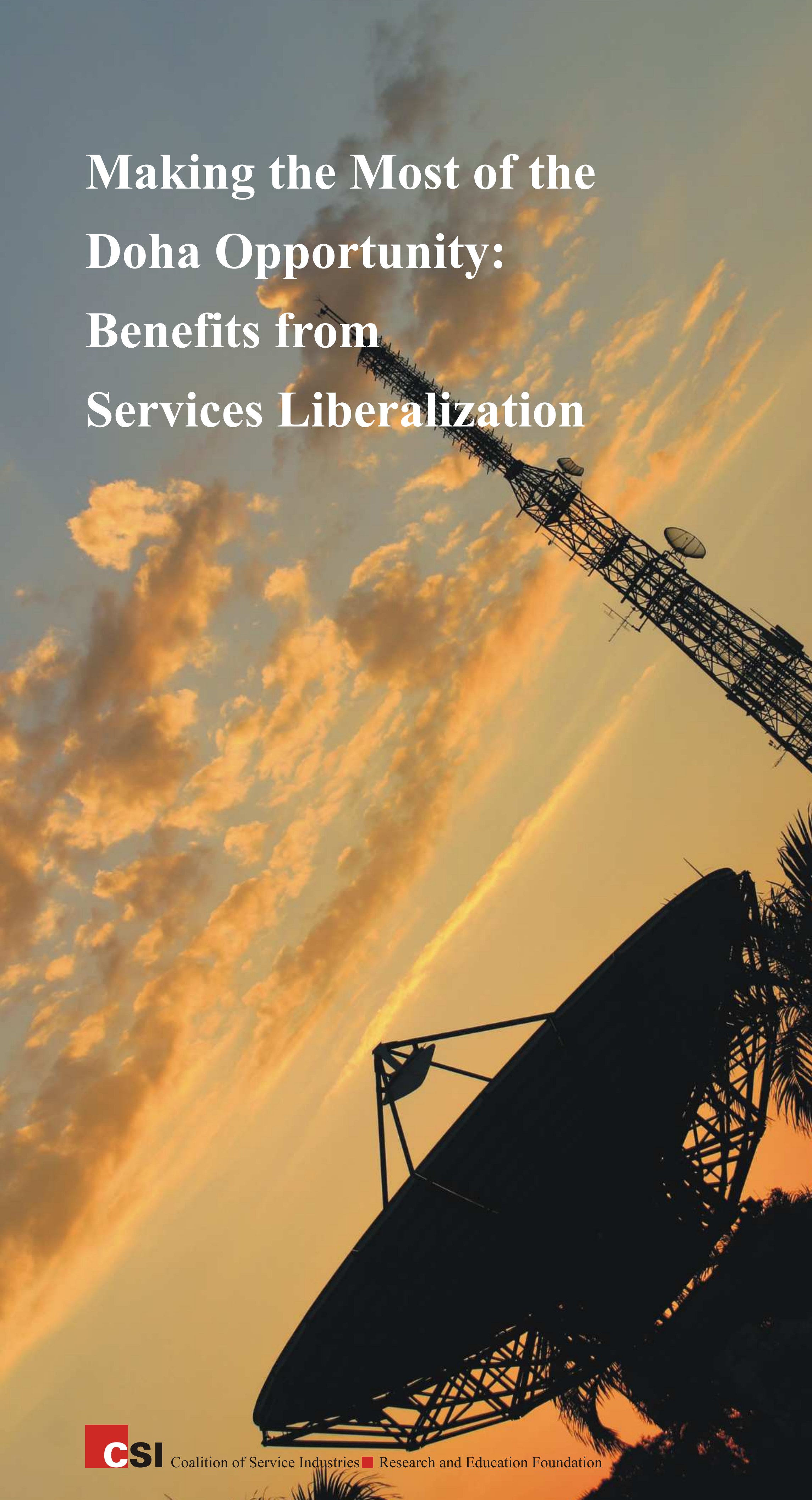
Making the Most of the Doha Opportunity: Benefits from Services Liberalization



CSI Coalition of Service Industries Research and Education Foundation

This report has been prepared with the assistance of the Stern Group and Richard Self. We would like to thank the following companies and organizations, whose support has made this report possible:

AIG, American Bankers Association, American Council of Life Insurers, The Chubb Corporation, Discovery Communications, Inc., FedEx, IBM, MetLife, Inc., New York Life International, TimeWarner, UPS

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Key Findings

This paper seeks to demonstrate the tremendous importance of services trade liberalization to economic development. It argues that the Doha Development Agenda, or Doha "Round" of World Trade Organization (WTO) talks provides a once-in-a-generation opportunity to realize multilateral liberalization of international trade and investment in services. The paper describes dozens of instances in which liberalization has led to growth, with special emphasis on five key service sectors that make substantial and unique contributions to economic growth, development, and living standards: financial services, express delivery, business services, audiovisual services, and telecommunications.

Among the paper's key findings:

- Services represent a dominant share of the global economy. Services account for 50-60% of economic activity in most developing countries and over 70% in some developed countries. Financial services, telecommunications, express delivery services, business services, audiovisual services, and many other services are essential inputs into virtually all products, including those in manufacturing and agriculture. Nonetheless, international trade in services is only 20% percent of global trade, demonstrating the need for liberalization in the Doha Round, and the great scope for growth of global services trade.

- Liberalization of trade in services can drive future economic development. If trade in services is liberalized, the potential welfare gains far exceed those in manufacturing and agriculture. By one estimate, service sector liberalization could yield a welfare gain for developing countries of US$6 trillion from 2005-2015, four times more than goods liberalization. Liberalization of trade in services creates a dynamic environment that promotes infusions of capital and technology, in turn generating new economic growth. Services are a fundamental part of the economic infrastructure and a major determinant of a country's success in exporting goods and agricultural products.

- Services liberalization promotes foreign direct investment (FDI) and facilitates exports. FDI is critical to economic development, as it brings in the crucial elements of capital and technology. Moreover, FDI generates better jobs, encourages best

practices, and promotes educational and training opportunities, raising the overall skill levels of the workforce. It raises the standards and efficiency of domestic businesses that serve local enterprises and consumers, and increases a nation's capacity to export services, as illustrated by India's remarkable success in business services.

- Services liberalization creates jobs. In both developed and developing countries, the service sector is creating jobs. From 1995-2005, worldwide employment in the service sector increased from 34% to 39% of the global workforce. During the same period, employment in agriculture declined from 44% to 40% of the global workforce, while the share of employment in industry has seen little change.

- Liberalization does not mean abandonment of market regulation. Liberalization in services should be accompanied by regulatory best practices, which, applied fairly and transparently to all economic actors ensure healthy long term competition. Regulatory best practices also help to hedge risks, protect the environment, and safeguard consumers and intellectual property rights. Increased competition resulting from liberalization requires more sophisticated regulatory frameworks, but building appropriate regulatory institutions is likely to be far less costly to consumers and businesses than the costs of protectionism and weak competition.

- Financial services. Liberalization of trade in financial services improves capital market efficiency, bolsters financial sector stability, and supports economic growth and job creation. Liberalization stimulates modernization and innovation, provides consumers with the broadest range of products and services at the lowest cost, and helps developing countries attract new foreign investment and capital. Developing countries that fully liberalize their financial services sectors could see an income gain of close to US$300 billion by 2015, an amount equivalent to an extra 2% of GDP.

- Business services. Business services are essential to all modern economies. They intersect with a wide range of other sectors and are a key source of innovation and growth in both developing and developed countries. International trade in business services is growing rapidly, driven by business process outsourcing (BPO), the contracting out of a wide array of business services to outside providers. Both developed and developing countries will benefit from making binding commitments in the WTO in order to lock in existing levels of openness.

- Express delivery services. Express delivery services have become essential to international trade. They are necessary for efficient supply chain management, and make it possible for businesses everywhere, including small and medium enterprises, to compete in the international arena. Express delivery services dramatically lower the costs of handling imports and exports. Countries with liberalized express delivery services are cheaper to ship to and from, giving them important competitive advantages. Supply chain costs can be as high as one quarter of total production costs in emerging markets. The efficient movement of goods can dramatically lower costs for exporters and consumers.

- Audiovisual services. Many developing countries are already net exporters of audiovisual and cultural services. Liberalization will increase export opportunities and encourage investment in the digital infrastructure necessary to accommodate the increased availability of diverse content. Liberalization promotes job creation in areas such as production, dubbing, promotion and advertising, rental and retailing, and other services. Other spin-off benefits include increased tourism. But perhaps the most essential value of expanded trade in audiovisual services lies in increased understanding, freedom of expression, and the protection of multiculturalism that results when small producers in small countries use inexpensive new technologies to express themselves.

- Telecommunications services. Telecommunications networks enable the knowledge-based economy of the 21st Century to function. They are the backbone of the internet and electronic commerce. Cross-border trade depends on the telecommunications networks through which this mode of delivery of services mainly flows. Countries with WTO telecommunications commitments experience higher growth rates in telecom sector revenues, and higher penetration rates for fixed-line and mobile telephone services. Additional liberalization in the Doha Round will accelerate these benefits and support further economic growth.

- The Doha Round of global trade talks is a once-in-a-generation opportunity to realize all these benefits through liberalization. Developing countries have the opportunity both to benefit from liberalization of their service sectors, and to gain access to other WTO members' markets through reciprocal concessions. In order to achieve these benefits, WTO members must make bold offers to liberalize domestic service sectors, and make bold demands in return.

Liberalizing trade in services will spur economic growth by:

- Attracting foreign investment
- Connecting domestic and world markets
- Encouraging new technology
- Exposing domestic businesses to world class business practices
- Increasing domestic competition
- Creating incentives for domestic innovation
- Lowering domestic costs and prices for businesses and consumers
- Creating incentives for training and workforce development

Introduction

Liberalization of international trade in services drives economic growth and development. It creates a dynamic environment that promotes infusions of capital and technology that in turn create new economic growth.

Services contribute to every aspect of a country's economy; they are a fundamental part of the economic infrastructure and can help determine a country's success in exporting goods and agricultural products.

A truly liberalized services sector helps to broaden and democratize markets through the better quality and lower prices that competition brings. Countries at all levels of development benefit from this environment.

The premise and the promise of the Doha Development Agenda (Doha Round) is that trade liberalization creates better lives for all peoples. This bold vision can be realized, but only if World Trade Organization (WTO) members use the time remaining to seize the opportunity that is still within reach.

This report attempts to show how liberalization improves economic opportunity by giving examples of experiences in five key service sectors which have already contributed to economic growth. It argues that multilateral trade liberalization through the Doha Round could allow these and other service sectors to contribute much more to global economic welfare.

Services and Development

Services already generate the majority of the world's economic output, accounting for 50-60% of economic activity in most developing countries and over 70% in some industrialized countries.[1] While agriculture and manufacturing are very important components of an economy, services have far greater potential to spur additional growth. One estimate indicates that service sector liberalization could yield a welfare gain for developing countries of US$6 trillion from 2005-2016, four times more than goods liberalization.[2] Another economic model shows a potential global welfare gain of $1.7 trillion from free trade in services, more than double the potential gain from goods liberalization, and 31 times the gain from agricultural liberalization.[3]

Unfortunately, the share of services in global trade is now only approximately 20%. International trade in services is not commensurate with its economic importance in domestic economies, partly because of the prevalence of complex barriers to cross border trade and to investment in services in a great many countries. This simply underscores the need for substantial elimination of services trade barriers in the Doha Round.

Historically, services trade negotiations have often devolved to a debate between developed and developing countries. For many participants, there was a working assumption that only developed countries could afford to liberalize their services sectors, and enjoy the accompanying benefits, such as increased competition, employment, and higher quality services.

Recently, however, many developing countries have undertaken significant autonomous liberalization in services because they have determined that it is essential for their own development to do so. The results have been uniformly positive. Liberalization has enhanced their economic vitality, exports, and overall wealth.

Thus, services sector liberalization should not depend on a country's state of development, but on how services can contribute to economic growth and development. Some of the sectors most frequently liberalized on an autonomous basis have been telecommunications, financial services, and business services, each of which directly affects a country's ability to compete abroad in goods, services, and agriculture.

Nonetheless, a number of developing country governments continue to believe, despite the evidence to the contrary, that the relative weakness of their services sectors calls for continued protection, and sometimes, state management. There is further concern that assuming WTO obligations might reduce their regulatory flexibility to respond to consumer protection, prudential, or other considerations.

This study recognizes these concerns but suggests that they are based on incorrect assumptions that protection benefits domestic industries, and that liberalization equates with the abandonment of market regulation.

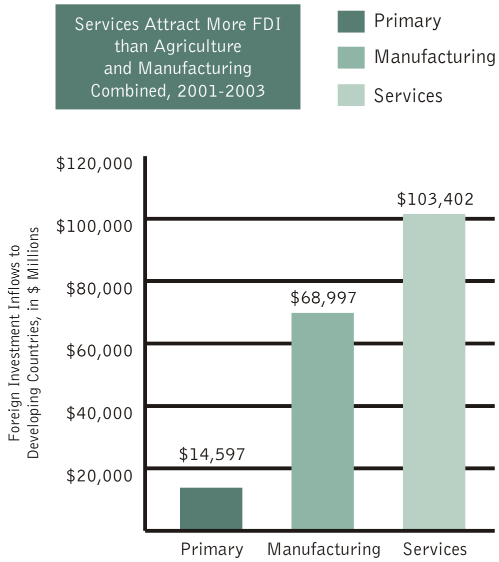
This study attempts to outline in some detail the benefits of services trade liberalization to economic development, and offers specific developing country case experiences, drawn from several sectors: financial services, business services, audiovisual services, express delivery services and telecommunications services.

World Exports of Merchandise, Commercial Services & Agriculture

Category	2000	2001	2002	2003	2004
Merchandise (U.S. $ Billions)	5,628	5,437	5,689	6,620	8,124
% of Total World Trade	73.8	73.1	72.5	72.8	73.6
Commercial Services (U.S. $ Billions)	1,453	1,460	1,570	1,795	2,125
% of Total World Trade	18.8	19.6	20.2	19.7	19.3
Agricultural Products (U.S. $ Billions)	558	547	583	674	783
% of Total World Trade	7.3	7.4	7.4	7.4	7.1

Source: World Trade Organization, International Trade Statistics

How Further Service Sector Liberalization Will Drive Economic Development



Source: The Stern Group, Inc. Original Data from UNCTAD World Investment Report, 2005

By Promoting Foreign Direct Investment (FDI)

- Foreign direct investment is critical to economic development, because it brings two key elements that developing country service sectors frequently do not possess: capital and technology.
  - Capital is essential to providing services on a larger scale, thus enabling more elements of society to have access to them. It also expands the opportunity to assume risk and to install capital intensive equipment and infrastructure.
  - Technology provides the critical information and processes that increase domestic productivity in the services economy, transfer knowledge and facilitate the creation of new services. It also provides access to a greater universe of people, as technological advances drive down prices.
- FDI creates better jobs with benefits at the entry, mid, and senior levels; encourages non-discriminatory employment and other such best practices; and promotes educational and training opportunities, raising the overall skill level of the workforce. It

also creates an indigenous capacity for local entrepreneurs to build their own businesses, based on the skills learned in working for a foreign services provider.

- By allowing foreign service providers into developing countries, indigenous standards of business practice, including worker rights, are raised.

- Most FDI flowing to developing countries is already being channeled to service industries, which account for more FDI than agriculture and manufacturing combined. As barriers to FDI in services are lowered, developing countries in particular will have an opportunity to realize significant new FDI inflows and their associated benefits.

- Foreign direct investment must be accompanied by development of domestic regulatory regimes that promote transparency, predictability, and fair competition and access for all companies engaged in services activities. In other words, regulation should not be used to undermine the benefits of FDI. Equally, FDI will be most successful if it operates in an environment of high quality regulation.

By Facilitating Exports

- Liberalizing services in developing countries increases their ability to export goods and services. Liberalization of logistics services, with the help of foreign capital and technology, substantially reduces the inland cost of exporting goods. India's liberalization of business services has made it a leading exporter of these services (see chart on right).

- Consumers and industries in countries that have liberalized their services markets benefit from strong competition that promotes investment and growth, while countries that isolate their markets rarely enjoy this dynamic effect.[4] The case of Indian business services shows that that liberalized sector averaged 21% annual growth during the past decade, and that Indian computer-related services are now globally competitive, providing an estimated 500,000 jobs.[5]

Source: The Stern Group, Inc. Original data from the World Bank, World Development Indicators 2005

- Sectors that are more open grow faster than those that are not, as India's experience also demonstrates (see chart at bottom).

- Services reform is often an essential element of a country's economic development plan. China, Brazil, and Malaysia have recognized that services sector reform goes together with overall development objectives. The current Chinese Five Year Plan, the Brazilian Plano Real during the late 1990's and the Malaysian government's current 9th Malaysian Plan include recommendations for the liberalization of services sectors.

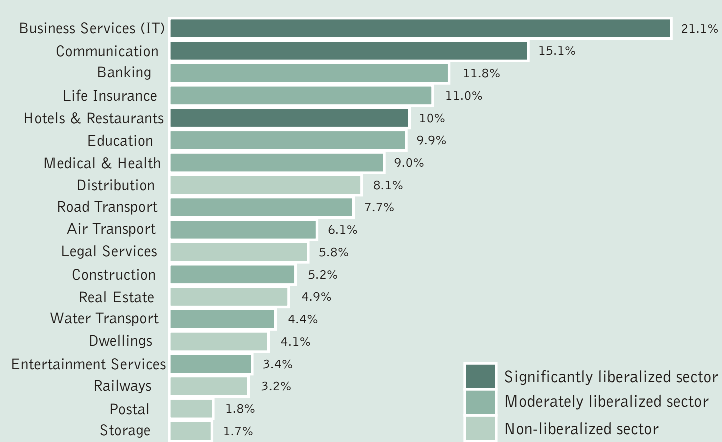
By Creating Jobs

- In both developed and developing countries, the services sector is creating the new jobs. From 1995-2005, worldwide employment in the service sector increased from 34% to 39% of the global workforce. By contrast, during the same period employment in agriculture declined from 44% to 40% of the global workforce, while the share of employment in manufacturing has seen little change.[7]

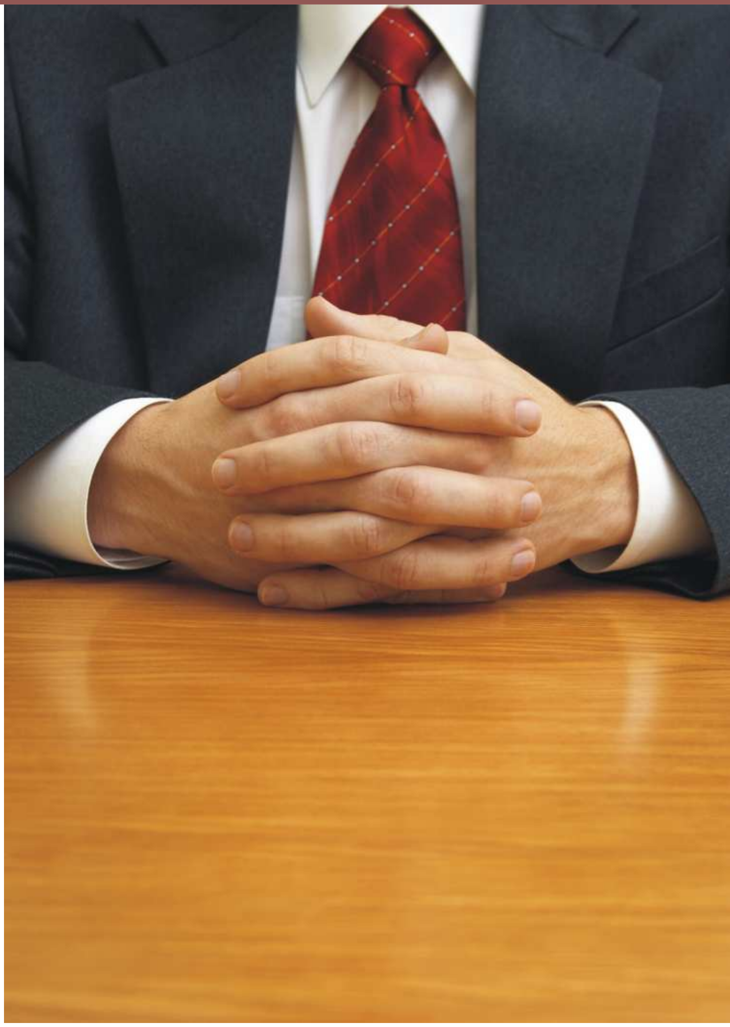
- Many developing countries are already "leapfrogging" manufacturing as a principal source of employment to develop service economies[8], just as their people are bypassing land line telecommunications in favor of wireless telephone and internet communications.

INDIA: More liberalized sectors seem to have grown faster during the 1990's than the less liberalized ones

Gains from liberalization: Growth rate of selected services sectors during the 1990's.



Source: World Bank, South Asia Region: India, "Sustaining India's Services Revolution" 2004, 15. Original data from CSO, World Bank Staff Estimates



Services and Domestic Regulation

- Liberalization in services should be accompanied by sound, sensible regulation. Liberalization does not mean abandonment of market regulation. Indeed, a sound regulatory system is essential to an open market. This is the case for both developed and developing countries, which must ensure that competition takes place within a transparent, predictable set of rules. Regulatory best practices applied fairly and transparently to all economic actors ensure healthy, long-term competition.

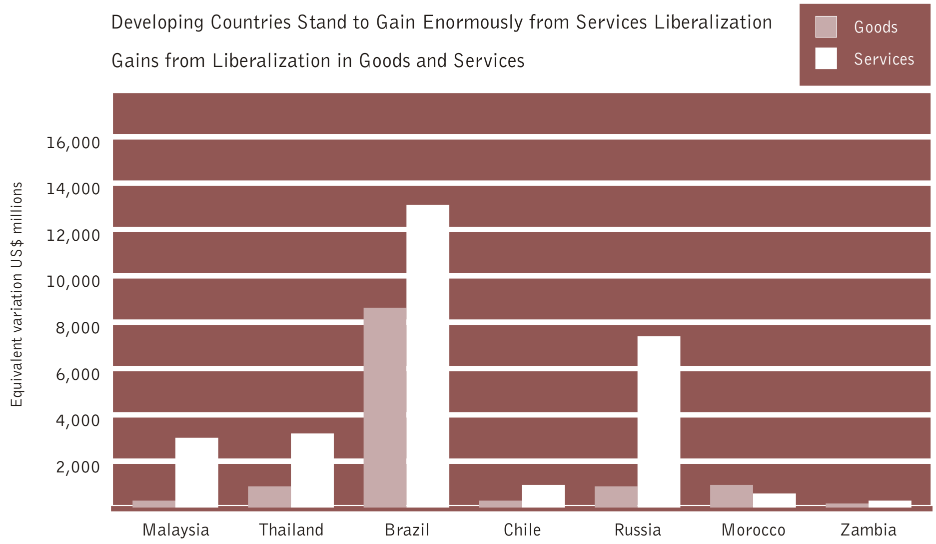
- Regulatory best practices also help to hedge risks, protect the environment, and safeguard consumers and intellectual property rights. Developing an effective regulatory system for a service in any country takes time and accumulated knowledge based on experience. But it should not be the basis for forestalling services liberalization.

- Some developing countries have resisted liberalization of services because they lack the regulatory capacity to manage the presence of foreign services companies and the more competitive environment that accompanies them. There is little question that the introduction of competition requires changes to regulatory frameworks, and a different level of licensing and supervision. This can be a challenge for developing country regulators, but it is surmountable. Developing the capacity to design and enforce new rules for competition is likely to be far less costly to taxpayers, businesses, and consumers than the costs of protectionism and weak competition.

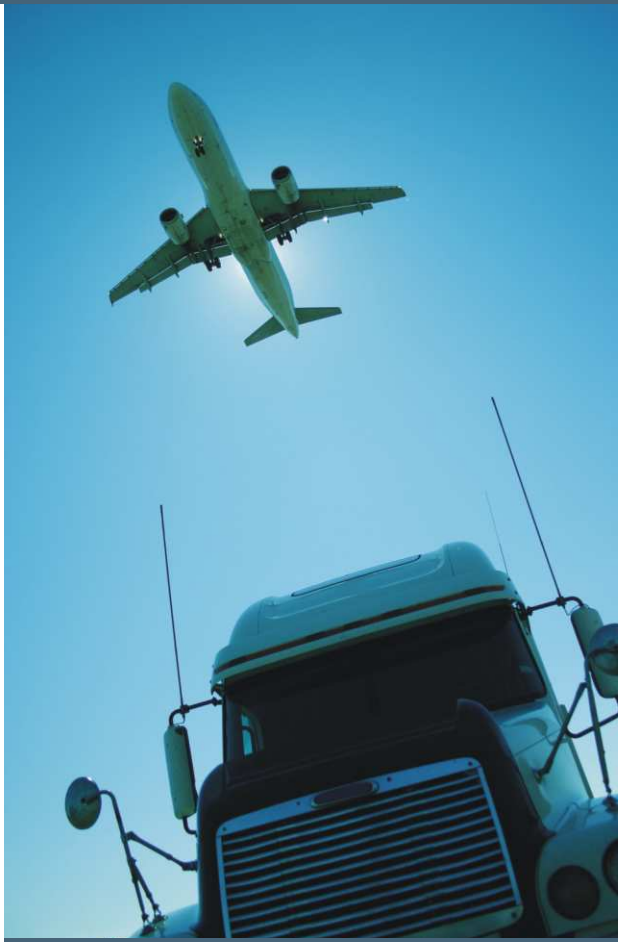
- Improved regulation is critical to reap the full benefits of services liberalization, but many developing countries need assistance to shape the new regulatory environment brought about by competition. According to Aaditya Mattoo of the World Bank, "regulatory institutions … require sophisticated skills" but "policy advice and assistance for regulatory reform … provided by multilateral institutions and other agencies" are often not linked to trade liberalization. Mattoo suggests that developed countries can help this process by establishing a voluntary mechanism, funded by public and private donors, to provide policy advice and to diagnose and remedy regulatory inadequacies for developing countries that are considering liberalizing commitments.[9]

Developing Countries Stand to Gain Enormously from Services Liberalization

Gains from Liberalization in Goods and Services



Source: OECD



Looking Ahead

Services, not manufacturing and agriculture, will generate most future economic growth.[10] The goal of the Doha Round is to strengthen growth and trade opportunities in all three areas, but agriculture and manufacturing will be less competitive in international markets if services are not liberalized as well. Production and distribution costs of goods and commodities are higher in the absence of competitive services suppliers. Thus, the immediate focus on obtaining breakthroughs in the Doha Round agriculture and non-agricultural market access (NAMA) talks is essential, but the promise of liberalization for these markets will be inhibited drastically if services are not also liberalized.

- Liberalization creates a developmental dynamic. The first wave of international operators helps modernize infrastructure, attracting a second wave of investors offering a wider array of services.[11] This encourages entrepreneurs to enter the market, further expanding the selection of goods and services. It also makes the traditional exports of manufactures and agricultural commodities more competitive.

- The inherently reciprocal nature of a trade negotiation can make this dynamic more achievable in both a political and economic sense by bringing about a package of liberalization in all three areas, each of which is directly related to development.

Every participant in the Doha negotiations faces intense pressure from entrenched interests, which makes a successful conclusion politically challenging. However, if countries give full weight to the benefits of liberalizing their own markets, and to the gains to their exports from reciprocal market opening in other countries, the political pressure against liberalization should become easier to manage.

"The immediate focus on obtaining breakthroughs in the Doha Round agriculture and non-agricultural market access (NAMA) talks is essential, but the promise of liberalization for these markets will be inhibited drastically if services are not also liberalized."

"Developing countries that fully liberalize their financial services sectors could see an income gain of close to $300 billion by 2015, an amount equivalent to an extra 2% of GDP."

Financial Services

How Will Financial Services Liberalization Benefit Developing Countries?

Financial services comprise banking, insurance, insurance intermediation, asset management, pension and retirement services, payments systems including credit cards, brokerage and securities. They are essential prerequisites for dynamic modern economies. Liberalizing trade in financial services improves capital market efficiency, bolsters financial sector stability, and supports economic growth and job creation in both developed and developing countries.

Liberalization stimulates modernization and provides consumers with the broadest range of products and services at the lowest cost. Countries that only partially liberalize their financial sectors will only grow by as much as 0.25% faster than countries with restrictive financial policies.[1] But developing countries that fully liberalize their financial services sectors could see an income gain of close to US$300 billion by 2015, an amount equivalent to an extra 2% of GDP.

Liberal financial services markets help developing countries attract new foreign investment and capital to build and develop infrastructure, such as modern telecommunications, transportation, power generation, environmental and other key services. Without such infrastructure, developing countries will not be able to take full advantage of any new WTO agreement to liberalize agriculture and goods trade.

India's Prime Minister Manmohan Singh captured the crucial importance of services liberalization when he connected India's need for US$70 billion in foreign direct investment over the next

five years (to reach its 9% growth target) to further financial services liberalization - i.e. fewer restrictions on certain capital transactions.[2,3]

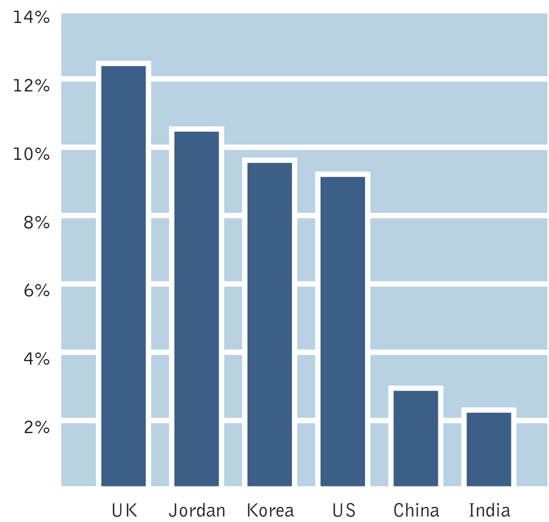
Liberalization should be accompanied by improvements in regulatory transparency. This is critical for companies operating globally because it provides more predictable investment conditions, and thus more incentive to invest. This is particularly important for the financial services industry due to its complexity and heavily regulated nature. Evidence shows that regulatory transparency also encourages the development of better policy options, and helps reduce the incidence and impact of arbitrary decisions in regulatory implementation.

The Societal Benefits of Insurance Market Liberalization

In a liberalized market, insurance can provide unique and important social benefits including financial security, private compensation for loss (in place of government compensation or no compensation), investment in basic infrastructure and prevention and mitigation of losses.

- China's partial opening of its insurance market has contributed significantly to China's rapid economic development in the past two decades.
    - In 1992, the Chinese government permitted what has been called "the Shanghai Experiment," granting licenses to AIG and a few other foreign companies to operate in Shanghai in competition with the People's Insurance Co. of China, which had had a monopoly.
    - The volume of life and property insurance premiums soared as a result and new products and services were introduced.
    - Domestic companies responded to new competition by modernizing their operations, so the foreign share of the insurance market remained modest, but Chinese customers benefited greatly.[4]
    - Premiums from various forms of insurance became a source of much-needed capital for growth.

Insurance Penetration in Select Economies



Source: Financial Leaders Group letter to
Indian Minister of Finance, January 31, 2006

    - As the “Shanghai Experiment” demonstrates, when foreign insurers are authorized to operate, there has been a dramatic increase in public awareness and consumption of risk mitigation products and services.

- India’s insurance sector has seen remarkable growth since its opening up in 2000. But clearly there is room for further growth, which can be fostered, in part, by raising the current foreign equity ceiling to allow foreign investors full majority control of their investments.

    - Over one million jobs have been created, including direct and indirect employment in insurance companies and the business process outsourcing (BPO) industry. Current estimates point to a 50% increase in employment within 2-3 years if the Indian insurance sector were further liberalized.

    - Studies have shown that the incremental FDI from existing foreign investors will be at least US$500 million, with new investors bringing in additional FDI if the cap is raised.

    - In spite of the long existence of state owned insurance companies, and despite the growth of foreign investment in insurance, the Indian insurance market lags behind that of other economies, according to the baseline measure of insurance penetration.

- In the late 1990s, Chinese Taipei was encouraged by the WTO, the Asian Development Bank and other international authorities to open its financial services markets, including the insurance market.[5]

    - Government leaders decided it was prudent to encourage FDI in the financial markets in the wake of the Asian financial crisis as a way of driving consolidation of the system and eliminating vulnerable players.

    - The insurance industry proved particularly attractive to international companies, with total investments of about half a billion dollars since liberalization.[6] Foreign participation in

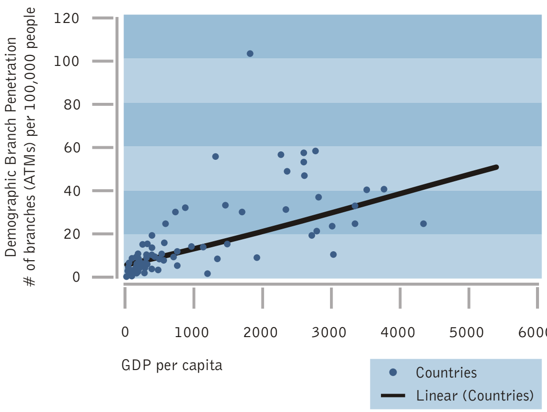
Chinese Taipei's insurance market has brought innovations, new products, better business practices, and the intangible benefit of experience in other markets with various types of insurance regulation.

The Benefits of Banking Sector Liberalization

The banking sector plays a critical role in any market economy. In the 1990s the western banking industry shifted its primary focus from traditional lending and borrowing activities to multi-financial projects and development of new financial products. As former Deputy Treasury Secretary Kenneth Dam said, "access to new mortgage products kept U.S. consumers spending and sophisticated debt instruments kept business investing"[7] after the 2001 U.S. economic slowdown. Through greater liberalization, developing countries too will be able to weather future slowdowns as "openness would continue to attract new sources of foreign direct investment and international expertise [and] would reduce the cost of capital."[8]

- A 2005 World Bank study[9] concluded that there is a positive correlation between a country's level of branch (ATM) density and its GDP per capita.
  - The analysis was based on a survey of bank regulatory authorities from 99 economically diverse countries.
  - As branch penetration increases (which suggests increased access and financial services opportunities for individuals and businesses) overall financial development and economic activity rises as well.

Relationship between GDP per capita & demographic branch penetration



Source: Reaching out:
Access to and use of banking services across countries," World Bank,

Competition leads to a sharper strategic focus by domestic banks

Frequently, incumbent banks[10] improve their operations and introduce new products, management styles and technology in order to compete with the new foreign entrants.

- Since the implementation of the mid 1990s Plano Real stabilization program[11], Brazil has seen an average growth rate of 8.8% in its retail banking industry.

Chile: A prime example of Financial Service Sector Liberalization

- Investments from Banco Santander of Spain were a crucial catalyst for change in Chile.
- Taking advantage of Chile's openness to FDI, it acquired two local banks and introduced better practices which were emulated by others in the sector. This helped lower costs to users of banking services.
- Banco Santander brought operational efficiency to the Chilean banking industry by reducing non-interest expenses of business transactions.
- It brought new technology that eventually was adopted throughout the Chilean financial system.
- It offered new types of mortgages, lowered the spread on mortgages which reduced the costs to homebuyers, thereby expanding the home mortgage market.
- Banco Santander's more advanced risk measurement and management assessment processes promoted improved risk management practices by domestic banks.
- Because Banco Santander had more trouble reaching smaller borrowers, local banks were encouraged to cultivate this "middle market." In this way, domestic institutions were encouraged to serve smaller borrowers who in turn benefited from liberalization.

  - Improvements in the macroeconomic banking environment attracted additional investors to Brazil.
  - Domestic banks were forced to reform and improve their efficiency to compete with the international banks active in the local market.
  - Investment in mutual funds also increased rapidly, making more savings available for investment in Brazilian businesses.
  - Together with sound macroeconomic policies, further liberalization could lead to greater availability of banking services to would-be entrepreneurs and to underserved areas, leading to additional growth.[12]
  - But despite these improvements, less than half of Brazil's adult population has a bank account[13], because the Plano Real only called for partial liberalization.[14]
- Indonesia's experience with the banking sector is consistent with the experience of other countries that have liberalized.
  - Market opening led to the creation of new financial services.
  - Local employees who were trained by the foreign banks learned best practices and innovative banking strategies.
  - Some of these employees and many of the practices eventually migrated to domestic banks.[15]
- Malaysia commenced the liberalization of elements of its financial sector as part of the Eighth Malaysia Plan. The newly released Ninth Plan continues in this direction.[16]

- The Eighth Malaysian Plan called for improved efficiency in the banking sector, increased worker productivity, stronger capitalization of financial institutions, and risk spreading in the insurance industry.[17]

- The Ninth Malaysian Plan goes further and commits to opening its banking and insurance sectors to much needed competition, including allowing foreign investors the right to acquire stakes in local companies (albeit gradually).

The Benefits of Liberalization for Securities and Asset Management

Open securities markets encourage economic growth and development through the creation of new investment and savings vehicles for consumers and investors and by lowering the cost of capital for businesses and entrepreneurs.[18] Liberalized securities markets also contribute to less distorted and less volatile capital flows and help foreign and domestic savings to be channeled efficiently and productively.[19]

The development of an open and robust asset management sector helps societies cope with the saving and investment demands of a growing middle class and an aging population.

- Professionally managed retail investment funds can help turn savers into investors by providing average investors with diversification and liquidity at a reasonable cost.

- Not only can investment funds assist individuals in accumulating wealth and achieving long-term financial goals, but they also create an engine for capital growth that can benefit developing economies.

- A competitive asset management sector is also an essential component of the ongoing global shift of pensions away from defined benefit and pay-as-you-go systems toward defined contribution approaches.

The participation of foreign securities and asset management firms in a market has been shown to enhance competition and bring additional capital, technology, expertise, and products and services. Each of these can reduce the cost of capital and enhance the competitiveness of domestic companies.

Looking Ahead: The benefits of financial services liberalization extend across the economy as a whole as the above examples show. The liberalization that has been undertaken to date is a start but in many countries, much remains to be done.

Significant financial services liberalization will improve the sector's efficiency and offer a greater choice of providers and products for consumers at lower costs. Improved technology, international best practices, improved risk measurement and management, and risk-based pricing, will promote diversification of investments, which in turn supports financial sector stability. Moreover, liberalization will help ensure the sufficiency of capital in times of crisis.

The Doha Round offers a valuable opportunity for countries to fully embrace financial services liberalization by binding commercially meaningful market access and introducing new liberalization. Foreign investors are more inclined to substantially increase their investments in this critical area of any modern economy when offered greater legal certainty through binding WTO commitments.

Business Services

Why is Liberalization Vital to Developing Countries?

Business services are essential to all modern economies. They have accounted for a significant portion of cross border trade in services for some time. For example, the United States exported $71 billion worth of business services, or about 20% of total US services exports, in 2005. But the importance of business services in global trade has increased dramatically, as new providers, enabled by advanced technology and highly skilled people, have become major suppliers of business services to a globalized market. So for the first time, a growing number of developing countries are engaging, or readying themselves to engage, in world trade in these services.

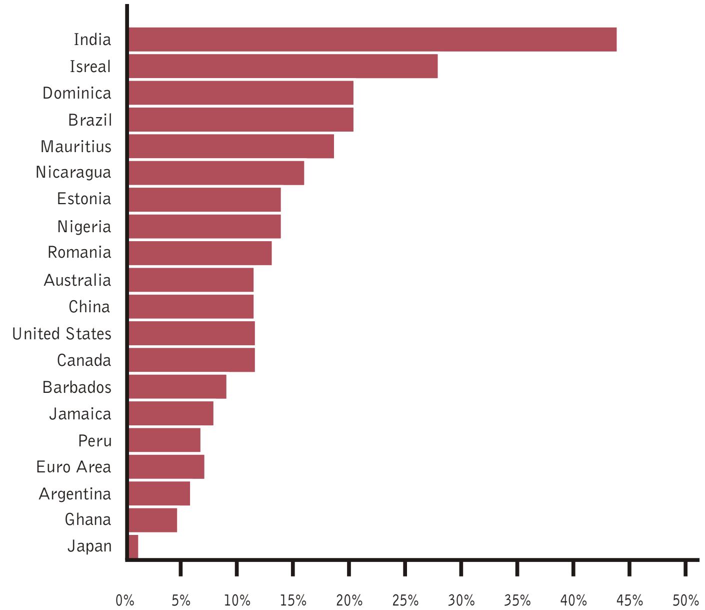
Business services intersect with a wide range of other sectors, providing intermediate inputs throughout the value chain. They are a key enabler of growth in both developed and developing countries. Many small and medium-sized firms have made their start providing business services. Conversely, state-of-the-art business services enable the success of smaller firms.[2]

Because it is so intensively knowledge-based, the business services sector is at the cutting edge of creating innovative new products. This leads to significant productivity gains as manufacturing and service firms alike source non-core services from high-quality, low-cost suppliers around the world.

International trade in business services is growing rapidly, driven by business process outsourcing (BPO), the contracting out of a variety of business tasks, such as those mentioned above, to third-party service providers.

What are business services?
Business services include a broad array of activities such as computer services, research and development services, marketing and advertising, management consulting (including consulting services incidental to agriculture, manufacturing, mining, and energy), employment and personnel services, and others.[1]

Developing Countries have Rapidly Expanding Business Services



Average growth rate of exports of business services for selected countries, 1995-2000

Sources: Reprinted from Aaditya Mattoo,“Trade in Services and the Doha Development Agenda” World Bank, April 2005, slide 6. Original data from IMF Balance of Payments Statistics

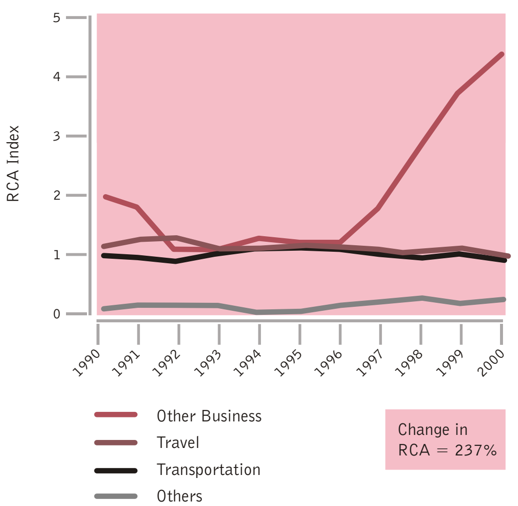
The global market for BPO is already $200 billion per year worldwide and will continue to grow rapidly, as illustrated by a Deloitte Research survey which found that the world's 100 largest financial services firms expect to transfer $350 billion of their cost bases abroad by 2008.[3]

Developing countries have a major stake in further opening this sector. Fast-growing exporters need open, unimpaired cross border supply to markets in developed and developing countries. Countries that maintain barriers to foreign investors in business services must consider the opportunity to gain a foothold in this important expanding market that liberalized treatment of foreign investors can bring.

Moreover, while many countries' markets are already open to business services, developed and developing countries alike will benefit from making binding commitments in the WTO in order to lock in these existing levels of openness. This is a particularly important consideration for countries that are exporting such services on a cross border basis, who would enjoy the increased legal certainty that bound commitments confer.

India Enjoys a Revealed Comparative Advantage (RCA) in Business Services Exports

India's RCA for Services Exports in Selected Categories



Source: Aaditya Mattoo,"Trade in Services and the Doha Development Agenda," World Bank, (April 2005): slide 7.

Revealed Comparative Advantage is calculated by dividing the share of a given commodity in a country's exports by the share of that commodity in total world exports. A number over one shows a comparative advantage. For example, if software comprised 30% of India's total exports, but only accounted for 20% of total world exports, then India would have an RCA of 1.5.

The Indian Experience

India's experience with BPO demonstrates the benefits of liberalization in this fast growing sector. Foreign investment in Indian BPO helped establish a dynamic new industry by providing capital, credibility and the advanced technology and practices necessary to develop this sector.[4] The growth and synergies created by India's successful software, IT, and BPO companies are having a powerful ripple effect throughout the Indian economy.

- Because business services jobs - particularly in the IT area - are relatively well paid, this industry has a multiplier effect on employment. For every IT job an estimated three other new jobs are created in India.[5]
- The Indian business services industry has been primarily export-oriented, but it also serves local businesses. This is leading to greater efficiency in a large number of businesses like retailing. The result is that business process outsourcing is expected to grow 30% a year in India.
- Two-fifths of the Fortune 500 companies outsource software requirements to India. While the sector has grown rapidly, BPO services have grown even faster. Nor will India's comparative advantage be limited to back office services; already, India's cross-border services exports are evolving from lower-end, disentangled BPO services to more integrated, web-based and enabled services.[6]

Other Countries Can Also Benefit from BPO Liberalization

- Business services job growth in Malaysia could be substantial as business process outsourcing becomes a key growth sector.[7] From 1988 to 2003, Malaysia increased its services exports from US$2.3 billion to US$13.5 billion, an annual increase of 13 percent. BPO services contributed substantially to this growth.[8]

- The same promise holds for other countries. Brazil ranks high as a location to establish offshore BPO operations. In a 2003 survey of 115 companies, one-fifth of the respondents said they had business process outsourcing operations in Brazil.[9] And countries with fast-growing business outsourcing sectors have become models for other countries like Sri Lanka.[10]

- Other developing countries with similarly well-educated and relatively low-cost labor forces will undoubtedly increase their participation in this market.

Competition Leads to Increased Opportunities for Businesses and Jobs in Developing Countries

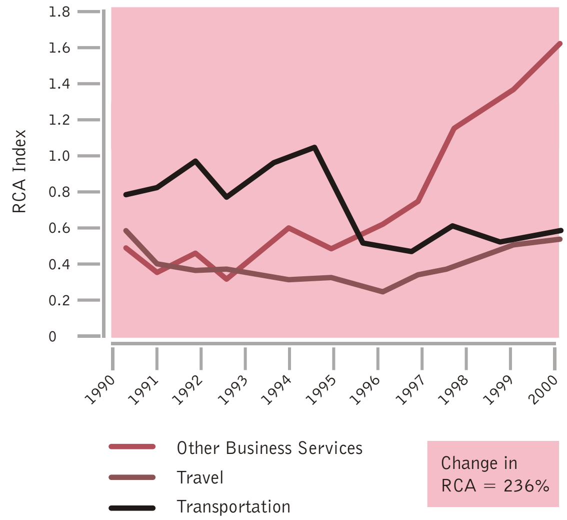
- As demand for business services continues to grow, service providers will have more incentive to develop local markets for such services. The expertise and know-how gained from FDI and technology transfer into this sector will improve efficiency in a range of domestic businesses as a result.[11]

- As the workforce involved in business outsourcing matures, as it will in India, wages will inevitably rise.[12] This will also be the case in other countries with substantial business service sectors such as Chile, Brazil, Costa Rica, Philippines, Hungary, and other Eastern European countries.

- Countries with low cost but well educated workforces have a comparative advantage in business services and would benefit from increased access to foreign markets. The charts on page 17 and 18 show, for example, that both India and Brazil have Revealed Comparative Advantages (RCA), in business services.[13]

Brazil Enjoys a Revealed Comparative Advantage (RCA) in Business Services Exports

Brazil's RCA for Services Exports in Selected Categories



Source: Aaditya Mattoo, "Trade in Services and the Doha Development Agenda," World Bank, (April 2005): slide 7

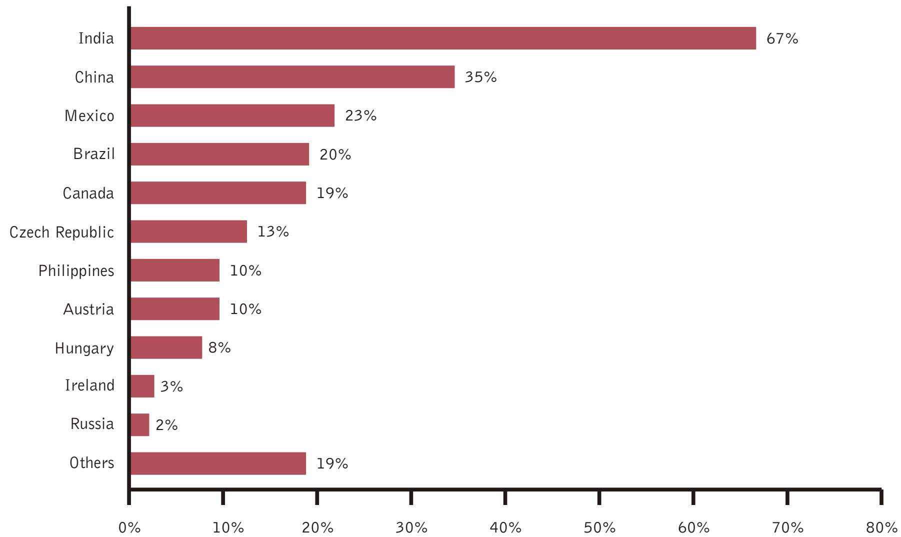
- For those developing countries that have competitive advantages in business services, the Doha Round is an important opportunity to expand market access.

- The countries with large business outsourcing operations (shown below) have a correspondingly high average growth of business services exports (shown on page 16).

Looking ahead: Business services are one of the most dynamic sectors of the global services economy. They offer tremendous potential for developing countries to develop new export markets in business process outsourcing. These countries should consider using the opportunity of the Doha Round to secure commitments to freedom of cross-border trade in these services. They themselves should remove barriers to foreign direct investment in building the capacity to produce such services in their own countries.

Top Developing Country Destinations for BPO

Where do you currently have offshore operations?



Sources: Reprinted from Ismail Radwan and Gihani Fernando, "Sri Lanka: Offshoring Professional Services A Development Opportunity," South Asia Financial and Private Sector Development Division, August 2005. Original data from A. T. Kearney Making Offshore Decisions

Express Delivery Services

Why is Liberalization of Express Delivery so Vital?

Express delivery services (EDS) providers have quickly become an essential factor in international trade. Express delivery services include collection, transport, and delivery of documents, printed matter, parcels, goods, or other items on an expedited basis, while tracking and maintaining control of these items throughout the supply of the service.

The express delivery industry is one of the world's fastest-growing sectors. Its growth has been more than twice that of the global economy as a whole. In 2003, it contributed US$64 billion to world GDP. It is expanding particularly rapidly in the transitional and emerging market economies, thus compensating for and overcoming the often poorly developed transportation infrastructures in these economies.

EDS contributions to employment have been equally strong. Express delivery services directly employ 1.25 million people, and indirectly create another 2.65 million jobs around the world.

- Because of the fast pace of its growth, by 2013 direct employment in EDS is expected to increase to 2.1 million, and indirect employment to about 4.5 million.

Economic Development Depends on Express Delivery Services

Express delivery services are now essential drivers of economic development. This is because EDS offers a secure service that leaps over the entrenched inefficiencies of mail delivery, transportation and logistics that exist in so many developing economies.

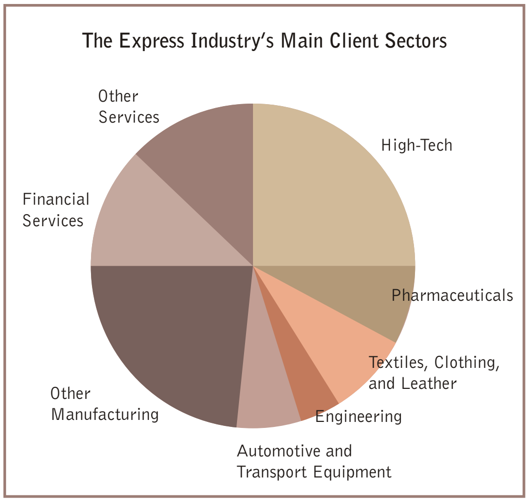
In addition to its very substantial employment opportunities, EDS:

- Provides new and small companies with quick access to global markets both for their inputs and for their products
- Creates new opportunities for outsourcing
- Facilitates e-commerce
- Helps improve almost all aspects of companies' operations through just in time delivery
- Reduces transaction costs and thus lowers costs for consumers
- Provides substantial investment in hubbing and other physical

Liberalized Express Delivery Services Reduce Transaction Costs and Increase Competitiveness

The growth of express delivery and related logistics services has dramatically lowered the costs of handling imports and exports in developed countries. It has the potential to do so in developing countries that fully liberalize treatment of firms in this sector.

- Countries with more liberalized express delivery sectors are cheaper to ship to and from, which gives their exporters important competitive advantages. The table below shows that more open markets, such as Singapore and the Netherlands, have significantly lower average shipping costs than less developed countries with protectionist policies.
- In 2003, for example, the cost of transportation in developing countries represented 9.1% of the value of import cargo, compared to 3.9% in developed countries.[3]
- The average supply chain costs of small and medium enterprises in Thailand were 25 - 30% of total production costs in 2004.[4]



Source: Oxford Economic Forecasting estimates based on information from Global Express Association members

Air Express Courier Rates Rates are inbound and outbound from the US including door-to-door pickup and delivery and clearance. There are two sets of rates based on the shipper's qualification based on monthly spend	$5,000 per month		$20,000 per month	
	USS/Kg Outbound	USS/Kg Inbound	USS/Kg Outbound	USS/Kg Inbound
Belize	$14.28	$17.34	$6.73	$13.57
Bolivia	$14.28	$17.34	$6.73	$13.57
Guatemala	$14.28	$17.34	$6.73	$13.57
St. Lucia	$8.05	$5.82	$3.79	$7.64
Vietnam	$9.39	$11.40	$3.79	$8.92
Philippines	$9.39	$11.40	$3.79	$8.92
United Republic of Tanzania	$18.02	$21.88	$8.49	$17.12
Mozambique	$18.02	$21.88	$8.49	$17.12
Egypt	$9.39	$11.40	$4.43	$8.92
Jordan	$9.39	$11.40	$4.43	$8.92
Kazakhstan	$15.84	$19.24	$7.47	$15.05
Singapore	$6.95	$8.45	$3.28	$6.60
Netherlands	$6.95	$8.45	$3.28	$6.60

Sources: CARANA Corporation, 'The Role of Transportation & Logistics in International Trade: The Developing Country Context, Phase I Report, Draft,' September 2003, 26. Original data from Airborne Express Quotes, CARANA, June 2003."

China and India: Foreign Competition Creates Domestic Efficiencies

Due to lack of competition and market inefficiencies, supply chain costs in a typical emerging market in Asia are as high as 22-24 percent of total production costs for manufacturers. However, if supply chain costs are reduced by 15 to 20 percent annual GDP can increase by 1.5 to 2 percent by 2010.

- Trade liberalization in China's express industry would result in an additional US$3 billion

investment over five years, and increase output by US$85 billion. It would also generate an additional 800,000 jobs over the same period.

- Foreign participation in EDS is important in both China and India because it is a catalyst that forces domestic service providers to compete.
    - The Chinese state-run EDS company is learning from its private competitors. Its business practices are improving, and it is offering customers new products.
    - The market continues to evolve. Private domestic competitors entering the Chinese express mail market are expected to offer new services at lower prices.
- China's air cargo market is huge and growing with very significant foreign participation and investment, while India's market is just beginning to develop.
- India urgently needs further investments in its transportation sectors.
    - India's cost for internal transportation is nearly double the global average, thus increasing the cost of doing business for domestic and foreign participants.
    - India could see an additional annual growth rate of 1-2 percent if it improved its logistics and transportation services.
- India's express delivery/logistics service sector grew by 7.3 percent from 2004-2005. However, India also needs to liberalize this sector to secure further growth and increase its global competitive edge in exporting sectors.
- Due to transport inefficiencies and poor business environment, Brazilian transportation costs are estimated at about 20% of GDP, almost twice the level in OECD countries.

Foreign participants build China's infrastructure

FedEx decided to move its Asia regional hub from Manila, Philippines to Guangzhou, China with operations beginning in 2008. This US$150 million state of the art center will give a boost to infrastructure development for the region, which will be contributing as much as US$63 billion to the Chinese economy by 2020.

UPS has established a large regional hub in Shanghai. The new facilities totaling over 400,000 square feet will help UPS expand its already substantial business in China.

Export Gains from Liberalized Trade in Air Express Services
(Percentage gain per year, 2004-2008)

Country Cluster	Gains Relative to China	Low Range Gain	High Range Gain
Singapore, Taiwan, Hong Kong, Australia, New Zealand	0.2	0.386	0.563
Japan and Korea	0.5	0.965	1.405
China and Sri Lanka	1	1.93	2.81
Malaysia, Thailand, Philippines, India	1.5	2.895	4.215
Vietnam, Indonesia, Pakistan	2	3.86	5.62

Source: "Export Gains due to Liberalization of Air Express Industry," Economic Strategy Institute, 2004

- Malaysia has the opportunity to increase its global competitiveness by opening the market to foreign EDS companies. Trade liberalization in air express services will increase Malaysia's exports by 4.2% per year.

Trade Facilitation Is Needed to Realize the Full Potential of EDS

Trade facilitation is an important contributor to efficiencies in EDS and logistics services. It is also a new and important element of the Doha Round trade negotiations agenda. Here is an example of how it contributes to greater efficiencies in Brazil.

- Cumbersome customs regulations create barriers to the flow of goods into and out of Brazil and increase transportation costs. 41% of Brazilian businesses consider Brazil’s customs practices the most important obstacle for the expansion of their exports.
    - Customs and administration procedures represent 10% of Brazilian companies’ operating costs.
    - If customs bottlenecks are removed, Brazilian companies will be able to reduce operational and financial costs by $5 billion and increase their exports by $26 billion, or 25%.
    - Brazil’s customs clearance usually takes 14 days. If a company imports $1 million worth of goods a month, each day of customs clearance saved will lower costs by $64,649 per year in personnel, inventory and handling costs.

Looking Ahead: The express delivery industry plays an increasingly important role in global trade, economic growth, and infrastructure development. Through express services, developing countries are able to quickly increase their productivity and employment, and participate in globalization processes. However, to enjoy these benefits, developing countries need to open their markets to foreign competition and streamline administrative procedures. They need to seize the opportunity the Doha Round offers.

Audiovisual Services

New technologies have given consumers everywhere access to a kaleidoscopic array of entertainment and information services. Equally, they have stimulated the development of similarly diverse audiovisual services and products. The audiovisual sector today includes a growing number of international content producers and program packagers utilizing not just traditional single channel broadcasting, but new media, such as cable, Direct to Home satellite, and digital networks to distribute content locally and internationally.

At the same time as new technologies have transformed the audiovisual sector, the sector is itself fostering new technologies. Electronically delivered audiovisual products and services are helping to create an environment that will encourage investment in digital infrastructure,[1] and will thus ease the way for citizens of developing countries to participate in the digital economy. Earlier modest steps toward liberalization have led to the introduction of new audiovisual technologies and services in developing countries, and additional liberalization will lead to still faster development.

Promotion of Culture

The increased access to diverse content and cultural products resulting from these new technologies fosters multi-culturalism and respect for diversity, and further stimulates demand for diverse content. This demand, if harnessed, can contribute to economic development. In light of the increase in means of distribution of content in today's digital environment, it is possible to enhance cultural identity and make trade in audiovisual services more transparent, predictable, and open.[2] The development of local content, distributed through the internet, and the ability of people to freely access it, will promote a

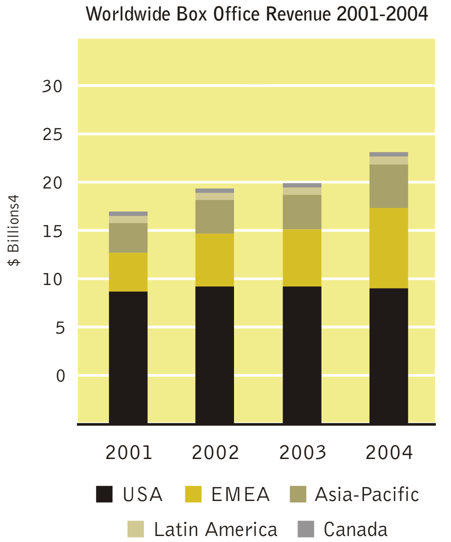
culturally and linguistically diverse cyberspace.[3] Wider markets secured by liberalization commitments will encourage the production of increasingly diverse content.

Technological Changes Have Reduced Barriers to Entry and Developing Countries are Taking Advantage

- Technical barriers to film making in developing countries have become far less important as the equipment needed to produce films/television becomes more readily available and less expensive. Thus, film producers in many developing countries are increasingly able to compete in the global market.

- This is one reason why low budget, "independent" films are doing better in the U.S. It is also why India, China, and the Philippines, where cost might have limited the ability to produce high quality films some years ago, turned out the most films on average during the 1990s.[4]

Increases in Box Office Revenue Occurring Mainly in Developing Countries



Sources: Motion Picture Association Worldwide Market Research, "MPA Snapshot Report: 2004 International Theatrical Market", March 2005, 1. Original data from MPA, Informa Media

Liberalization of Audiovisual Services Can Boost Developing Country Exports

- India already produces the most feature length movies of any country -- an average of 839 per year.[5] "Monsoon Wedding", an international hit in 2001, illustrates the great potential for Indian films. Indian film exports, which more than doubled in value from 1998 to 2001,[6] could grow more with further liberalization.

- Liberalization also has helped Brazil develop its audiovisual industry. For example, Sony Picture Entertainment co-produced and distributed "Carandiru," which reached 4.6 million viewers.[7,8]

- Countries such as Korea, Mexico, China, and Malaysia are already net exporters of audiovisual and cultural services. Greater market access for these countries through liberalization presents an opportunity for increased exports and growth regionally and globally.[9]

Audiovisual Liberalization Encourages the Development of Digital Networks

- Foreign investment in audiovisual services that has occurred due to liberalization has helped promote the growth of digital networks that distribute audiovisual content.[10]

- More open markets for audiovisual services would act as a catalyst for the development of more sophisticated and robust digital networks to distribute new and more extensive content using broadband and mobile platforms.

- A flexible import/export system for cultural products creates an environment where innovation and talent can cross borders. This allows television and film producers to sell in overseas markets in ways that were not feasible before.

Audiovisual Liberalization Leads to Job Creation

- China, with 150,000 cinemas has more than any country while India has the third most with 13,500 cinemas.[12] Both countries maintain restrictive policies that limit the numbers of foreign theatrical releases that can be shown in these theaters. Liberalizing their audiovisual sectors would increase employment and revenues, broaden these markets, and encourage investment in digital infrastructure to accommodate the increased availability of new high quality content.

- Liberalization leads to creation of good jobs in areas such as dubbing foreign films/shows into native languages, promotion of films/shows, advertising revenue from media outlets, making foreign language master copies of videotapes/DVDs, and employment from rental and retailing outlets.[13]

DVD players and similar new consumer technology could broaden the market for audiovisual entertainment:

DVD penetration in India, Philippines, and Thailand is only 0.7 percent, 3 percent, and 2 percent respectively. So, there is enormous room for growth in both domestic and foreign DVD releases.

An increase in DVD releases will also drive down DVD prices, making them affordable to a larger number of people, and perhaps help reduce frictions concerning intellectual property rights and piracy.

- Production, advertising, and other services that support the multichannel television business also contribute to economic growth in developing markets.

- Liberalization in this sector has other led to other benefits, such as increases in tourism. For example, tourism[14] to New Zealand increased after the release of the popular "Lord of the Rings" films. According to one study, the number of visitors to locations featured in successful films rises an average of 54% over four years.[15]

Looking ahead: Audiovisual services are increasingly important for developing countries because they stimulate technological innovation and cultural and artistic expression. The market for such services is large and growing, they play an important role in the growth of digital networks and the creation of jobs, and have other spin-off benefits. Moreover, the increased access to diverse content and cultural products resulting from technological change fosters multi-culturalism and respect for diversity. Further WTO commitments in the Doha Round would encourage greater foreign investment and expansion in this sector.

Telecommunications and WTO Commitments

Lower-income countries that have made WTO commitments in basic telecommunications tend to enjoy higher rates of both fixed line and mobile penetration, as well as higher telecommunications sector revenues as a percentage of GDP. This indicates that telecommunications service providers are more likely to make investments in countries that have made WTO commitments in basic telecommunications.

Telecommunications Services

The Role of Telecommunications Services

Telecommunications networks are the utilities that enable the knowledge based economy of the 21st Century to function. They play the same role that highway and rail networks played in the 19th Century. They are the backbone of the internet and electronic commerce. Without these services, countries like India, Malaysia and others would not have been able to develop their business process outsourcing competencies. Indeed, all cross border trade depends on the telecommunications networks through which this mode of delivery of services mainly flows.

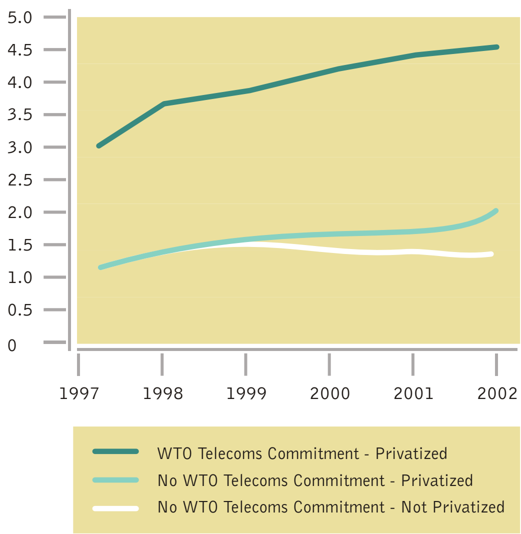
Affordable telecommunications services improve the quality of life in developing countries by connecting people and also by broadening popular access to services such as online education, and e-health. Telecommunications services also contribute to the integration of remote regions and population groups.[1]

Additional telecom liberalization in the Doha Round will accelerate these benefits and support further economic growth.

WTO Commitments Encourage Telecommunications Growth and Investment

Fixed-line penetration in East Asia and Pacific

Low Income Countries in East Asia and Pacific



Source: ITU Telecommunications Indicators

- In almost all regions of the world, those countries with WTO telecoms commitments experienced a more rapid rate of growth in telecom sector revenues than those without such commitments. For example, in low-income countries in Europe and Central Asia, telecom sector revenue in countries with WTO commitments grew from 1.5% to more than 4% of GDP from 1997-2002, while the figure was essentially flat during the same period for countries that made no commitments.[2]

- Increasing fixed line penetration is an important goal for many developing countries. Foreign investors are more willing to supply additional capital and technology for this purpose in countries that have made WTO commitments in basic telecommunications. Fixed-line penetration rates tend to be higher in those countries that have made WTO telecommunications commitments. Fixed-line penetration in low-income countries in East Asia and the Pacific, for example, was 4.5 per 100 people in 2002, while the figure for countries with no WTO telecommunications commitments was less than 2 per 100 (regardless of whether the incumbent operator has been privatized). In low-income countries in Europe and Central Asia, the figure was more than 12 per 100 in countries with commitments, while the figure was less than 8 per 100 in countries without such commitments.[3]

- The number of mobile phone subscribers has grown at phenomenal rates, and in many countries, is rivaling or supplanting fixed line usage. ITU data indicate that, in all regions of the world, mobile penetration in countries with WTO telecommunications commitments exceeds that in countries without such commitments.[4]

Telecom Liberalization Galvanizes Growth

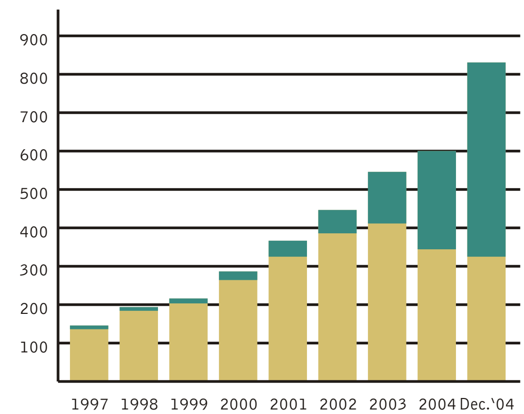
Everywhere, opening telecom services to international competition has expanded the market, brought service to middle and lower income people, and lowered prices.

- Countries with fully liberalized telecom sectors grow up to 1% faster than countries with restrictive telecom sectors.[5]
- Countries with some degree of telecom liberalization grow .15 % faster than those countries with no liberalization.[6]

Telecommunications Liberalization has been Beneficial from the Middle East to Europe to Asia to South America

- Full liberalization of Ireland's telecom industry and development of its telecom infrastructure attracted top telecom providers, lowered communications costs and helped catapult Ireland to a new level of economic growth.
- In Jordan, liberalization led to a 42% increase in employment in that industry.[7] For every job created in Egypt's mobile telecom industry, eight other jobs are created in the rest of the economy.[8]
- Brazil began liberalizing its telecommunications sector in 1997 with the General Telecommunications Law and continued with the 1998 privatization of Telebras. President Fernando Henrique Cardosa and Communications Minister Sergio Motta wanted to increase teledensity and drive down prices without committing government funds. They succeeded; telecommunication investment and usage has boomed since these liberalization measures were put in place.
  - In 2000, the telecommunications sector received more FDI than any other sector --- 15.7% of total FDI inflows to Brazil, a sharp increase from 0.5 % in 1990.[9]
  - Liberalization has led to dramatic increases in internet and mobile phone use in Brazil, and lower costs across the entire economy.

Liberalization Has Spurred Increased Mobile Phone Use in India
Fixed Line Telephones and Cellular Mobile Phones



Source: Gov't of India Department of Telecommunications Annual Report 2004-2005

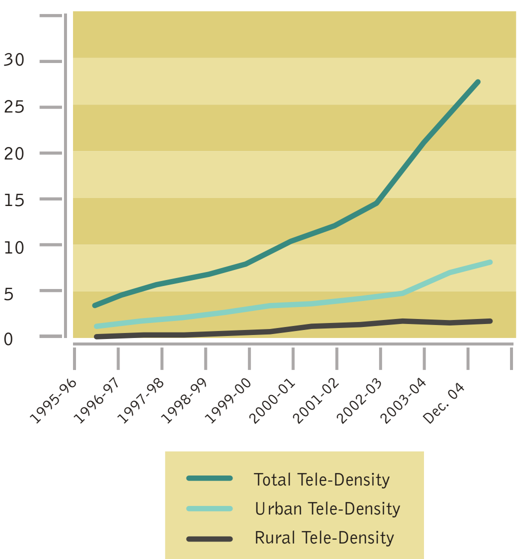
Mobile Phones (Inl. WLL(M))

Fixed Line Telephones (Excid. WLL(M))

- Competition drove down prices by one-fifth in a country once plagued by chronic inflation.[10] Because of the vital role of telecommunications services as an input to so many other industries, additional competition should further reduce prices.

- Leapfrogging old land line technology, mobile phone users in Brazil increased from 15 million people in 1997 to 65.5 million in 2004.[11]

Tele-Density (Number of Telephones per 100 Population)Since 1995-96



Source: Government of India Department of Telecommunications Annual Report 2004-2005

- Telecommunications liberalization in India has been a great success story. Total teledensity has increased sevenfold from 1995 to 2004.[12] Liberalizing policies like the Telecom Policy of 1999, amendments to the Telecom Regulatory Authority Act of India, and the 2001 Convergence Communications Bill finally allowed real competition by standardizing regulations and reducing licensing fees.

- The potential to broaden the market to reach even more Indian middle and lower income consumers is enormous. As in Brazil, more competition dramatically expanded use and lowered prices.

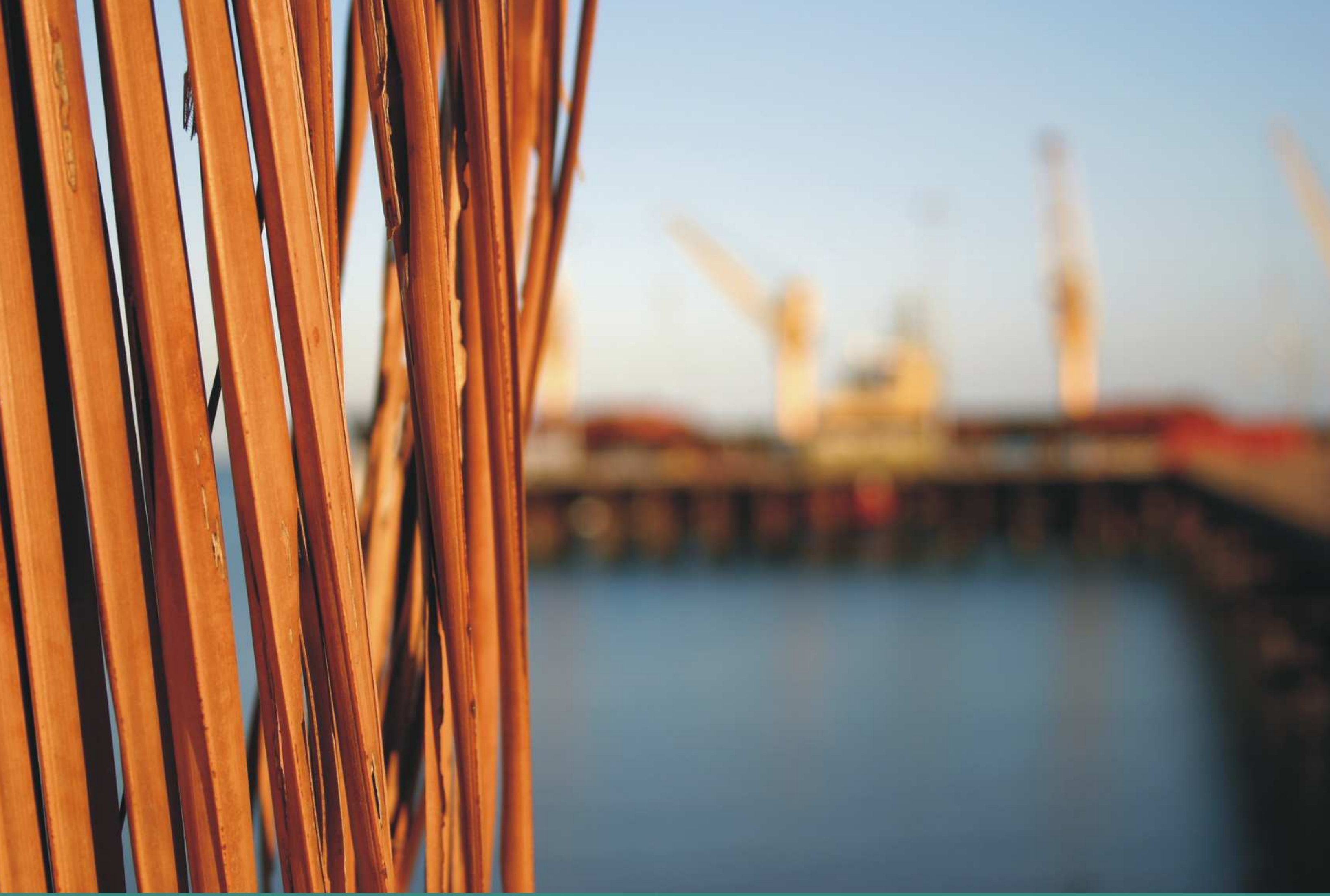
  - Urban teledensity in India increased from 3.95 lines per 100 people to 25.9 lines per 100 people between 1995 and 2004.

  - The cost of a call dropped by 60% for short distance calls and 92% for longer distances ones.

  - India had 80 million cell phone users in January 2006 compared to 3 million users in 2001, thanks to lower prices, more reliability, and the ready availability of wireless capacity.[13]

- India can make additional reforms which will further facilitate its expanding internal markets and its export trade in business process outsourcing and related services.

Looking ahead: Lower costs, increased teledensity, innovation, greater availability of services, and foreign investment are among the benefits most likely to flow to countries with open and competitive telecoms markets. The Doha Round provides WTO members an opportunity to liberalize and enhance their competitiveness in this vital infrastructural sector.



Conclusion

This report has attempted to demonstrate the substantial gains to be had from the liberalization of international trade and investment in services. Services liberalization, undertaken in the context of an effective and transparent regulatory framework, has tremendous potential to spur economic growth and economic development by attracting foreign investment, facilitating exports, creating jobs, and increasing competitiveness.

These benefits are demonstrable in several key service sectors:

- Partially liberalized financial markets are already expanding the availability of credit, the lifeblood of economic growth. Nascent businesses, would-be entrepreneurs, and consumers are already benefiting from improved access to capital on better terms, and from new financial products in a host of developing countries. Brazil's Plano Real, for example, allowed foreign banks to operate domestically to help recapitalize local banks and in the process increased competition and created incentives for banks to find ways to serve lower income Brazilians who previously lacked access to financial services.[1]

- Liberalized express delivery services also are crucial to broadening and expanding markets. Just-in-time delivery of goods and services allows buyers and sellers to connect more quickly and less expensively, thus making goods and services affordable to more people. Express delivery services are an absolute necessity for effective supply chain management, and provide important competitive advantages, particularly in markets where supply chain costs are high.

- Liberalization of audiovisual markets will lower the costs of entertainment and information services, and the increased availability of content will be an incentive to invest in additional digital infrastructure, which in turn will stimulate demand for content. More fundamentally, expanded trade in audiovisual services carries with it increased understanding, freedom of expression, and the protection of multiculturalism that results from small producers in small countries using inexpensive new technologies to express themselves.

- Liberalized business services in several developing countries have created dynamic new export markets. Further liberalization can lower prices and increase the quality of these services. In India, for example, estimates are that IT-enabled services will employ up to 1.1 million people by 2008 and 3.3 million by 2015.[2] Separate from IT-enabled services, software services accounted for 98,000 new Indian jobs during FY2003-04, and 2.2 million such jobs could be created by 2008.[3]

- In every country that has liberalized its telecommunications sector, the number of users has grown, prices have fallen, and employment in the industry has expanded. India had 80 million cell phone users in January 2006 compared to 3 million users in 2001, and prices have dropped 60 to 90%.[4] In Brazil the number of internet users has more than quadrupled from 5 million in 2000 to over 22 million in 2005 with corresponding cost decreases.[5] And in Malaysia, mobile phone subscribers jumped from 10% in 1998 to 44% in 2003[6] with the number of internet users increasing from roughly 5% in 1998 to 40% in 2003.[7]

Making the most of the Doha opportunity means that WTO Members should seize the chance to commit to liberalization that is first and foremost in their own interest. Certainly multinational companies have an interest in liberalization, but it is the liberalizing countries and their people that are the big winners as trade commitments are translated into new economic opportunities.

Endnotes

Introduction

1 Agriculture's share of economic activity has not only been in decline for a century in developed countries, but it is also falling in the majority of developing countries. Further, manufacturing employment is declining as a share of economic activity in many developed and developing countries and is likely to employ fewer people in the future.

2 See "Services Negotiations Offer Real Opportunities for all WTO Members and More so for Developing Countries," WTO NEWS, 2002 Press Releases, (28 June 2002) available from http://www.wto.org/english/news_e/pres02_e/pr300_e.htm [accessed April 2006.]

3 Stern, Robert. "The Place of Services in the World Economy." University of Michigan, Discussion Paper No. 530, February 15, 2005.

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