SERVICES IN THE WORLD TRADING SYSTEM

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Good morning. Thank you, Dean, for that introduction, and for inviting me to speak at such a timely event.

THE BENEFITS OF SERVICES TRADE

We are just a few weeks away from the WTO's Ministerial Conference in Seattle, and the launch of a new Round with services trade at the heart of its agenda. The work before us in the Round is vast. The services negotiating agenda will cover a broad range of industries, from finance and telecommunications to distribution, health, audiovisual, education, environmental protection, travel and tourism, construction, law, engineering, architecture, express delivery, and more. And within each of these industries, the issues we must address are complex, demanding and sometimes unique to their field.

So as we begin to set specific objectives for the years ahead, I would like to offer some thoughts on our broader goals.

I ran an international investment firm and globally-diversified fund for twenty years, before being invited to serve my country. As a financial services professional, I know from experience that success in any market access negotiation can be easily measured in new export opportunities for service providers. If you want to grow your profits, you have to have access to new markets to expand sales in a globalized economy. From my perspective as a public servant, I am also aware of the impact a strong services sector can have on the economy as a whole, through job creation and benefits for consumers. Here, it is worth reviewing the experience of the United States.

SERVICES IN THE U.S. ECONOMY

Services industries in the U.S.A. provide nearly 100 million jobs and $6 trillion worth of production – 70% of American GDP, and more than one dollar in seven of world production.

Services are the infrastructure that allows our industrial and agricultural sectors to function productively. For example, an open and competitive financial services sector provides cheaper capital, allocates it more efficiently in support of economic growth, and can better withstand financial market instability. Efficient transport and distribution helps our farmers get their products to market without spoilage and ensure that manufacturing components reach the factory in time for production.

Prolific legal and accounting services give businesses the contractual and business framework in which to function and promote confidence by consumers. Efficient energy services – energy transmission, distribution, and storage – promote competitive energy markets and provide affordable energy to more companies and families. Software and information dissemination are essential to the functioning of all modern U.S. industries. Our entertainment and artistic creations promote the free flow of ideas and information while offering artistic and intellectual diversity. The way we have developed new technologies, in particular the Internet and electronic commerce, has stimulated a vast increase in the efficiency and productivity of service industries. We in the U.S. have been blessed by a liberal and pro-growth approach to service sector development.

PROGRESS THUS FAR

Globally, the Uruguay Round's creation of rules for trade in services, together with specific commitments in a number of sectors – generally to maintain current levels of market openness – was a fundamentally important step toward realizing for the world what we have been experiencing in the U.S.

Seventy governments from each part of the world, for example, took the bull by the horns with the WTO's 1997 agreements on Financial Services and Basic Telecommunications.

The Basic Telecom agreement, in effect for only a year and a half, is already yielding impressive results. Through commitments on market access, national treatment and regulatory safeguards by these 70 WTO Members, it has encouraged billions of dollars in international investment in new telecommunications facilities and significant job creation. As a result, economical and highly efficient telecommunications services are removing geography (and borders) as constraints on delivery of a broad range of services and products, and driving down costs for consumers.

Enforcement of the WTO agreement has forced dominant carriers to reduce rates causing a surge in demand for telecommunications services and electronic commerce. For example, rates with most OECD countries have dropped to around 20 cents per minute, and in some cases (e.g., Canada, U.K.) rates are at 10 cents per minute and lower. Rates have been cut by *one-half* on calls between the United States and countries such as Japan and Mexico in the 18 months since the WTO Telecommunications agreement went into force.

This benefits consumers in both the U.S. and foreign countries, and has led to a remarkable boom in investment in undersea fiber optic cables (which are forecast to expand 50-fold by the end of 2001). Such expansion has created competition for investment to develop regional data and electronic commerce hubs, encouraging many WTO members – like Hong Kong, Korea, Japan, India, Singapore and Jamaica – to unilaterally improve their market access commitments.

Likewise, the 1997 Financial Services Agreement represents a successful, joint effort by WTO Members to open markets to insurance, banking, securities and financial data services. The Agreement has already helped service suppliers to expand existing operations and find new

market opportunities across a wide spectrum of developed country and emerging markets, including Asia, Europe, Eastern Europe and Latin America.

Growth potential for competitive financial services suppliers is high, including to help emerging markets modernize their financial services systems and to improve their infrastructure for trade in goods and services. In developed countries and many emerging markets, people are living longer. At the same time, the pool of workers is shrinking in many countries. This places enormous pressure on governments to find new ways to guarantee comfortable and secure retirements for their citizens. The budgetary implications of this are enormous and many countries looking more closely at further liberalizing insurance products or encouraging growth of private pensions as a supplement to existing governmental activities.

THE WORK AHEAD

In the new Round, we can do more. There remain substantial barriers to trade, and therefore substantial opportunities:

- Inefficient, pollution-prone power and transport reduce efficiency, worsen the quality of life, and waste investment. Energy firms experience market entry difficulties in too many parts of the world where such as restrictive regulatory practices, requirements that firms purchase energy from one supplier, and high licensing fees for foreign firms work against the interests of efficiency.

- In telecommunications, markets reserved for government monopolies make service worse for consumers and business more difficult for firms. Satellite and trans-oceanic capacity is expanding rapidly, as new entrants unaffiliated with former national monopolies are allowed to build facilities and provide service. By one estimate, telecom capacity across the Atlantic will expand by a factor of more than ten over the next five years, and across the Pacific by a factor of greater than forty.

- In many parts of the world, monopolies in distribution reduce the efficiency of farms, fisheries; some WTO Members do not allow foreign companies to distribute products at all. Companies cannot have adequate market access if they are not able to provide – or themselves have adequate access to – wholesale and retail services, maintenance and repair, transportation and other distribution-type services.

- In some economies, express delivery firms are unable to wholly own or control express delivery operations, obtain courier licenses, truck licenses, customs brokerage licenses, or bonded warehouse licenses.

- About a third of WTO members have not made commitments to permit healthcare services such as telemedicine and remote diagnostics, which recently have emerged as cost-effective alternatives to the maintenance of expensive medical facilities.

- In the area of arts and entertainment, providers of cinema and television programming face a constantly changing, and unpredictable, array of barriers, ranging from quotas to forced

investment requirements, often with the rationale of "protecting" national cultures. We realize that culture is important. Yet trade rules offer the flexibility to take cultural sensitivities into account, and in fact to affirmatively promote national cultures. In the United States, for example, our GATS schedule reflects that only U.S. citizens and companies are eligible for the limited assistance provided by our National Endowment for the Arts.

- The recent global financial crisis has highlighted the necessity of working to strengthen the world's financial systems, and make them more open. Measures like those exemplified by the Financial Services Agreement are important steps in that direction. Foreign participation with fair competition in financial services is a key ingredient in building a reliable and durable financial system. This in turn builds confidence, fosters growth, and is thus critical for stability.

Lest anyone think that export opportunities in services are only for developed countries, a number of developing countries, in their formal submissions to the WTO, have begun to identify sectors in which *they* have an export interest, including audiovisual services, tourism, private healthcare, computer services, and professional services.

In addition, some countries' interests in the negotiations lie in better access for temporary entry of individuals – or "natural persons" – as services suppliers. Many U.S. companies share an interest in this area as well.

PREPARING FOR THE ROUND

To serve these diverse interests we must launch in Seattle a disciplined negotiation that encompasses a broad array of sectors, reflecting interests of a wide range of WTO members, so as to allow the negotiators the breadth of issues necessary to realize attractive trade-offs.

We should work toward liberalizing substantially a broad range of service sectors through several different types of negotiations.

- We must explore sectoral agreements, developed through creation of "model" sets of GATS commitments for key sectors of interest to WTO Members. These model schedules, or "templates," would be equivalent to the zero-for-zero tariff elimination we have done for goods.

- We must examine cross-sectoral or "horizontal" methods of service liberalization, as referenced by Dean in his introductory comments, by improving regulatory practices across industries, for example, for all countries to provide transparency and good-government practices to ensure that domestic regulations do not undermine the value of country commitments.

- And countries should retain the ability to make individual requests of trading partners using the "request-offer" approach used in the Uruguay Round.

At the same time, we should take care to ensure that the WTO's services rules prevent discrimination against particular modes of delivering services, such as electronic commerce.

We must anticipate the development of new technologies. Examples of the potential of new telecommunications, information technologies and the Internet to support trade in services are obvious in almost every field, from colleges which can teach, hold examinations and grant degrees via the Internet; to home entertainment products delivered by satellite; long-distance environmental monitoring of air and water quality; and advanced health care delivered directly to the home or to rural clinics via telemedicine. Service providers in years to come will find many new opportunities to use new technologies to deliver their products overseas, and should not encounter discrimination based on choice of technology.

Electronic Commerce

Ancillary to the services negotiations, but essential to success in keeping the WTO at the forefront of economic activity, are our goals in electronic commerce. Clearly a number of services – telemedicine, distance education, some forms of entertainment, news – can be more efficiently and more easily delivered electronically.

We therefore have a broad program underway at the WTO to help ensure unimpeded development of electronic commerce, beginning at the Seattle Ministerial with our "duty-free cyberspace" program, in which we are seeking extension of the WTO's current moratorium on application of tariffs to electronic transmissions. We are asking countries to commit to avoid measures that unduly restrict development of electronic commerce; to ensure WTO rules do not discriminate against new technologies and methods of trade; to accord proper treatment of digital products under WTO rules; and to ensure full protection of intellectual property rights on the Net. We are open to pursuing other issues in an ongoing work program. And we are supporting a capacity-building program, to help developing countries develop their ability to use the Internet, speeding their development and technological progress.

WTO Reform: Trade Facilitation and Capacity-Building

At the same time, we are developing ideas for reforming and improving the WTO in some of the areas directly related to services.

One example is trade facilitation, with a special focus on ensuring timely, reliable, and transparent customs procedures. This is especially important in the context of distribution services – an efficient distribution network can lose much of its value if long delays let food spoil in transit or delay shipment of auto parts and semiconductors for factories.

PREPARING FOR A SUCCESSFUL NEGOTIATION

That is the substantive side of our preparation for the services component of the Round. Equally important are two elements of any successful negotiation: ensuring that we reach a conclusion in a reasonable timeframe, and developing consensus on the specific results that conclusion should achieve.

Timetable and Scope of Negotiations

We are working with other WTO members to set a timetable and a negotiating agenda that will ensure that the Round yields significant benefits rapidly.

We have set a goal of concluding the negotiations within three years. We have also proposed a limited and manageable agenda. The operative words in the last sentence bear repeating: "a limited and manageable agenda." If the services negotiations are to succeed in a reasonable time, it is very important for the WTO reach consensus on this point.

I am thinking especially of developing countries. They have legitimate concerns about implementing commitments – especially in services but also in areas like agriculture and intellectual property. As such, they are highly unlikely to accept a set of *entirely* new issues. While we have strong consensus for talks on the "built-in agenda" for services and agriculture, together with a number of industrial products, issues such as competition policy and investment have no such consensus. If we are to get results in a relatively short time, we must be disciplined and focused in selecting our agenda.

ACCESSIONS AND REGIONAL INITIATIVES

Before concluding, I would like to mention the WTO accessions and also the regional initiatives presently underway. We envision setting precedents and developing models for the achievements we can reach in the Round. At last count, there are 33 separate negotiations on accessions to the WTO and regional initiatives underway.

With respect to the WTO accessions, in the past year we have completed the accessions of Latvia and Kyrgyzstan. Estonia's accession is completed and awaiting parliamentary approval. We have completed bilateral negotiations with Albania, Croatia, Georgia and Taiwan; and made significant progress on a number of other accessions, including those of China, Armenia, Oman, Jordan. In each of these, we have sought commitments in broader ranges of service sectors, and agreement to participate in the Financial Services and Basic Telecommunications agreements. These set baselines for future accessions, an example for improving the commitments of today's WTO members, and a foundation from which we can work in the next round.

Regional initiatives also play an important role.

An especially important case is the work toward establishment of a Free Trade Area of the Americas – the FTAA, or the Spanish acronym, the ALCA. These talks include a Negotiating Group on Services, which like the other FTAA Groups completed an "annotated outline" of an FTAA services chapter this fall. This will both help us create an early model for worldwide liberalization of services trade, and build a Western Hemisphere consensus on shared goals as the Round approaches. The trade ministers of the 34 democratically-elected governments of the Hemisphere will meet on Wednesday and Thursday of this week in Toronto. They will be announcing that Argentina will assume the chair of the FTAA, and that the government under newly elected President de la Rua will be charged with drafting of the FTAA agreement by mid-2001.

Other regional arrangements have similar benefits for services. In the Transatlantic Economic Partnership (TEP) with the European Union, the U.S. is working toward a framework for negotiating Mutual Recognition Agreements – that is, agreeing to recognize accreditation or licensing granted by one another's regulatory bodies – in services fields. In Japan, Washington and Tokyo have for three years now jointly engaged in an Enhanced Initiative on Deregulation and Competition, in which we have agreed upon concrete deregulatory measures in sectors including telecommunications, financial services, energy and distribution services, as well as broader horizontal issues such as transparency. And in the President's Africa initiative, we are strengthening GATS commitments for a number of African members, and working with African governments to improve capacity-building in areas such as finance and telecommunications.

CONCLUSION

The bottom line for services is that we have set an agenda, together with methods of negotiation, that can substantially open world services markets in the new Round. And through our WTO accessions and regional initiatives, we have begun to set concrete precedents on the results we can achieve worldwide.

If we succeed, the results will be truly profound. Service providers, of course, will have vast new opportunities in a more open world. But the achievement will go much deeper: a more stable and productive world economy, greater competition and greater affordability for consumers of services, and a rising quality of life for the world's people; a world which offers its young people more opportunity and more hope than ever before.

Thank you.