

TOURISM SERVICES AND THE GATS

A CASE FOR DEVELOPMENT

OAS/CTO WORKSHOP ON TOURISM SERVICES

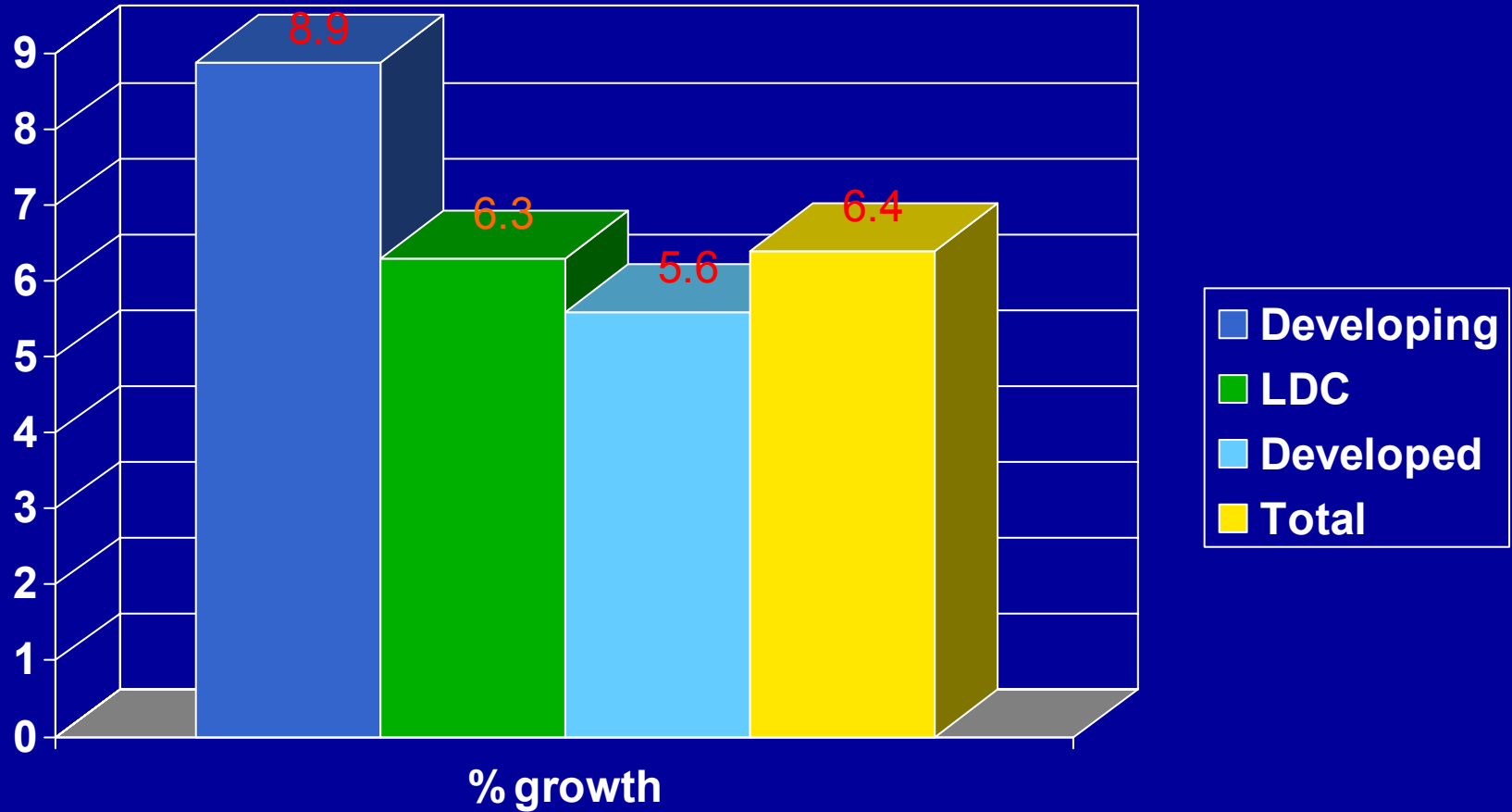
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Introduction- Services – Vital for Economic Development

- Services are the fastest growing sector of the global economy with trade and investment growing faster in services than in goods.
- Developing countries as a group have experienced a four-fold increase in their services exports
- Thus developing countries have witnessed the fastest level of growth in services. Between 1990 and 2000 the growth of exports of commercial services for developing countries, exceeded that for developed countries. The 49 Least developed Countries also experienced particularly strong export growth of commercial services.

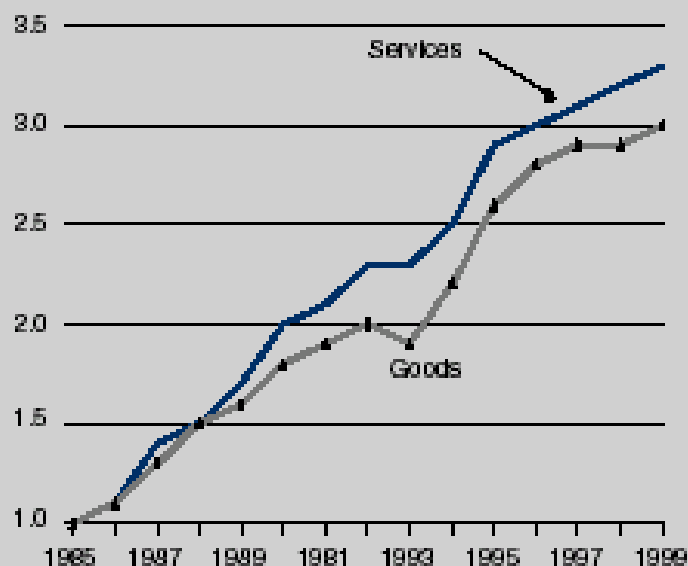
Commercial services exports of developed, developing and LDCs – 1990 -2000 (average annual percentage change)



- The World Bank has estimated that liberalization of services in developing countries could provide as much as \$6 trillion in additional income in the developing world by 2015, four times the gains expected from liberalization of trade in goods
- Between 1990 and 2000 the growth of world services output was 2.9% double that of agriculture which was only 1.4%. Consequently, the contribution of service to world GDP was 64% in 2000 compared to 57% in 1990
- Services now account for approximately 50% or more of output in Africa and 25 developing countries depend on the export of commercial services for more than half their total export revenues.

Figure 3.1 Trade in services has grown faster than trade in goods—

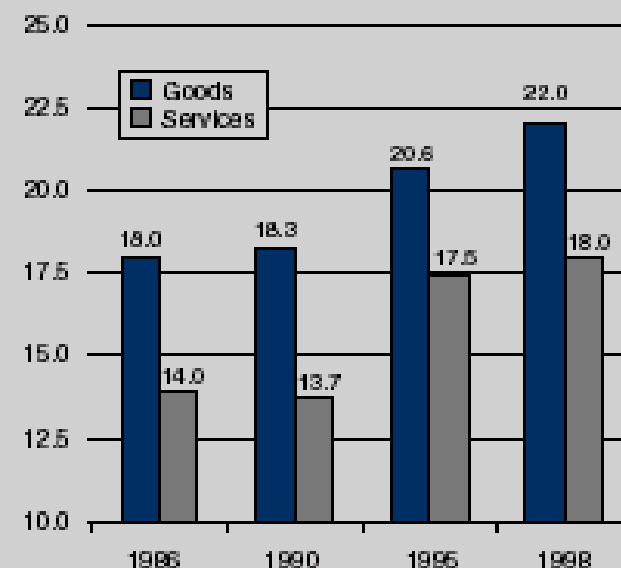
(compound growth, 1985–1)



*Note: Population estimate from a sample of 100 countries for period 1985–98. Figure for 1999 is estimate from 69 countries. World trade defined as $(X+M)/2$.
Source: IMF BoP Rev. 5, through SIMA; EPPG staff calculations.*

—and developing countries share in world exports have increased, 1986–98

Percent



Note: Population estimate from a sample of 100 countries. Source: IMF BoP Rev. 5, through SIMA; EPPG staff calculations.

- It has been established that in virtually every country the performance of the services sectors can represent the difference between sluggish growth and rapid growth
- Research has also shown that countries at all levels of development are already exporting a wide range of services, in particular business and professional services

- DCs average 30 different service exports, most of which are still unknown to their governments as trade development initiatives fail to focus on services
- Services industries already contribute the largest percentage of gross domestic product in nearly all economies reaching as high as 93% for a country like Antigua and Barbuda in the Caribbean

Why do Services Matter?

- In developing countries the average share of services in GDP increased from around 40% in 1965 to 50% in 1999 while in the OECD countries the average share increased from 54% to 60%.
- Efficient services play a critical role in achieving long term development and sustained growth
- It is often the intangible nature of services industries that results in an underestimation of their role in development.

- Services provide the infrastructure for all economic activities including health, education, finance, cultural and entertainment activities, tourism among many others
- The lack of development of an efficient services sector often results in an underutilization or an inability to exploit the natural resources that a country may have.

- Inadequate services development in an economy also causes an underutilization of the human resources of the country.
- One of the classic misconceptions underlying the lack of development and focus on services is the belief that developing economies are mainly agricultural economies.

Some examples of the Benefits

- Financial Sector – An efficient financial services sector can lead to the effective transformation of savings into investment, thus ensuring that resources are deployed in the best manner for maximum return

- Telecommunications – Effective telecommunication is a vital intermediate input and is crucial to the dissemination of information. The advent of the internet and the dynamic role that it now plays in development is testimony to the importance of effective telecoms services
- World bank estimates also suggest that countries that have liberalized trade and investment in finance and telecommunications grew an average of 1.5% faster than other countries over the past decade

- **Transport Services** – The absence of an effective transportation system has been one of the major impediments to growth in many developing countries. An effective transportation network will contribute to the efficient distribution of goods and has an enormous impact on the ability of developing countries to penetrate the global marketplace.

- Business Services – One of the most significant impediments to growth in many developing countries has been the absence of adequate accounting and legal services thus resulting in excessive transaction costs
- Education and Health Services – It should be self evident that effective education and health services in a country are a sine qua non for sustainable and long term growth. The investment in human capital must be the foundation on which a successful economic platform is built

- Computer Services – Software and related services form the foundation of a new knowledge based economy

The General Agreement on Trade in Services (GATS)

- Concluded as part of the UR Agreements in 1994
- Services sectors covered under the GATS
 - Business and Professional Services
 - Communication Services
 - Construction and related engineering services
 - Distribution
 - Education
 - Environmental Services
 - Financial Services
 - Health related and social services
 - Tourism and Travel related services
 - Recreational, cultural and sporting services
 - Transport services

- GATS establishes a “multilateral framework of rules and principles for trade in services with a view to the expansion of such trade under conditions of transparency and progressive liberalization, and as a means of promoting economic growth of all trading partners and the development of developing countries”

- GATS is the first multilaterally enforceable agreement to cover trade and investment in services. Its main objectives are:
 - Expansion of services trade
 - Progressive liberalization through successive rounds of negotiations
 - Transparency of rules and regulations
 - Increasing participation of developing countries

- GATS is composed of three pillars
 - Framework Agreement – general obligations
 - Annexes - eight
 - Schedules of Specific Commitments on Market Access and National Treatment

Main Provisions of the GATS

- Most Favoured Nation Treatment- Art II.1- some exemptions allowed temporarily
- Market Access – Art XVI.1 – governed by specific commitments made in schedules
- National Treatment – Art. XVII.1- only applies where a country has made a specific commitment
- Transparency – publication, notice, enquiry point

- In principle GATS applies to all services except those exercised in pursuit of governmental authority and certain aspects of air transport

Four Modes of Supply

- Mode 1 – Cross border supply of services- consultancy etc
- Mode 2 – Consumption Abroad- tourism, education etc
- Mode 3 - Commercial Presence – right of establishment
- Mode 4 – Movement of Natural Persons- immigration and labour market issues

Tourism Under the GATS

- Tourism as a service sector under the GATS is very limited in scope
- Defined as “Tourism and travel related services” – Category 9 of SSC W/120
- Divided into four categories:
 - Hotels and restaurants
 - Travel agencies and tour operators’ services
 - Tourist guide services
 - other

- Difficulty with WTO classification under GATS
 - Does not take into account other services activities such as transport, business, distribution, and recreational services that are directly linked to tourism services
 - Proposal to expand coverage in proposed Annex on Tourism services

- Under GATS Tourism and travel related services is the sector with the highest number of commitments of all services sectors
 - In 1998, 112 commitments exists for hotel and restaurants
 - 89 commitments for travel agencies and tour operators
 - 54 commitments for tourist guides
 - “Other” varies depending on how it is defined

- Commitments by Mode of Supply also vary widely
 - Consumption abroad is most liberal
 - Movement of natural persons the most restrictive
 - Commercial presence and movement of natural persons are key areas for future liberalization

Summary of Specific Commitments for CARIFORUM

Countries	09.A	09.B	09.C	09.D	Total
Antigua and Barbuda	X				1
Cuba	x	x	x		3
Dominica	X				1
Dominican Republic	x	x	X		3
Grenada	X				1
Guyana	x	X			2

Countries	09.A	09.B	09.C	09.D	Total
Haiti	X				1
Jamaica	x	X			2
St Kitts and Nevis	x				1
St Lucia	X				1
St Vincent and the Grenadines	X				1
Suriname	x	X			2
Trinidad and Tobago	x	x			2

- Tourism is the most important earner of foreign exchange in ten of the fifteen countries that make up CARICOM and a significant contributor to employment
- Over 25% of jobs is generated by tourism
- Is therefore one of the most important drivers of growth and development

- Tourism accounted for almost 50% of total employment in the Bahamas and its contribution to GDP in 2002 ranged from approximately 72% in Antigua and Barbuda and 50.6% for St Lucia

- Importance of Services negotiations in Doha Development Agenda reflected in the importance of this sector to development and long term growth

Proposed Annex on Tourism

- Built-in-Agenda for renewed services negotiations began in February 2000
- Request and Offers were due by 31st March 2003
- Only 30 developing countries have presented requests and none have thus far made offers

- As part of preparatory process for Seattle many proposal tabled
- In 1999 DR, Honduras and El Salvador tabled proposal for Annex on Tourism
- Rationale included:
 - GATS definition too narrow
 - GATS Article IV requirements not met
 - Request-offer approach would not achieve liberalization
 - New provisions for anti-competitive conduct

- Also proposed a “tourism cluster”
- Revised Annex proposed with new cosponsors in 2001
- Difficulties with Annex proposal for several reasons:
 - Cluster approach – pressure and possibility of negative list approach
 - Too comprehensive – difficult to negotiate on a sector by sector basis

Cancun and Beyond

- Negotiations are ongoing but given outcome at Cancun may take on different shape
- CARICOM will need to define its negotiating interest and act to ensure that Trade in tourism services is addressed to the benefit of developing countries