



WORLD TRADE
ORGANIZATION



WTO | 20 YEARS

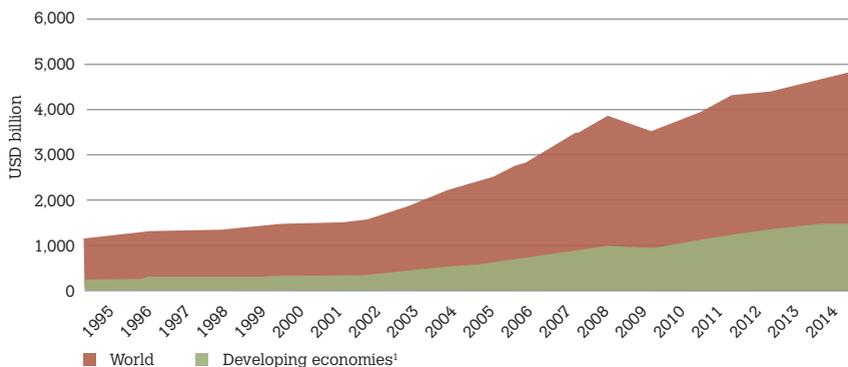
The most dynamic segment
of international trade

TRADE IN SERVICES

Did you know?

Over the past 20 years, trade in services has become the most dynamic segment of world trade, growing more quickly than trade in goods. Developing countries and transition economies have played an increasingly important role in this area, increasing their share in exports of world services from a quarter to one-third over this period.

Figure 1: Share of developing economies¹ in world exports of services, 1995-2014



¹ Including transition economies in the Commonwealth of Independent States.

Source: WTO-UNCTAD-ITC trade in services dataset

General Agreement on Trade in Services

The WTO's General Agreement on Trade in Services (GATS) entered into force in 1995. It remains the only set of multilateral rules covering international trade in services. The Agreement reflects the gradual transfer of responsibility for many services from government-owned suppliers to the private sector and the increased potential for trade in services brought about by advances in information and communication technology.

The GATS acknowledges that in many instances suppliers and consumers have to be in physical proximity for services to be traded. It identifies four different ways, or "modes", of supplying services (see page 4).

Services covered by the GATS are not automatically opened to competition. WTO members guarantee access to their markets only in those sectors and modes of supply specified in their "schedules of commitments", subject to any "limitations" they wish to maintain. These schedules provide legally binding commitments. The only obligation that applies across all services covered by the GATS is the most-favoured-nation (MFN) principle, meaning suppliers of services from all countries are treated in the same way.

The GATS covers all services (see Box 1), with the exception of "services provided in the exercise of governmental authority" and the bulk of air transport services.

Box 1: Main services sectors

Business and professional services, including:

- Accountancy services
- Advertising services
- Architectural and engineering services
- Computer and related services
- Legal services

Communication services

- Audiovisual services
- Postal and courier services
- Telecommunications

Construction and related services

Distribution services

Educational services

Energy services

Environmental services

Financial services

Health and social services

Tourism services

Transport services

How are services traded?

The GATS defines trade in services in terms of modes of supply:

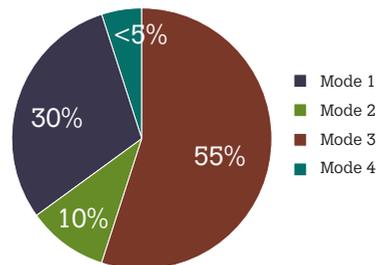
- Mode 1 covers services supplied from one country to another (for example, call centre services).
- Mode 2 covers consumers or firms making use of a service in another country (for example, through international tourism).
- Mode 3 covers a foreign company setting up subsidiaries or branches to provide services in another country (such as a bank setting up a branch overseas).
- Mode 4 covers individuals travelling from their own country to supply services in another (for example, a consultant travelling abroad to provide an IT service).

Mode 2 is by far the most liberalized mode in terms of commitments by WTO members. This is mostly due to governments being less likely to restrict the movements of citizens outside domestic borders (e.g. tourists). Mode 1 is not often committed, mostly because it is impossible for many services to be supplied remotely (e.g. construction services), while mode 3 is more open, reflecting its crucial role in driving the international supply of services, transferring know-how and improving the capacity of economies to participate in global value chains.

Mode 4 has the lowest depth of commitments, probably due to a number of sensitivities involved with the movement of foreign workers.

In 2014, trade in services totalled USD 4,800 billion, representing 21 per cent of world trade in goods and services. However, this total does not cover services delivered via foreign affiliates (i.e. essentially mode 3). The total trade in services is therefore estimated to be much larger, even twice as large, as mode 3 represents 55 per cent of total services trade (see Figure 2).

Figure 2: Share of services trade, by mode of supply



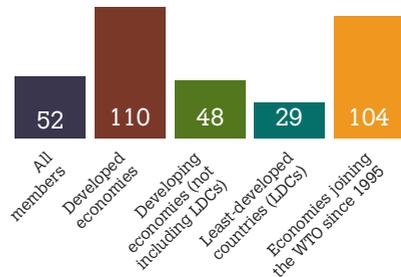
Source: WTO Secretariat.

GATS commitments

Out of a total of approximately 160 service sectors, WTO members have, on average, listed about 50 in their schedules of commitments, pledging some degree of market opening (see Figure 3). Developed countries have commitments in nearly four times as many sectors (some 110) as least-developed countries (LDCs). But economies that have joined the WTO since 1995 have committed to a significantly higher number of sectors than the “original” members at similar levels of development. Unlike in the General Agreement on Tariffs and Trade (GATT), where tariffs are the only permissible restrictions, the limitations attached to WTO members’ GATS commitments cover a broad range of measures, including numerical quotas, limits on foreign ownership, and discriminatory subsidies.

The sector most commonly included in WTO members’ schedules of

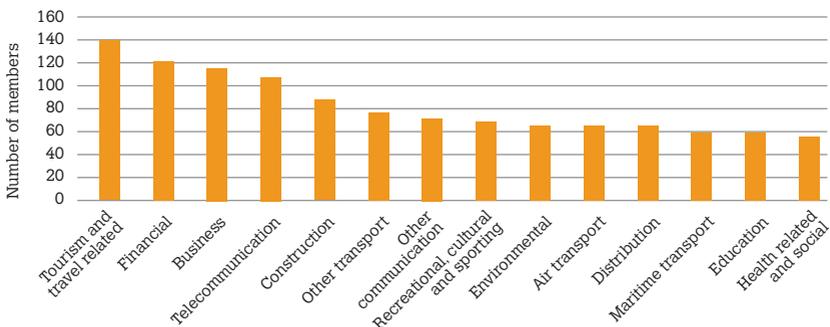
Figure 3: Average number of committed sectors, by group of WTO members



Source: WTO Secretariat.

commitments is tourism, followed by infrastructure services (financial services, business services, and telecommunications). The sectors least frequently included in commitments are education and health services, reflecting the high levels of direct government provision in these services (see Figure 4).

Figure 4: Number of WTO members with commitments, by sector



Source: I-TIP Services database, June 2015.

Extending commitments through sectoral negotiations

At the end of the Uruguay Round in 1994, members agreed that their commitments in financial services, telecommunications, maritime transport and mode 4 were unsatisfactory and decided to extend negotiations in these areas. These negotiations resulted in enhanced commitments by some 70 WTO members in telecommunications and financial services in 1997. The talks achieved more limited success in mode 4 but no agreement could be reached in maritime transport services.

Negotiations in telecommunications and financial services were conducted among a subset of members. But the resulting commitments were on a

“most-favoured nation” basis, meaning they were extended to the benefit of all WTO members.

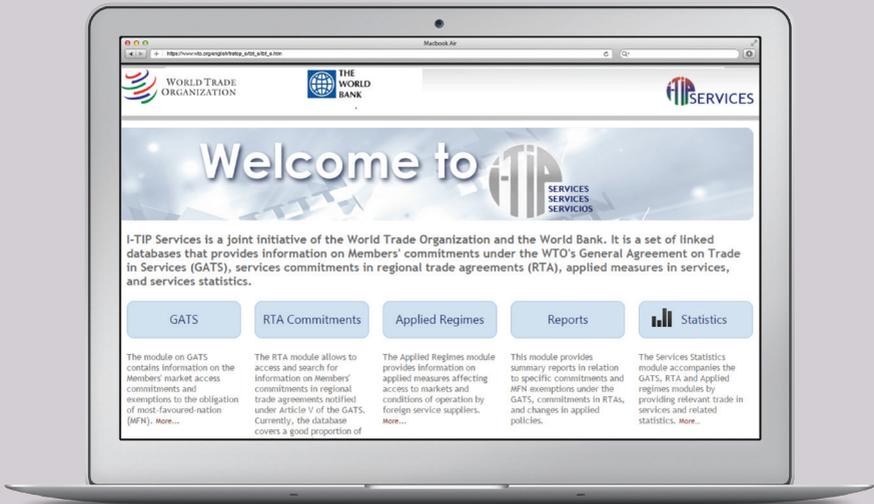
The negotiations in telecoms also led to the adoption of a “Reference Paper” setting out regulatory principles to reinforce the opening up of the telecoms market. The paper specifies best practice in telecoms regulation, covering areas such as the independence of the regulator, interconnection safeguards, licensing procedures and universal service obligations. It also spells out how competition in the telecoms sector should be safeguarded, providing an international blueprint for telecommunications reform.



Improving information on trade in services

In response to the growing demand for information on trade in services, the WTO and the World Bank joined forces to establish the Integrated Trade Intelligence Portal for services (I-TIP services). Launched in 2013, I-TIP services is a set of databases listing services commitments by WTO members in the GATS and regional trade agreements, the measures they have actually applied and related services statistics. The aim is to assist policy-making and analytical work. The World Bank and the WTO are currently working to substantially increase the level of information provided on services trade policies and regulations currently applied by WTO members.

For more information, visit I-TIP services at: <http://i-tip.wto.org/services>.



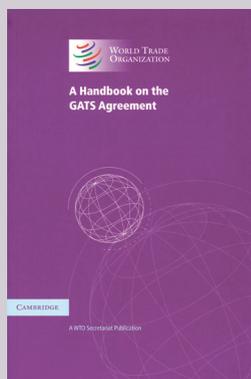
Summary

Services 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 and economic development. The WTO's General Agreement on Trade in Services (GATS) provides the legal ground rules for international trade in services, allowing WTO members the flexibility to open their markets to foreign competition to the extent of their choosing.

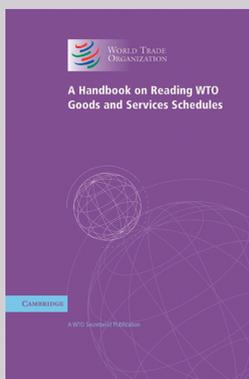
Further information

WTO publications can be purchased from the WTO online bookshop and from a worldwide network of distributors.

<http://onlinebookshop.wto.org>



A Handbook on the GATS Agreement



A Handbook on Reading WTO Goods and Services Schedules



Opening Markets for Trade in Services: Countries and Sectors in Bilateral and WTO Negotiations

Trade in services information on the WTO website: www.wto.org/services