

Comments on “Regulating Services Trade: matching Policies to Objectives” by Richard Snape

Comments by Edwin Lai

This is a very interesting and stimulating paper. It tells us the chaotic nature of the regulation of trade in services nowadays. It also makes us think about why trade in services is so much more regulated than trade in goods.

The main arguments and points being made are: (a) Generic rules should be applied across sectors. (b) Countries should adopt policies that achieve the objectives directly rather than indirectly, be they economic, cultural or social. (c) It is desirable to have a set of generic principles that govern both trade in goods and services.

These are intellectually compelling and valid points. They are based on sound economic principles. The author has given good examples to illustrate how to apply generic rules to sectors of similar nature, e.g. (i) Transport should include physical (aviation), wire (internet, phone services) and that of electromagnetic waves (broadcast). (ii) Qualifications, technical standards and licensing requirements should all be governed by one set of rules. (iii) The “principle of interconnection” in telecommunications should be applied to all network services, such as transport terminals, energy sectors (electricity transmission) and sewerage.

It is hard to establish a set of generic principles for all services. If there is, it is probably very general. Because of the heterogeneity of services, there should be different sets of generic principles for different groups of sectors. The process of grouping the sectors and tailor-making rules for each group of sectors can be a really challenging task because of the complex differences among the services. In any case, this would seem to be a necessary first step.

Should we adopt a systematic approach by first categorizing services according to their nature and then establish a set of generic rules for each category? Or should we adopt an ad hoc approach --- for example, begin with some sectors for which agreements have been reached, and then try to apply generic rules to sectors of similar nature? This would be a crucial question to be answered by the WTO.

In order to establish generic rules for services liberalization, we would also need to understand the fundamental differences between trade in goods and trade in services. According to the WTO, there are four modes of supply of services: (a) cross-border supply; (b) consumption abroad; (c) commercial presence and (d) movement of natural persons. Trade in goods occurs mainly in mode (a), and to a lesser extent in mode (c) and (d) in the case of FDI in manufacturing. Modes (b) is usually absent in the goods sector. On the other hand, all modes of supply are common in trade in services.

Moreover, the quality of a service usually depends on the qualification and competence of the personnel delivering the service. Examples are: lawyers, engineers, medical

doctors, etc. In the absence of an international certifying body, individual countries have to have the right to determine which foreign qualifications to recognize. The challenge is to establish generic rules that disallow illegitimate discrimination against foreign entities, yet allow for legitimate discrimination against foreign countries that have lower standards in the certification of personnel. Hence, harmonization of qualifications across countries would seem to be more complicated than harmonization of standards for goods.

Finally, the delivery of certain services, such as accounting and legal services, requires that the personnel understand the institutions and culture of the country. This can serve as barriers to trade in these sectors. Whether or not such culture-related knowledge should be part of the qualification requirement is a matter of debate. It has to be resolved before setting up generic rules in these sectors.