Strategy for Increasing Trade in Services in the OIC Member Countries

Introduction:

Trade in Services since the last 20 years represents the most dynamic segment of international trade. As well, as being important in its own right, the services sector provides key inputs into the production and trade of all products, playing an important role in global value chains technology investments and the overall economic development. The WTO's General Agreements on Trade and Services (GATS) provides the legal ground rules for international Trade in Services. This allows the WTO Members the flexibility to open their markets to foreign competition.

The private sector in developing countries view the opening of trade in services as an opportunity to grow their businesses and lay great emphasis on its importance.

This reflects the dynamism of the services sector for companies based in the developing world, both domestically and in export markets. More and more businesses are taking advantage of these openings, with services accounting for over 70% of global GDP, 60% of global employment and 46% of global exports measured in value-added terms.

Services are a major determinant of the competitivities of an economy and of quality of life. They are the backbone of economic and social performance of a nation. In order to enhance competitiveness both at the level of firm and of the economy, an appropriate regulatory regime with services is needed.

Large segments of the services economy, from hotels and restaurants to personal services, have traditionally been considered as domestic activities that do not lend themselves to the application of trade policy concepts and instruments. Other sectors, from rail transport to telecommunications, have been viewed as classical domains of government ownership and control, given their infrastructural importance and the perceived existence, in some cases, of natural monopoly situations. A third important group of sectors, including health, education and basic insurance services, are considered in many countries as governmental responsibilities, reflecting their importance for social integration and regional cohesion, which should be well regulated and not be left to the high and lows of the markets.

Tapping this potential of developing trade in services depends on strengthened cooperation between business communities and governments. Opening markets to Trade in Services is complex, as it also involves domestic or regional regulatory reforms. Business-government cooperation is essential to strike the balance between costly over- regulation and the need to protect consumers and realize other national policy objectives through smart regulation.

Just as governments need to base their reform agenda on vision underpinned by strategy, so do businesses. Good policy and regulatory reform can minimize compliance costs, improve competitiveness and allow trade to grow. Government and business need to support each other to achieve the best outcomes for their countries.

For purposes of structuring their commitments, WTO Member have generally used a classification system comprised of 12 core service sectors (document MTN.GNS/W/120): Business services (including professional services and computer services) Communication

services Construction and related engineering services Distribution services Educational services Environmental services Financial services (including insurance and banking) Health-related and social services Tourism and travel-related services Recreational, cultural and sporting services Transport services Other services not included elsewhere These sectors are further subdivided into a total of some 160 sub-sectors. Under this classification system, any service sector, or segments thereof, may be included in a Member's schedule of commitments with specific market access and national treatment obligations.
https://www.wto.org/english/tratop_e/serv_e/cbt_course_e/c1s4p1_e.htm

SERVICES EXPORTS (% OF TOTAL)

SERVICES	WORLD		DEVELOPING ECONOMIES		DEVELOPED ECONOMIES	
	2005	2014	2005	2014	2005	2014
Transport	25	20	22	18	25	21
Travel	29	28	41	42	24	23
Insurance and Financial Services	8	9	3	4	10	11
Computer, Information, Communications and other Commercial Services	40	43	33	36	42	45

At sub sectoral level, the quality and type of services sectors that are in the developed and developing countries vary. In general, the nature of trade in services changes in response to new technologies.

This paper aims to bring about proposed strategy for OIC Member Countries enabling their private sector to play their role in strengthening the Services Sector. It maybe mentioned that since new technologies are being witnessed in the OIC Member Countries, in general the nature of Trade in Services also changes. Taking into consideration the diverse economic map of the OIC Countries, some countries are playing a prominent role in both, export of services and import of services. For example, Malaysia, Turkey, Egypt, Indonesia, Morocco and Iran rank within the first 20 countries of exports of services. Whereas Saudi Arabia, Indonesia, Malaysia, Turkey, Egypt and Kuwait rank within the first 15 countries of imports of services. However, at the same time at the sub-sectoral level there are many OIC Countries that are playing an important role as exporter and import of services.

The emergence of global and regional value chains in services and the possibility for services activities to be separated into tradeable tasks offers new potential opportunities for the OIC Countries to specialize in individual tasks for which their location is best suited and thereby facilitate entry into the value chain, without really getting into the entire setup of value chain operations.

This holds true taking in to consideration that the OIC countries are geographically placed in more than one regional groupings. Hence, the trade in services acquires an important prospective for the OIC countries.

Taking into consideration the concept of Public-Private-Partnership, the Private Sector needs to engage with the governments on strategies to expand the services sector.

<u>Overview of Trade in Services</u>

Although services liberalization does not raise new conceptual issues, it does raise new technical issues. Being less tradable than goods, services are more directly dependent on factor markets in the country of consumption–the market for labor, land and specific bundles of factors often described in certain network services under the common name of "essential facilities." In the case of goods, a specific (non-uniform) treatment of factors of production can be avoided by firms by moving production to the cheapest available location: specificity in the policy stance towards factors does not hurt foreign competitors, nor domestic consumers, as long as protection is uniform.

An awareness of technological changes is important which includes emergence of new services, many of which can be crucial for improving competitiveness. This in turn, can overlap with another key aspect namely appropriate regime for services. Regulation is a key ingredient to foster competition internally and internationally for the services sector.

As the degrees of freedom for choosing the location of production are more limited in services, the costs of specific policies towards essential facilities can be higher. This point is well known in relationship to barriers to access to essential facilities in telecoms. However, it is not limited to network services such as telecoms, energy, railways or air transport. For instance, essential facilities in retailing may consist of a piece of well-located real estate and associated transport infrastructures that are well designed to attract shoppers: restrictions on large shops (or even mere zoning regulations on the authorized type of buildings for different areas) could then constitute a serious barrier to potential entrants because they create an artificial scarcity of usable land and/or infrastructures.

Thus, services liberalization requires a strong focus on attaining and maintaining uniform non border protection.

Entry barriers often create significant rents for incumbents, who have a strong interest in blocking attempts by governments to increase the contestability of "their" markets.

The primary need is to ensure that potential entrants are free to enter service markets, and that policies do not discriminate against foreign as opposed to domestic entrants.

Opening services markets typically involves a considerable number of policy parameters, and various layers of impediments, some of which may be overlapping. Many of these impediments will be narrowly sectoral in character and relate to a host of regulatory measures that may potentially affect the quality and certainty of access to, and presence in, services markets.

Many other policy parameters may not be sector-specific but relate to more generic or horizontal policy measures (e.g., investment, labor mobility). And, still other policy measures may lie wholly outside the remit of what is often considered as the central focus of services negotiations (e.g., standards-related issues; competition policy; access to government procurement markets).

The choice of what to bind is likely to have important implications for domestic economic performance and regulatory conduct.

In deciding the type of access to request and/or offer, three core issues will typically need to be addressed: the benefits to be achieved; the political concerns/ downsides; required regulatory frameworks or regulatory reform efforts.

Companies from developing countries including OIC members involve in export trade to a significant degree. Several reasons may be adduced to explain this fact, starting with the fact that most services firms, including in OIC countries, are very small.

Small service suppliers typically have limited human resources to build referral networks, find local partners abroad, identify market opportunities, and research regulatory conditions prevailing in foreign markets. In many market segments, such as telecommunications, utilities, finance and transportation, developing country firms also need to contend with the large fixed costs of entering capital-intensive sectors, as well as with the presence of very large companies in the market.

Even in sectors where developing countries are exporting, studies reveal a number of key common problems facing their exporters. These include: (i) market-development constraints flowing from low brand recognition and difficulties in establishing credibility with international suppliers (ii) lack of access to financing for export or business development (iii) limited prospects to serve foreign markets via an established presence (iv) lack of access to reliable and inexpensive infrastructure and key input services, notably finance and telecommunications/IT; and (v) lack of access to a range of formal and informal networks and institutional facilities necessary for trade. Developing economies typically need to diversify and add value to their production chains and export baskets. This requires, first and foremost, enhanced access to foreign markets and a progressive lifting of impediments to trade, investment and labor movement facing service suppliers—the essence of what trade negotiations can deliver. Yet securing durable gains in supply capacity requires efforts on several other fronts. Chief among these are: to raise quality standards; meet host-country certification requirements; and improve home-country trade infrastructure, notably through higher quality and lower cost of communications, finance, transportation and logistics services.

Proposed Strategy

A conducive national export strategy is important to help the Private Sector for export in services. Therefore, the role of the trade associations to act as a lobby with the government is necessary. In this context, the National Chambers of Commerce, as members of the ICCIA need to play their role to address the needs of the Private Sector, to act as a conduit between the Private Sector and the government.

One of the challenges for government is to determine what aspects of public policy have an impact on the benefits to be gained from the development of the services sector and the enhanced performance of services exporters. As demands on scarce resources increase, many governments have turned their attention to exporting with a view to generating revenue.

Governments can help ensure the effectiveness of the Chambers of Commerce and Business Associations by acknowledging them as representatives of the services industry. The involvement of these associations can help raise the profile of domestic capabilities and so support the development of the export trade in services.

In effect, the most effective way of using the national export strategy to ensure maximum economic benefit is to involve the government and its concerned bodies as much as possible in the services sector and to show them how important the sector is.

National export promotion strategies sometimes assume wrongly that initiatives developed for goods will address the needs of the services sector as well. Some of the steps that can be taken to ensure that national export promotion plans take the needs of services exporters into account are:

- Ensuring that the service industry association has a voice in export promotion planning and trade policy development

- Identifying key export markets for services and negotiating favourable terms for temporary business entry, and

- Utilizing the diplomatic missions to promote service exports.

The general guidelines for a successful strategy should focus on:

- Obtain, analysis and distribute services trade data;
- National development objectives;
- Potential for technology transfer;
- Potential for enhancing efficiency and service quality;
- Potential for employment generation and
- Presence of appropriate regulatory framework
- Host national and regional awareness-raising workshops
- Establish interagency services coordinating mechanism.
- Build a coalition of services industries, where it does not exist.
- Facilitate training for export-ready SME services suppliers
- Conduct trade promotion activities local and overseas
- Facilitate participation of stakeholders / service providers in international services fairs
- Undertake competitiveness self-assessment process

Services sectors are not fully developed in some of the OIC Countries. In order to bring these countries within the fold of IDB's initiatives for "Aid for Trade" can be utilized. This programme has huge potentials that could be effective for trade cooperation, trade facilitation, capacity building and for the intensification of trade flows, both for goods and services, thus significantly fostering regional integration and economic development.

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