



Canada-Indonesia

Trade and Private Sector Assistance Project (TPSA)

Trade in Services and Services Export Promotion Workshop

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The Conference Board
of Canada



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Session 1:

Introduction to Trade in Services and Services Export Promotion

- What is “Trade in Services” and how are Services Traded?
- Importance of Trade in Services
- Overview of Services Trade Promotion
- Overview of Services Trade Policy and Services Negotiations



What is a Service?





The Economist magazine playfully defines a service as a 'product of economic activity that you can't drop on your foot'.





What is a Service Export?





A service is exported when a company
is paid for the service
by someone from another country,
regardless of where the service is provided
or where the payment is made.



WTO Services Classification

The General Agreement on Trade in Services (GATS) uses the following services classification system to structure commitments of members of the World Trade Organization in services negotiations. Categories include:



- Business services
- Communication services
- Construction and related Engineering services
- Distribution services
- Educational services
- Financial services
- Health related and other social services
- Tourism and travel related services
- Recreational, cultural and sporting services
- Transport services
- Other services

Within these categories, there are over 140 types of exportable services.



Services Exported by Small and Medium Businesses (SMEs)

Business and Professional Services

- Accounting
- Advertising
- Courier
- Education and Training
- Financial
- Legal
- Human Resources Management
- Management Consulting
- Market Research
- Marketing
- Printing
- Real Estate
- Security
- Wholesaling/Retailing

Environment

- Environmental Assessment
- Environmental clean-up
- Renewable energy

Health-related

- Diagnostic and Telemedicine
- Health and Wellness Tourism
- Medical Transcription

ICT and IT Enabled

- Business process outsourcing
- E-commerce
- Graphic Design
- Internet service provision

Construction

- Architecture
- Design
- Engineering
- Trades
- Urban Planning

Creative

- Fashion and Design
- Film and Video
- Music and Performing Arts
- Visual Arts

A woman with brown hair, wearing a black blazer over a light blue striped shirt and light grey trousers, is sitting on a blue airport-style bench. She is smiling at the camera and holding a tablet computer. A black suitcase is on the floor next to her. The background is a blurred airport terminal with other people and lights.

Are you currently exporting your services???

Delivering by Four Modes

Mode 1: Cross Border Supply

Cross Border Supply happens when a service is provided from a supplier in one country, to a consumer in another and only the service crosses the border. This is most often done using electronic delivery, namely the Internet.

Mode 2: Consumption Abroad

Consumption Abroad refers to the situation when a service is supplied in the country of the supplier, but to a consumer from another country (i.e. the consumer goes abroad).

MODE 1:



MODE 2



MODE 3



MODE 4



Mode 3: Commercial Presence

Commercial Presence is when the supplier of a service establishes a presence in another country by setting up a subsidiary or branch, for example. The consumers then purchase the service from the subsidiary in their own country.

Mode 4: Movement of Natural Persons

Movement of Natural Persons is when a supplier of a service temporarily visits the country of a consumer to offer a service (i.e. the service provider goes abroad).



Importance of Services

The services sector plays an integral role in the functioning of any modern economy. Consider:

- The important role health and education services play in affecting the quality of life and skills of the labour force
- The essential infrastructure provided by telecommunication, financial and energy services
- The invaluable role transportation services play in supporting the traditional manufacturing and agricultural sectors
- The positive impact business and professional services have on the competitiveness of any organizations





Global Business Trends



Source: Adapted from Ernst & Young: Tracking Global Trends



Growth of Trade in Services

Over the past century, the services sector has developed to play an increasingly important role:

- Services represent more than 2/3 of the world's GDP (for example 70% Canada, 54% Indonesia)
- Trade in services increasing its economic importance (about 23% of world trade)
- Developed countries strong on trade in services (44% of Canada's exports from services)
- Developing countries increasing trade in services (e.g. Thailand's tourism sector, India's IT services, foreign direction investment in China's services sectors. How about Indonesia?)





Economic Impact of Services

- The largest sector of economic activity and growth in most economies
- Global trade in services represents approximately 1/4 of global trade in terms of balance of payments accounting, but nearly 1/2 of global trade in terms of 'trade in value added' accounting for services embodied in traded goods
- 45% of the global population is employed in the services sector, which delivers more rapid employment growth than other sectors and accounts strongly for female participation and female wage growth.
- Services contributes to productivity growth through services innovation.



Source: WTO / ILO



Women are Particular Important in the Service Sector

55% of all jobs in the service sector occupied by women

only 22% of all jobs in the goods sector occupied by women



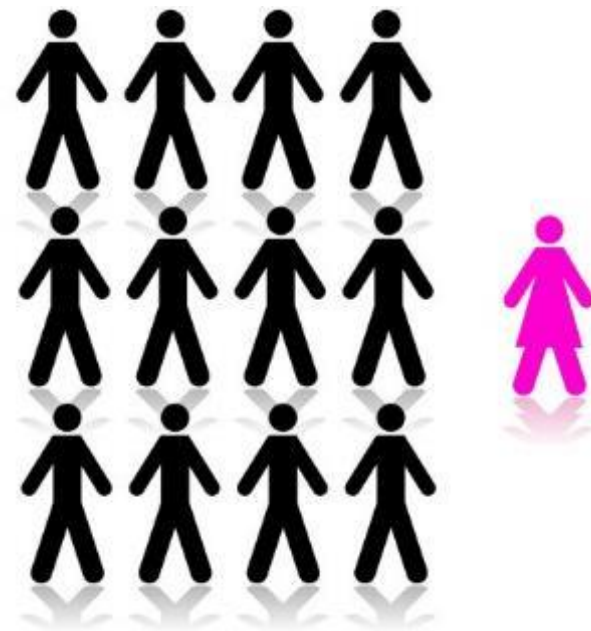
This is the case in Canada. What about Indonesia?

Source: Statistics Canada (2012, CANSIM, Table 202-0008)



Why Support Women Entrepreneurs?

- Women own 1% of the world's wealth, have a 10% share in global income and occupy 14% of leadership positions in the private and public sector
- Of 1.4 billion people living on less than \$1 a day, 70% are women and girls
- Women do 2/3 of the world's work, but earn only 10% of the income
- Women invest 90% of their income into their families and communities



Source: WTO/UNCTAD/UNGEI



Benefits of Exporting Services

For Companies

- additional income
- the opportunity to specialize
- enhanced credibility, innovation and competitiveness
- mitigated risks of doing business in only one country
- expanded networks

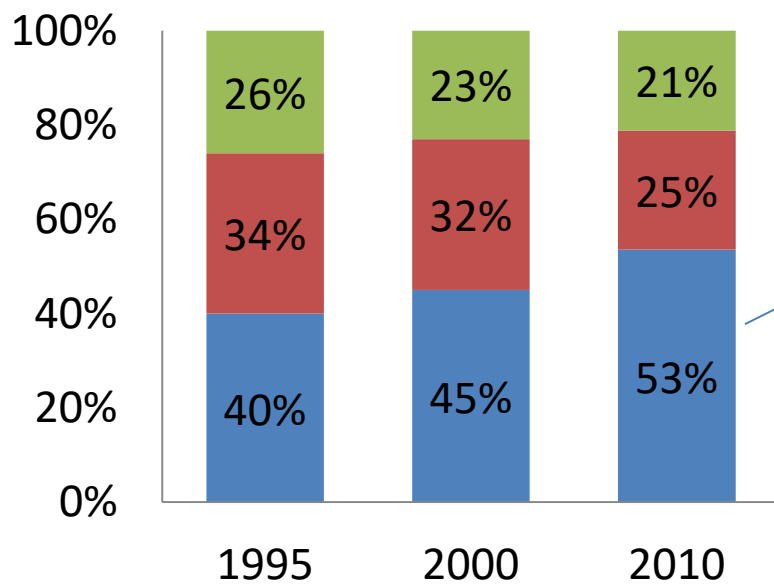
For Countries

- increased foreign exchange
- increased domestic availability of services
- more jobs
- lessened impact of economic downturns and seasonality
- reduced brain-drain
- enhanced competitiveness of business across all sectors

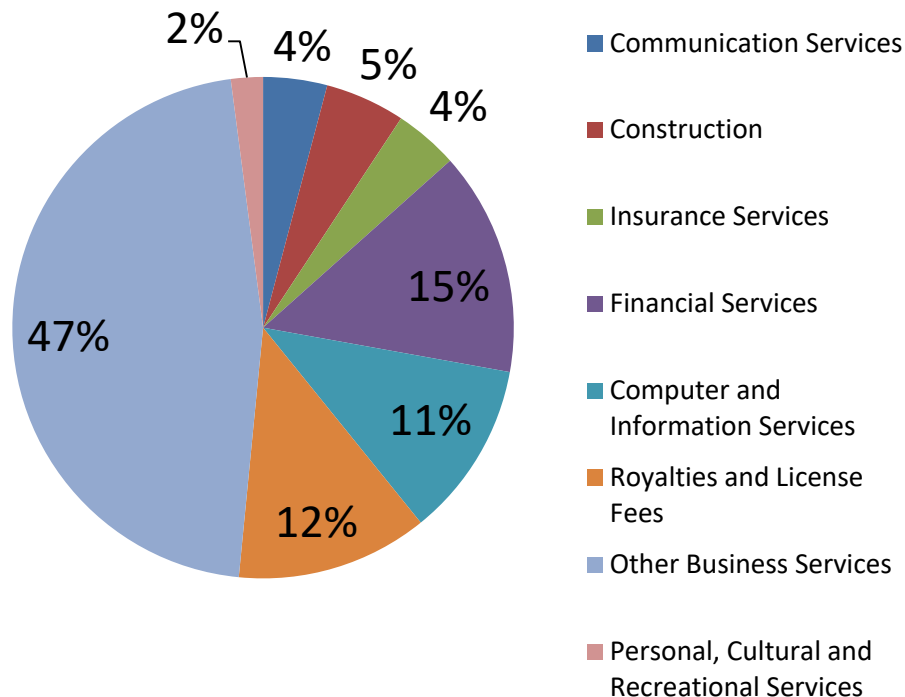


Composition of Services Trade

Changing Composition of Services Trade



Breakdown of Other Commercial Services, 2010



■ Other Commercial Services ■ Travel ■ Transportation

Source: International Trade Centre, Geneva

A group of business professionals in a meeting. A woman in a dark blazer and white shirt is smiling and looking at a man in a dark suit and blue shirt. They are both looking at a document on the table. There are two colorful pie charts on the table, one with 10 segments and one with 8 segments. A tablet is also visible on the table.

Many new exporters jump into potential markets too quickly and unprepared - and fail. It is important to do the necessary preparatory work or you risk losing the investment of your time and resources.



Developing Trade in Services

Trade Policy

Challenges and Opportunities

- General Agreement on Trade in Services (GATS)
- Key Issues in Services Negotiations in the WTO: from Doha to Nairobi
- Brief Introduction to the Plurilateral TiSA negotiations
- Taking Advantage of GATS and FTAs to Export Services Successfully

Trade Promotion

Challenges and Opportunities

Stakeholder Groups:

- SME Service Providers
- Business Associations
- Trade Promotion Organizations
- Coalitions of Service Industries
- Women Entrepreneurs



Trade in Services: Increasing Importance for Indonesia

- The service is the largest sector in Indonesia – 54% of GDP, 7% growth rate; 50% of employment
- 7.1 million jobs depend on trade in services in Indonesia
- Transport, travel, ICT, construction financial, health, education and social services are key service sectors.
- Promoting services exports from Indonesia:
 - Creating more competitive services industries
 - Delivering high quality services in Indonesia and abroad
 - Manufacturing and agriculture also depend on services
 - Negotiating better services packages in WTO and FTAs
 - Making good use of services provisions of trade agreements



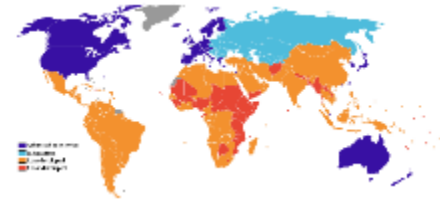
Trade in Services:

Some Differences from Trade in Goods

- Trade in goods: visible cross customs/borders; trade in services: do not go through customs
- Simultaneity of production and consumption of services
- Services strongly support trade in goods: transport, financial services, business services, etc.
- No tariff duties; market access conditions determined by regulations and restrictions
- Characteristics: strong government involvement
- Existence of natural monopolies, public service obligations
- Infrastructural importance of services (transport, telecom)
- Role of non-economic objectives (social, cultural and safety)



GATS and Developing Countries



- Increased participation of developing countries in the services trade
- Progressive liberalization of services
- Improved market access of developing country services suppliers
- GATS contact points for information
- Technical assistance to developing countries and LDCs on services



Services Negotiations in WTO/DDA

- Trade in services was included in the trade negotiations in the UR that created the WTO in 1995.
- The services negotiations in the UR were unfinished business – continuing negotiations from UR to Doha (DDA)
- WTO members continued negotiating sectoral services agreements (Basic Telecoms; Financial Services; etc.)
- WTO members also committed to services negotiations in order to progressively liberalize the services. However, the progress was slow and limited.
- 25 WTO members (EU as one) are trying to negotiate a plurilateral Trade in Service Agreement (TiSA) within the WTO
- Many WTO members are also moving to FTA negotiations, including services-related chapters/provisions
- No services negotiations during the Nairobi Ministerial except for a LDC waiver on services



Services Negotiations: From Doha to Nairobi

- 2001: Service negotiations got started slowly
- Many WTO members missed the deadlines to submit their requests and initial offers; Many initial offers remained modest.
- July 2004 package after Cancun
- December 2005, Hong Kong Ministerial – Annex C – plurilateral and more flexibility to developing/LDCs
- April 2011, 71 initial offers and 31 revised offers on services received by WTO
- March 2013, Trade in Services Agreement (TiSA) launched by the RGF group (now 25).
- December 2013, Bali Ministerial: an agreement on trade facilitation, but not on services
- December 2015, No negotiations on services in Nairobi.



Trade in Services Agreement (TiSA)

Participants in TiSA as of July 2015

Australia	Mexico
Canada	New Zealand
Chile	Norway
Chinese Taipei (Taiwan)	Pakistan
Colombia	Panama
Costa Rica	Peru
European Union*	Republic of Korea
Hong Kong	Switzerland
Iceland	Turkey
Israel	United States
Japan	
Liechtenstein	
Mauritius	



Source: www.tisateam.org



Trade in Services Agreement (TiSA)

- TiSA is an initiative of US, originally called the Really Good Friends (RGF) – aiming at a plurilateral Service Agreement within WTO.
- 25 WTO members – US, EU, Canada, HK, accounting for 70% of global services trade
- The negotiations are progressing well.
- 13 rounds conducted - low transparency in the negotiation process
- US, EU & Australia are taking turns to chair the TiSA negotiations
- WikiLeaks has published its draft text in July 2015 – a lot criticisms to TiSA
- Total gains from TiSA: US\$300-700 billion



Trade in Services Agreement (TiSA)

- TiSA negotiations are not a part of DDA. Due to the slow process of DDA negotiations on services, some WTO members led by US started the plurilateral negotiations on TiSA
- China applied to join the TiSA negotiations in September 2013 – not accepted yet; Other BRICS seem not interested. How about Indonesia?
- GATS Article V requirements – “substantial sectoral coverage” – volume of services trade, number of services sectors, modes of supply
- Hong Kong Ministerial – Annex C – paved the way for TiSA to be a plurilateral agreement.



Trade in Services Agreement (TiSA)

There are similarities and differences between GATS and TiSA

- The architecture – similar to GATS: Central Pillar plus 14 Individual Sectors proposed by the EU
- A hybrid approach: market access commitments under a positive list approach – similar to GATS; national treatment commitments under a negative list approach
- More liberal commitments than GATS, FTAs and TPP/TTIP



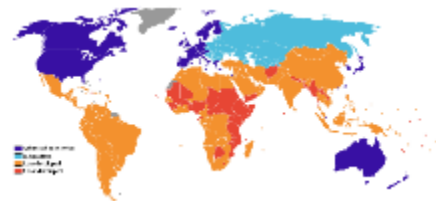
Trade in Services Agreement (TiSA)

Some sticking points:

- Sub-federal governments: USA, Canada, Australia, etc
- The Jones Act: prevent from “cabotage”
- Market access and financial services: regulatory standards can be barriers
- Cross-border data flows: privacy and national security issues
- Plurilateral (members only) versus multilateral (MFN basis)



Services Negotiations in the Nairobi WTO Ministerial



Not much happened in Nairobi on services negotiations.
Only decision adopted on LDC trade in services:

- Preferential treatment in favour of services and services suppliers of LDCs
- MFN waiver for LDC services and services suppliers
- More than 10 developed countries and emerging economies have notified to the WTO for their LDC preferential treatment on services (including Canada and China)
- Members shall give special priority to addressing regulatory barriers of interest to LDCs.



Implications for Indonesia / What's Next?



- Indonesia is not participant in TiSA – a possibility of being left out
- Indonesia will not be able to contribute to the rules-making for services under TiSA
- Indonesia cannot benefit from the TiSA outcome if it is a plurilateral agreement
- Services provide strong support to agriculture and manufacturing sectors
- Services reforms and foreign competitions are required in order to make the Indonesian economy more productive and competitive
- Services reforms will attract more foreign investments (Mode 3)
- Indonesia could not take advantage of Mode 4 commitments under TiSA



What Should Indonesia Do Next?



- Conduct a study of the impact of the TiSA negotiations on Indonesia – examine whether Indonesia should join the TiSA negotiations
- Conduct the impact study of TPP for Indonesia, particularly in the service areas
- Coordinate with in-line ministries and private sector on the contribution of services to the manufacturing and agricultural sectors
- Make good use of the existing services commitments (bilateral, regional and GATS), particularly Mode 4
- Attract foreign investment through services reforms
- Develop key infrastructure services through foreign competition – capacity and efficiency
- Formulate Indonesia's positions on services on TiSA, TPP and others.



Group Discussion

Do you now
better
understand
trade in
services?

What was
the most
interesting
thing you
learned in
this module?

Next steps?