the private firm to establish itself, the result may be a mere transfer of monopoly rents from the state to the private firm, with little effect on increasing efficiency or reducing costs.[23]

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[20] World Bank. 2002. *Development, Trade, and the WTO: A Handbook*.
[21] See the National Association of Software and Service Companies (NASSCOM) website, www.nasscom.org, for more information.
[22] See www.nasscom.org for more information.
[23] World Bank. 2002. Development, Trade, and the WTO: A Handbook. p. 214.

Restrictions on Temporary Entry of Natural Persons

Many developing countries consider the temporary movement of natural persons—labor—a key issue in services liberalization.[24] It is also the mode of delivery for which international consensus on liberalization is most elusive. In addition, many developing and least-developed countries hold a comparative advantage in labor-intensive services, and would like to utilize this advantage in export-oriented services policies. However, many countries implement restrictive policies on the cross-border movement of people and there are enormous political issues associated with liberalizing temporary entry in both developed and developing countries. A developing country needs to adopt a careful strategy aimed at gaining maximum results, taking into account social and political constraints on the other side.

Identifying and Prioritizing Technical Assistance Needs

Identifying and prioritizing needs for services-related trade capacity building and technical assistance will be a major task for most developing and least developed countries. In some cases, the task may seem so daunting that countries will seek assistance simply to identify needs.

Trade capacity building should focus on two related objectives: domestic regulatory reform and export competitiveness in promising services sectors. These objectives are relevant to a country's position in bilateral and multilateral trade negotiations, which are likely to cover services. Because regulatory reform usually improves the efficiency and competitiveness of the general economy, it should not be undertaken merely to improve a negotiating position. A country that reforms its regulatory environment and improves the competitiveness of service sectors independently has advantages in trade negotiations when other countries seek commitments to liberalize services.

Negotiators from some developing countries maintain that services liberalization will result in economic growth only under certain conditions, including freer movement of natural persons, technology transfer, and more technical assistance for industries and firms. For example, suppliers of construction services in developing countries suggest that they would benefit the most from capacity building (management and technology transfers) via joint ventures and partnerships with foreign firms.[25] However, liberalization and investment, in themselves, can be a major impetus for technology transfer and human resources development, and placing a

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[24] For information related to the temporary movement of natural persons, please refer to World Bank's Global Economic Prospects 2004, Chapter 4: Labor Mobility and the WTO: Liberalizing Temporary Movement. Available at http://worldbank.org/prospects/gep2004/toc.htm.

[25] World Bank Institute. 2003. Development Outreach. GATS Negotiations Must Focus on Services Liberalization: The Case of SADC. July.

joint venture requirement on a foreign construction firm may be considered an impediment to foreign entry.

Developing countries will also need assistance in identifying (1) sectors that are exporting or could successfully export services and (2) regulatory and procedural obstacles, domestic and foreign, to exports. This will require consulting with industry representatives and trade associations to assess export capabilities and promising markets. Even for countries that have only a few service industries with export capacities, this identification process can set the stage for targeted assistance that maximizes export competitiveness and helps negotiators formulate and implement appropriate objectives for trade policies. An especially useful result of such technical assistance is an institutional mechanism for government-to-industry consultation and advice. Such a mechanism builds the government's capacity to identify industry needs and priorities in its export- and import-related issues.

DOMESTIC REGULATORY REFORM

To be successful, domestic regulatory reform needs to be properly sequenced and managed.[26] Liberalizing initiatives often assume that an adequate regulatory framework that encourages competition is in place—but this is not always so in developing countries. Reform strategies should aim to maximize gains while managing the adjustment costs and political consequences of reform. This requires a number of steps:

- ***Evaluate current regulations, including objectives, institutions, practices, and performance***. An evaluation should examine the economic, social and other objectives of domestic legislation; the capabilities of institutional infrastructure for pursuing objectives; and institutional criteria for resolving conflicting objectives. An evaluation should also inventory regulations for each service sector and reassess regulatory practices in view of international best practices. International assistance in the evaluation process can help developing countries address regulatory issues and build the needed political support for regulatory reform by ensuring that there is domestic ownership of reform objectives.
- ***Establish an interagency task force to manage the reform process.*** In most countries, regulatory responsibilities are spread among several government agencies, while the trade ministry is usually responsible for trade negotiations. Other agencies, however, have a stake in trade negotiations and should be included in formulating and implementing a trade liberalization strategy. An effective way to coordinate and manage input from several different sources is to establish an interagency task force. The task force may be helpful in preventing other government agencies from being unduly influenced by internal factions or by outside stakeholders, which may frustrate the reform process. In addition, a task force may ensure that a specific ministry does not advocate the use of market access restrictions to maximize revenues from the sale of public utilities and financial institutions.

[26] World Bank. 2002. *Development, Trade, and the WTO: A Handbook.*

- ***Undertake regulatory reform***. A common pitfall of liberalization in developing countries is the failure to introduce competition in services.[27] Establishing an appropriate regulatory framework entails determining how the industry will be regulated in a more competitive environment, including how social goals will be met in a competitively neutral manner once monopoly cross-subsidization is prohibited. Much of the focus of trade negotiations in services has been on laying this foundation by establishing clear regulatory principles for opening up network industries in a nondiscriminatory and competitive fashion.
- ***Design privatization schemes tailored to the country and sector***. Developing countries can benefit from technical assistance that provides advice on options for dismantling a state monopoly. This would include exposure to the experience of other countries at similar levels of development that have gone through a similar conversion. In addition, technical assistance can be particularly helpful in developing a regulatory framework that meets the changed circumstances of an independent, privatized monopoly. Such assistance includes defining privatization objectives, designing an effective market structure and institutional infrastructure to achieve these objectives, and developing licensing and bidding mechanisms.[28]
- ***Identify domestic and foreign trade barriers***. Some developing countries require assistance in identifying domestic as well as foreign trade barriers to services. Even the most advanced developing countries consider identifying trade barriers an expensive and time-consuming task. Because barriers to services trade may encompass regulatory measures that are implemented for social and economic reasons, analysis may need to go beyond an examination of a negotiating partner's WTO schedule of commitments. Developing countries, for example, may need to seek input from domestic service providers operating in foreign markets. In some developing countries, this task will be even more complex as it will most likely require a public awareness campaign[29] that explains the WTO, the GATS, the benefits of services liberalization, and barriers affecting services trade and how the government may be able to help reduce those barriers through trade negotiations. In fact, USAID has provided assistance to the governments of Indonesia, South Africa, and Uganda by funding initial compilations of foreign restrictions that could affect services exports to key export markets. These compilations were intended to help negotiators prepare for WTO services negotiations as well as regional negotiations.
- ***Design a comprehensive trade negotiation strategy***. The design of a negotiating strategy should be an integral part of a trade strategy and the trade reform process. A negotiation strategy should take into account the different dimensions affected by trade negotiations and should support trade policy that promotes growth and economy-wide productivity gains. It should seek to secure preferential and stable access to foreign services markets and

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[27] Sartar, 2000, and WTO 2000a.
[28] World Bank. *Global Economic Prospects 2002*, p 78.
[29] Public awareness campaigns are often designed to target domestic services providers who export to foreign markets, academia, and other interested groups.

improve the competitiveness of domestic industries. Finally, it should help strengthen domestic trade institutions and help lock-in the reform process. Where vested interests have undermined efforts to reform, trade negotiations can help build domestic support for reform (e.g., regulatory and competition policy reform where large conglomerates often exert their political clout to prevent governments from adopting policies that reduce their rents and improve the general welfare).

- ***Take full advantage of trade negotiations.*** Countries should take advantage of trade negotiations to place demands on trading partners for market opening. Most developing countries have not requested service sector concessions from trading partners in previous rounds of GATS negotiations. Because regulatory barriers abroad can be particularly costly for developing country exporters, governments should research the current and potential comparative advantages of their country's services sector. For instance, many developing countries have huge potential in health tourism, but the absence of portability of health insurance in other countries limits the ability of foreign consumers to take advantage of these services.[30] Again, it is critical to learn from private sector interests exactly which foreign services barriers impede business.

BUILDING CAPACITY TO TAKE ADVANTAGE OF TRADE OPPORTUNITIES

Developing countries need a great deal of technical assistance to build their capacity to trade services and make use of services negotiations. Yet knowledge about what policies and services export promotion initiatives actually work is scant. Export promotion agencies have tended to avoid developing strategies for services because of this lack of knowledge, combined with the cost of collecting data on services trade necessary to identify trade niches and evaluate related export promotion policies. However, the following points provide some guidance in initiating export promotion activities in the services sector:

- ***Facilitate the exchange of export promotion strategies and policies***. Most developing countries do not have resources to devise polices or strategies to promote service exports and could benefit from the experience of other trade promotion agencies. Learning from the experiences of other countries, developed as well as developing, can reduce the cost of strategy design. This exchange could provide a mechanism where developing countries may build on previous successful strategies and policies taking into account the uniqueness of each country's economy.
- ***Identify export and joint venture opportunities***. Export promotion programs in developing countries can benefit from exchanging information about opportunities for services exports and service sector joint ventures. Information that can be exchanged includes disaggregated data by sector and partner country on services imports; characteristics of local markets for

[30] UNCTAD and WHO 1998.

services, such as quality standards and consumer preferences; degree of outsourcing by service industry; and import and domestic pricing trends for different services.

- ***Identify domestic regulations and import guidelines and standards for specific service industry markets***. Export promotion programs in developing countries can benefit from exchanging information about domestic regulations, import guidelines, and service standards for different service industry markets. This information would enhance transparency and provide firms in developing countries with a sound assessment of their exporting opportunities in services markets.

4. Sources of Technical Assistance

The WTO and the Organization for Economic Cooperation and Development (OECD) are together building the Doha Development Agenda Database to provide information on the types of services-related technical assistance and capacity-building activities provided by bilateral, regional, and multilateral donor agencies. The level of detail in donors' project descriptions so far submitted range from very high to virtually none except for a dollar amount and project title.[31] The WTO/OECD-sponsored Trade-related Capacity Building (TRCB) database defines technical assistance for services as consisting of (1) general and sector-specific assessments of trade in services; (2) identification of markets, sectors, and modes of supply of export interest; and (3) support for developing country participation in WTO negotiations (e.g., preparation of requests/offers, scheduling of specific commitments).[32] Given the dearth of information on technical assistance and capacity-building programs related to services, we here focus on USAID-sponsored bilateral assistance and WTO-sponsored multilateral assistance.

U.S. Agency for International Development

From 1999-2003, the U.S. Government allocated more than $10 million for assistance related to the WTO's General Agreement on Trade in Services (GATS), nearly 40 percent of that in 2003 alone. USAID, which accounts for nearly 75 percent of trade capacity-building (TCB) provided by the U.S. Government to developing countries, offers assistance in removing obstacles to development, including barriers to services trade. In addition to assistance related directly to the GATS, USAID's other TCB programs support services development. These other programs involve financial sector development and good governance, trade-facilitating e-commerce and information technology, trade-facilitating business services and training,

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[31] Bilateral donors that submitted information on services to the TRTA database include Canada, European Commission, Spain, Sweden, Thailand, United Kingdom, United States; regional and multilateral donors include Asia Pacific Economic Cooperation, International Development Agency, OECD, UNCTAD, United Nations Economic and Social Commission for Asia and Pacific, and the WTO.

[32] Taken from DDA database, TRTA and CB Database: detailed program fact sheet: services. http://tcbdb.wto.org/trta_subcategory.asp?cat=331&subcat=45

tourism sector development, and other services development programs. Thus, while funding for GATS-related technical assistance is minimal, the broad scope of USAID's trade facilitation, reform, and development activities—all of which involve services—presents a truer picture of the influence of services on different aspects of an economy (Table 4-1).

Table 4-1
U.S. Government Services-related Trade Capacity Building Assistance (US$)

TCB Category	1999	2000	2001	2002	2003	Total
WTO General Agreement on Trade in Services (GATS)	285	1,186,496	3,423,691	1,558,513	3,878,527	10,047,512
Trade facilitation—e-commerce and IT	---	---	---	22,635,501	27,446,716	50,082,217
Trade Facilitation—business services and training	---	---	---	74,482,426	75,252,761	149,735,187
Financial sector development and good governance	61,503,185	56,722,232	63,332,344	68,850,959	87,594,004	338,002,724
Tourism sector development	3,866,088	2,570,716	6,051,892	20,989,283	10,623,252	44,101,231
Other services development	9,210,857	13,303,913	21,897,831	23,619,182	6,373,076	74,404,859
TOTAL	74,580,415	73,783,357	94,705,758	212,135,864	211,168,336	666,373,730

Note: Final 2003 totals may change once total reporting for fiscal year 2003 is completed.

SOURCE: *U.S. Contributions to Trade Capacity Building: Improving Lives Through Trade and Aid. September 2003.*

USAID uses a variety of contracting mechanisms and activities to promote services sector development. Its objective is twofold: help developing countries and transition economies engage in international services trade, and support modernization of services sectors. USAID's Bureau of Economic Growth, Agriculture, and Trade (EGAT) has developed the following mechanisms through which missions may receive some financial support (e.g. cost sharing) for services-related technical assistance.

TRADE ENHANCEMENT OF THE SERVICES SECTOR

TESS is three-year global capacity building mechanism that supports USAID missions in formulating and implementing elements of trade strategies related to services. TESS can assist USAID missions in developing national and regional service sector trade liberalization strategies and can provide diagnostic methodologies and scopes of work for trade sector liberalization; tools, best practices, and technical support for liberalization of service sectors; information on service sector issues; and support TCB for services. For example, the TESS project presents periodic seminars on trade in services issues such as transport and logistics, civil aviation, telecommunications in the Eastern Caribbean, and the Russian power sector. For more information, visit www.tessproject.com.

TRADE CAPACITY BUILDING PROJECT

The TCB Project is a multiyear global task order that offers quick response to USAID mission requests for help in assessing trade constraints and prioritizing the trade related-technical assistance needs of developing countries. The project helps USAID missions design, implement, monitor, and evaluate trade-related technical assistance through a variety of means: trade needs assessments, short-term technical assistance to developing countries, resource guides for planning trade projects on specific trade topics, analytical support to developing countries and USAID officials, trade training for USAID staff. Each activity could include a services component. For example, to follow-up on its assessment of Morocco's technical assistance needs in negotiating and implementing a free trade agreement with the United States, the project provided a week of training on services trade issues related to FTA negotiations. Each of the project's regional and global trade training seminars has included segments on trade in services. For more information, visit www.tcb-project.com.

DOHA PROJECT

This three-year global task order will assist up to three countries in joining the WTO by helping them harmonize policies, laws, and regulations to meet WTO requirements, including accession activities related to the GATS. Assistance may be provided through a series of procedural steps such as filing notice of application to the WTO, fact-finding related to the foreign trade memorandum and initial offers on goods and services, preparing for bilateral market access negotiations, and drafting the foreign trade memorandum.

THE SELDON PROJECT

The Seldon Project, which provides short-term technical advice on trade and commercial law, has incorporated trade issues, including those associated with WTO GATS, into USAID's commercial law assessment methodology and tool and will be applying the enhanced methodology and tool in conducting 11 in-country assessments. USAID missions seeking assistance in promoting good governance, reinforcing the rule of law, and building trade capacity may access this global task order directly.

FASTRADE

The purpose of this global task order is to reduce transaction costs at international borders in order to facilitate trade and build trade capacity. Transaction costs include costs associated with customs clearance and other processing requirements. Lowered costs will support developing countries' integration into the global economy. Services that may be addressed under this task order include trade facilitation services, such as transportation and transportation security, freight forwarding, and customs agents. For more information, visit www.tcb-fastrade.com.

OTHER PROJECTS

A number of USAID field missions and other U.S. Government agencies sponsor technical assistance and TCB activities that include a services component. Table 4-2 lists some of these activities for 2003.

Table 4-2
Sampling of U.S. Government-funded Technical Assistance Projects in Services, 2003

Project	Country	Funding (US$ thousands)	Activities
Asia Pacific Economic Cooperation	APEC economies	125,000 U.S. Department of Transportation	The Department of Transport is helping some APEC economies accede to the Multilateral Agreement on Liberalization of International Air Transportation. The APEC transportation working group is also assisting developing economies with air negotiations.
Trade Facilitation	Asia	162,000 U.S. Peace Corps	Peace Corps volunteers are working with host country organizations at the community level and with individuals to build their capacity to participate in global trade. They are assisting with the integration of information and communication technology (ICT), providing training in entrepreneurial skills, and developing production and marketing projects.
Support to Botswana Stock Exchange	Botswana	200,000 USAID/RCSA	USAID/RCSA is providing technical assistance to the Botswana Stock Exchange by developing a business plan for the exchange and by reviewing (and redrafting) the regulatory environment for capital market operations. These activities are classified as financial sector reforms. The goal is to develop and improve capital market operations to support trade and investment.
Fortaleza International Airport (study)	Brazil	131,218 U.S. Trade and Development Agency	This study will help the Brazilian government's airport infrastructure company (INFRAERO) plan new investments at an airport serving the northeast region, a growing center for tourism and trade.
Fostering an Investor and Lender-friendly Environment (FILE)	Central and Eastern Europe	200,000 USAID/Bosnia & Herzegovina	A resident WTO adviser will assist the Government of BiH for one year to prepare for WTO membership. This activity will also focus on the commercial law framework.
Trading Regionally and Developing Expertise (TRADE)	Central and Eastern Europe	300,000 USAID/E&E	The purpose of TRADE is to stimulate cross-border trade by helping local consulting companies and their clients identify trade partners, obtain certifications, and establish regional and international trade links. The project has formed cross-border joint ventures for regional services and trade.
Partnership for Economic Growth (PEG)	Indonesia	179,217 USAID/Indonesia	PEG is assisting the Ministry of Communications with regulatory reform and implementation of competition law and ICT policy. It is also assisting Bank Indonesia in with small business financing, macroeconomic policy, and monetary policy, and assisting the Coordinating Ministry for Economic Affairs with macroeconomic policy.

Project	Country	Funding (US$ thousands)	Activities
WTO Compliance	Macedonia	33,150 USAID/Macedonia	This project assisted the Government of Macedonia in finalizing WTO accession (bilateral and multilateral negotiations, approval of accession by the WTO General Council, ratification of the Protocol of Accession by Macedonian authorities). Macedonia became a WTO member in April 2003. Since then, the project has focused on public awareness training and providing advice on notification and compliance commitments, including services.
Trade and Investment Policy Environment Strengthened	Senegal	99,000 USAID/Senegal	This project supports Senegal's Integrated Framework Matrix of Actions by promoting non-traditional exports; strengthening Senegal's capacity to engage in beneficial international trade negotiations; and improving access to competitively-priced telecommunication services.
WTO Training and Research	South Africa	12,000 USAID/South Africa	This project assisted the South African Department of Trade and Industry's Trade Policy Directorate with work related to WTO obligations, including an assessment of options under the Doha round and work on the GATS.
Zambia Trade and Investment Enhancement Project	Zambia	61,560 USAID/Zambia	This project is reducing barriers to trade; building capacity in the public and private sectors to facilitate trade, investment, economic growth, and poverty reduction; and fostering linkages among producers, suppliers, processors, traders, service providers and consumers within and outside Zambia. The project has strengthened Zambia's trade negotiating capacity and, in the last year, organized three WTO awareness workshops for agriculture and services.

SOURCE: USAID Trade Capacity Database, http://qesdb.cdie.org/tcb/index.html.

Multilateral and Regional Institutions

A number of regional and multilateral institutions provide trade-related technical assistance to developing countries. For example, developing countries often need assistance in designing and implementing regulatory reforms in service sectors. The IMF and the Bank for International Settlements, along with several financial regulatory agencies in developed countries, provide assistance in regulatory reform of financial services. The International Telecommunications Union (ITU), as well as regulators in several developed countries, provide assistance in regulatory reform in telecommunications. The U.S. Government's Telecommunications Leadership Program (TLP) provides training and technical assistance in telecommunications policy and regulatory reform. The institutions most active in providing assistance or resources, or both, for services liberalization, reform, and capacity building with regard to services negotiations are the WTO, the World Bank, and the Organization of American States.

WORLD TRADE ORGANIZATION

The WTO provides technical assistance to build institutions necessary for effective participation in the global trading system and to train officials from those institutions in trade policies and multilateral trade negotiations. Most of the WTO's services-related technical assistance and TCB is carried out through national and regional seminars, workshops, conferences, symposia, and videoconferences, as well as technical missions to member countries.[33] For example, a videoconference in January 2003 provided technical advice to CARICOM government representatives on scheduling GATS commitments for CARICOM. Other services-related technical assistance includes national and regional seminars on GATS negotiations, services liberalization, and scheduling commitments.

WORLD BANK

The World Bank does not provide hands-on services-related technical assistance or TCB to developing countries (e.g., sending experts to assist governments in preparing for GATS negotiations). Instead, it conducts world-class research on the economics and policy management of trade in services, especially for services liberalization and reform. It also develops tools for identifying problems that inhibit developing countries' liberalization of services sectors, as well as Washington-based World Bank Institute training courses. For example, the Bank is creating a database on measures affecting services trade, services trade and investment flows, and market structure and performance indicators for use by policymakers, regulators, negotiators, traders, and researchers. The World Bank has developed a questionnaire on trade in services to help developing countries gather data needed to assess services policy (e.g., competition, ownership, and regulations), market structure, and sector-specific performance (e.g., price and quality). It has also published a diverse range of analytical material on services topics in publications such as *Development, Trade, and the WTO: A Handbook* and *Global Economic Prospects*.

The World Bank has co-sponsored conferences and symposia on services: OECD-World Bank Conference on Regulatory Reform and Trade Liberalization in Services (March 4-5, 2002); WTO-World Bank Symposium: Movement of Natural Persons (Mode 4) under the GATS (April 11-12, 2002).[34] Finally, the UK's Department for International Development (DFID) is funding a two-year work program to be managed and implemented by the World Bank, UNCTAD, and DFID. The program will conduct services impact assessments in developing countries. The overall objective is to address the perceived knowledge gap among developing countries regarding the potential impact of services liberalization—and the binding of such liberalization, either within the WTO, or in other regional and bilateral trade agreements.

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[33] WTO/OECD Doha Development Agenda Database. Trade Policies and Regulations: Services. Available at http://tcbdb.wto.org/category_project.asp?cat=331&subcat=45.

[34] For more information, please visit http://www.worldbank.org; click on topics in development, click on trade, click on services.

ORGANIZATION OF AMERICAN STATES

The Organization of American States (OAS) has been very active in providing services-related technical assistance, particularly to developing countries participating in regional negotiations for the Free Trade Area of the Americas (FTAA). In support of the Hemispheric Cooperation Program (HCP),[35] the OAS manages TCB through its Trade Unit, the Inter-American Agency for Cooperation and Development (IACD), the Unit for Sustainable Development and Environment, the Office of Science and Technology, and the Trust for the Americas, among others.

The OAS Trade Unit has assisted several member governments in drafting national TCB strategies that include services and investment components. The Trade Unit has been building capacity in the public and private sectors on trade in services issues through a series of workshops and technical programs. For example, the Unit conducted several workshops on WTO and FTAA services negotiation issues, as well as the process of formulating offers, for government officials and private sector representatives from the Caribbean, Central America, Andean Community, MERCOSUR, and Chile. The Trade Unit also manages the Foreign Trade Information System website. The site presents information on hemispheric integration and trade trends, including trade agreements on services, contact points, services statistics, services-related publications and articles, and Internet links. The Unit is working with the World Bank and intragovernmental regional secretariats in the Americas on the Services Regulatory Reform Project. This project will analyze the impact of trade liberalization and regulatory reform on policy and performance in financial, telecommunications, and transport services. For more information, visit http://www.sice.oas.org/services/main.asp.

INTERNATIONAL TRADE CENTRE

The International Trade Centre (ITC) is a technical cooperation organization that provides support to developing and transition economies on the operational aspects of trade promotion and export development. The ITC is developing support programs and tools to inform services exporters about different aspects of trade in services. These include a GATS consultation kit, training modules on successful services exporting, an export-readiness diagnostic tool for service exporters, and other resources and publications. The ITC also works with national consultants to implement on-the-ground activities. For example, it launched a pilot program in Uganda, Kenya, Tanzania, Nigeria and Ghana to promote exports of services from sub-Saharan Africa. The Ugandan component identified SME support gaps in the services sector and designed responses to these gaps and other development barriers, as well as strengthened and established alternative private sector

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[35] The HCP was approved in November 2002 at a meeting of trade ministers from the Americas in Quito Ecuador. The HCP is designed to respond to the trade capacity building needs of small and developing countries participating in the FTAA.

networks to deliver and sustain response programs once the pilot program expired. For more information, visit www.intracen.org/servicexport/welcome.htm.

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Appendix. Principles of Sound Regulation

Principles that ensure that domestic regulation enhances national welfare and facilitates trade liberalization[36] are general in nature, and apply to different services industries, whether those industries are regulated to control natural monopolies or to protect consumer safety. These principles should also provide flexibility to achieve different social and policy objectives pursued by countries with different traditions and backgrounds.

Transparency of Laws and Regulations

As a principle of a good regulatory framework, transparency requires governments to publish all laws, regulations, judicial decisions, and administrative proceedings that affect existing and potential market participants. Full transparency of relevant regulatory information ensures that foreign and domestic service suppliers have the same access to rules to which they must adhere.

Due Process in the Administration of Laws and Regulations

Regulatory agencies and governments should allow firms and potential market entrants to contribute to the interpretation and application of regulations that affect their ability to perform in the market, including the establishment of consultation mechanisms before new regulations enter into force as well as appeal procedures once administrative and regulatory decisions have been enacted.

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[36] Feketekuty, Geza. 2000. Assessing and Improving the Architecture of GATS. In *GATS 2000: New Directions in Services Trade Liberalization*. Washington D.C.: Center for Business and Government, Harvard University, and Brookings Institution Press.

Due process ensures that market participants and regulators have the information necessary to make decisions that enhance firm and industry performance. Impartial due process mechanisms can be critical in uncertain regulatory environments. Unless regulatory agencies set due process procedures that ensure impartial and objective regulatory flexibility market participants are likely to withhold investments to avoid incurring unforeseeable losses.

Due process should be designed to collect information impartially so that regulators can base their decisions strictly on economic and social criteria to achieve the general welfare objectives set by legislators and governments, and provide firms with a market environment that while uncertain enjoys legal predictability.

Legal and Regulatory Predictability

Incumbents and potential entrants to regulated markets require legal predictability before they make the investments necessary to ensure universal supply and competitive pricing. Legal predictability requires a stable regulatory environment in which regulations follow clear criteria in achieving the social and economic objectives of regulatory agencies. Regulations should not be modified arbitrarily or without proper notification and consultation.

Governments and regulatory agencies that provide legal predictability may modify market rules in response to unforeseen events. However, when governments are unable to apply rules impartially and consistently, they should at least provide investors with stable regulatory environments where there is little change in regulation.

Nondiscrimination

Governments should formulate and apply regulations in a nondiscriminatory fashion. Non-discrimination encourages competitive behavior by ensuring that foreign market participants and potential entrants face regulatory conditions that are no less favorable than those applied to domestic services suppliers (i.e., providing a "level playing field" for all). Occasionally, regulators may need to discriminate among market participants to achieve a social or economic objective; this discriminatory behavior should be publicly available for all market participants and follow predetermined criteria and stated objectives.[37]

[37] Feketekuty 2000.