

WORLD TRADE ORGANIZATION

RESTRICTED

S/CSS/W/18

5 December 2000

(00-5266)

**Trade in Services Council
Special Session**

Original: English

COMMUNICATION FROM SLOVENIA, BULGARIA, CZECH REPUBLIC, POLAND AND SLOVAK REPUBLIC.

Note on Assessment of Trade in Services in Certain Transition Economies

The following communication has been received from the delegation of Slovenia on behalf of its delegation and the delegations of Bulgaria, Czech Republic, Poland and Slovak Republic with the request that it be circulated to Members of the Council for Trade in Services to assist in the discussion on the Assessment of Trade in Services.

1. The delegations of Slovenia, Bulgaria, Czech Republic, Poland and Slovak Republic believe that the attached OECD paper (document CCNM/TD(2000)52) is our contribution to the discussions, as a useful background document, for "an assessment of trade in services in overall terms and on a sector basis with reference to the objectives of this Agreement" pursuant to Article XIX of the GATS. We believe that in these discussions a particular light should be shed on the development of trade in services as well as on the experiences of the member countries with economies in transition or whose economies are in a post-transition period.

2. The paper was prepared as a background for the Round Table on "Ten Years of Trade Liberalisation in Transition Economies" organised by the OECD in July 2000 in Paris. It represents the examination of the role and development of trade in services in the transition economies, particularly in CEFTA countries, while in some points focusing on Slovenia. The Round Table attracted 75 participants, including officials and experts from selected transition economies, representatives from OECD countries and participants from other international organisations, including the WTO.

3. The authors of the paper and several participants noted that a decade ago there was virtually no market for services in countries with economies in transition. In former centrally planned economies, the services sector was economically neglected and the regulatory structure underdeveloped. Improving the environment for the development of services was crucial to modernisation of those economies. Governments had to create entirely new legal structures and new institutional capacities, which had to be done simultaneously with the adoption of GATS disciplines and liberalisation commitments.

4. It was noted that the participation of countries with economies in transition in the GATS disciplines and liberalisation contributed to their integration into world markets and to development of sound trade policies in these countries, which created an improved, transparent and predictable legal framework for foreign and domestic services providers. That led to increased efficiency, stimulus to innovation, and enhanced economic growth. On the other hand, liberalisation of services markets in

transition economies often leads to competitive pressures on domestic, newly established providers, and to the deterioration of the trade balance as well as reducing government's options in economic policy for enhanced development of the services sector.

5. At the Round Table a general agreement had been reached that most of the countries with economies in transition share an interest in seeing further development of the multilateral trading system in the services sector. Participants also considered it important that the future negotiations should take into account specific concerns of these countries. Furthermore, the negotiators should carefully consider all possible implications of further liberalisation on different countries and sectors pursuant to paragraph 2 of the Article XIX of the GATS.

ATTACHMENT

Organisation for Economic Co-operation and Development - OECD
CCNM/TD(2000)52
Distributed on 31 May 2000

Centre for Co-operation with Non-Members
Trade Directorate

Working Party of the Trade Committee
Trade Relations with Economies in Transition

ROUND TABLE ON "TEN YEARS OF TRADE LIBERALISATION IN TRANSITION ECONOMIES"

LIBERALISATION OF TRADE IN SERVICES: SLOVENIA'S EXPERIENCE

This paper was prepared by Ms. Metka Stare, Senior Research Fellow, Faculty of Social Sciences (Ljubljana), and Mr. Stamo Zupancic, Assistant Professor, Faculty of Economics (Ljubljana). It is presented as background for the Round Table in Session III: "Contribution of multilateral trade disciplines to trade reform in transition economies.

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1. Executive Summary

1. The starting point of discussing trade in services and its liberalisation in the context of transition economies is the evaluation of the development level of services in these countries. Throughout the post-war period, transition economies did not pay much attention to the development of services in line with the ideological perception of that time that services are not vital to growth and development. Industry ranked top in all economic policy considerations. As a consequence, most services were considered “unproductive labour” and their contribution to the efficient functioning of the economy neglected. Such an attitude toward services and the policies that accompanied it resulted in the absence of a service culture and poor development of the service sector (in terms of growth rates, range of services, quality and efficiency of services and market structure). It also resulted in a modest role of services (except for travel) in foreign trade.

2. The introduction of market oriented reforms in transition economies at the beginning of the nineties brought about considerable changes, which affected all sectors of the economy. The service sector had to face several additional challenges. In the past, competition among service suppliers at the local market was weak and regulations of some service sectors often restrictive, in particular in the area of financial services, telecommunications, transport and distribution. Foreign trade under central planning was strongly regulated, the trade regime lacked transparency and domestic service suppliers were completely protected from outside competition. In the framework of the reforms, transition economies began to introduce deregulatory measures enhancing competition among local suppliers of services and implement foreign exchange policy and trade regime liberalisation. Some transition economies undertook considerable opening of markets for foreign providers of services within the General Agreement on Trade in Services (GATS), the Association Agreements with the European Union and the OECD. Market opening put strong pressure on the adjustment of the service sector. How did the transition economies cope with these challenges and what have been the main results?

3. This paper analyses the experience of the Central and Eastern European Countries (CEECs) with liberalisation of trade in services, focusing on the case of Slovenia.¹ The paper first presents the main features of the service sector in transition economies in the nineties and considers the influence of market-oriented reforms on the transformation of the service sector. The second chapter deals with the institutional and regulatory framework, which aimed at increasing competition in services at the national level and allowing liberalisation of trade in services at the multilateral and regional level. The paper concludes with an assessment of broader dimensions of liberalisation of trade in services² and its benefits from the point of view of Slovenia. Finally, it draws lessons that might be relevant for other transition economies, particularly those negotiating WTO membership or different types of agreements with the EU.

¹ Slovenia is a small Central European country with 2 million inhabitants, with GDP per capita in PPP terms of USD 14,000. It is an open economy: external trade (exports and imports of goods) accounts for approximately 110 % of GDP. On June 25th, 1991 Slovenia declared independence from ex-Yugoslavia and formally started its transformation into a democratic political system and a market-based economic system. Slovenia is a member of the WTO since 1995. Slovenia is in the first group of transition economies, which began the negotiations for the EU membership.

² Trade in services is defined according to GATS provisions, incorporating four modes of supply of services (cross-border trade, consumption abroad, commercial presence and presence of natural persons). According to recent estimates, cross-border transactions and commercial presence contributed each by some 40 % to world trade in services in 1997. The remaining 20 % were accounted for mainly by consumption abroad, while services supplied through natural persons were found to be statistically insignificant (Karsenty, 1999).

2. Transformation of the service sector in transition economies in the 90s

4. After the introduction of the reform processes in the CEECs, the institutional and business environment began to gradually adapt to the standards of market economies, alongside with the opening of the economy to external competition. Privatisation of enterprises and establishment of a number of small and medium-sized enterprises (SME) was the prevailing tendency, creating a new ownership and size structure of enterprises in industry and the service sector. In the last decade, the CEECs have seen significant structural changes, characterised especially by the strengthening of the service sector. The main driving forces behind the increasing role of services were related to market oriented reforms and to the adjustment of industrial production to technological transformation:

- **Introduction of market oriented reforms** stimulated the establishment of a number of private firms, predominantly in services. Since most of these firms were small or medium-sized, they needed a variety of other services for starting up the business (e.g. consultation, financial services, bookkeeping and accountancy) and later for efficient operation (R&D, information and computer services, logistics). Consequently, SMEs appeared to be an important generator of demand for services on the market. With increased orientation of enterprises towards developed countries' markets, financial services, communications, marketing and advertising services gained in importance. The privatisation process also induced the demand for services, such as asset valuation and auditing that were not known in the previous system.
- **The adjustment of industrial production** to technological changes and recession caused by the collapse of markets in other former socialist economies also spurred the development of services. Modernisation of the production process and gradual introduction of information-communication technologies require sophisticated services and intensify the interlinkages between industry and the services sector. Accordingly, the demand for specialised services provided in-house or bought on the market increased considerably. At the same time, important changes in industrial organisation have occurred, in particular disintegration of large industrial conglomerates into smaller enterprises and the beginning of the externalisation of services. These changes were initially spurred by the loss of markets, rather than by a strategic decision to concentrate on core activities. Due to the need to rationalise and restructure production processes, many enterprises supplemented in-house services with external services (at first cleaning, security, and catering services but later also computer, payroll, advertising and logistic services). As a consequence, the externalisation of services also contributed to the statistical growth of services. There is, however, no estimate as to the scope of this phenomenon.

5. The above mentioned processes caused a large shift in value added and employment in favour of services in all CEECs. In the period 1990-1998, the share of services in total value added in Slovenia increased from 52.8 % to 58.3 % and in total employment from 42.2 % to 53.9 %, approaching the levels in some EU member states. In some CEECs, the impact of FDI on the growth of the service sector was also quite important (Drabek, 1996). Despite the modest role of FDI in services in Slovenia, the progress achieved in the last decade in developing the service sector has been remarkable. This partly reflects the changed attitude towards services: though it has often been the topic of economic policy discussions, no serious national program for service development, except a few sectoral initiatives, has been elaborated.

6. This situation seems to indicate that the role of services, especially the increasing interlinkage and complementarity between goods and services and their importance for growth, development and foreign trade, is not yet properly understood. The liberalisation of trade in goods³ stressed the need for

³ Although gradual liberalisation of trade in goods was implemented in Slovenia even before the introduction of market oriented reforms, this trend was further strengthened in the nineties. In most transition economies, liberalisation of trade in goods was a part of market oriented reforms.

better intermediate and complementary services to support goods exports and improve their competitiveness, but this has not been necessarily reflected in increasing imports of services or FDI inflows in services.

7. Notwithstanding the progress achieved in the nineties, the level of services development in Slovenia and other CEECs lags behind that of the EU member states. The main shortcomings consist of lower efficiency and quality of services in the CEECs, their poor competitiveness on the world market, and the domination of traditional service sectors (transport, distribution, hotels and restaurants) over higher value-added service sectors (Stare, Vanyai, 1995). These shortcomings explain the continuing low level of services in foreign trade despite the dynamic development of the domestic service sector.

8. As shown in Table 1, the share of services in total exports of goods and services has declined in the majority of the CEECs during the period 1990-1998. This contrasts with the trend observed in world trade where the corresponding share increased from 19.2 % to 19.9 % in the same period (WTO, 1999).

Table 1: Share of services in total trade of the CEECs, percent

Percent of services in		Bulgaria	Czech Rep.	Hungary	Poland	Romania	Slovak Rep.*	Slovenia
Total exports of goods and services	1990	19.4	22.4	—	11.3	9.6	26.4	29.2
	1998	22.6	21.9	19.1	10.9	12.7	17.7	18.4
Total imports of goods and services	1990	11.6	19.6	—	14.6	7.9	20.9	10.6
	1998	19.4	16.0	15.6	8.7	13.6	14.9	13.4

*Data refer to 1993 instead of 1990.

Source: WIIW Handbook of Statistics, 1999.

3. Liberalising the institutional and regulatory framework for trade in services in Slovenia

3.1 Autonomous deregulatory measures

9. Before the introduction of market-oriented reforms, Slovenia, like other former socialist economies, had strong restrictions on a horizontal level, which applied to all sectors of the economy. Additionally, some service sectors, such as telecommunications, urban planning, financial and architectural services were highly regulated. Still other sectors were not regulated at all, due to non-existence of these services in the past (e.g. taxation services, life insurance, securities, investment funds, stock exchange). The absence of regulation at the sectoral level was especially evident as regards market access conditions, professional standards and qualifications. Also, competition rules and regulations concerning consumer protection were not in place.

10. Consequently, the need for deregulation of service markets and for the liberalisation of trade in services in Slovenia and in other CEECs has been imposing. The process was more difficult than for developed countries, given that the CEECs' markets for services were underdeveloped and competition was rather the exception than the rule. The first steps of regulatory reform were to enable competition among local suppliers of services, and, then to undertake liberalisation of market access and diminish discrimination against foreign suppliers of services.

11. After gaining its independence, Slovenia autonomously changed several basic laws, and many horizontal restrictions on trade in services were lifted. For example, the Company Act and its

Supplements were removed and many general restrictions, including those concerning foreigners, were reduced. Accordingly, Slovenia could grant relatively numerous specific commitments within the GATS without amending existing laws. It is important to note that in Slovenia, unlike many countries where government approval is sufficient, all changes related to the scale of the liberalisation must be approved by the Parliamentary Committees. Thus, no negotiating team can agree on a higher level of liberalisation of services in Slovenia before the corresponding law is changed. This might be one of the reasons for a more complicated and longer negotiating procedure in services in the case of Slovenia.

12. In some Slovenian service sectors, the deregulatory process has been rather slow. In financial services, the range and quality of services have been improved, but the banks and insurance companies have not completely succeeded in meeting the growing demand of the business community, especially of SMEs, for diversified financial services. In telecommunications, a slow and hesitant approach to deregulation and adaptation of regulatory practices to modern trends in the world has hampered the development of infrastructure and advanced services. Basic telephone services and infrastructure operation remain the exclusive right of a monopolistic operator until 2001. In mobile communications, competition has been introduced only recently and has already shown positive effects in terms of decreased prices and new and improved quality of services.

3.2 Liberalisation under the GATS

13. The Republic of Slovenia started negotiations on GATS in September 1994, after the founding session of the WTO took place, but before the Marrakesh Agreement came into force.⁴ The quality of the preparations at home and successful negotiations of the Slovenian delegation in the field of trade in services were decisive for timely accession to the WTO. Consultations with some negotiators and with the WTO Secretariat were also helpful to that end. At home, Slovenia had to make great efforts to identify numerous restrictions to trade in services, since in the past knowledge of these issues was very limited. The task was also complicated by the fact that trade in services impinges on the jurisdiction of several ministries, and the work thus was not always easy to coordinate. The concessions granted by Slovenia within its Schedule of specific commitments to the GATS are quite extensive and were carefully examined by the competent ministries. However, it must be emphasised that specific GATS commitments mainly identify existing restrictions to trade in services and consist essentially in standstill positions.

14. According to Hoekman and Braga (1997), probably the best measure of liberalisation as embodied in the specific GATS commitments by different countries is the share of commitments without any restrictions on either market access or national treatment. Table 2 reveals that, apart from Hungary, Slovenia has the highest share among the transition economies, amounting to 36 % of all possible entries (for each service subsector⁵, four entries--one for each mode of supply--are made with respect to market access and four more with respect to national treatment). The respective shares for the EU and Switzerland are 49 % and 45 %, and for South American countries only 10 % (U.S. International Trade Commission, 1998). These comparisons confirm that Slovenia has made an important step towards liberalisation and regulatory transparency. Taking into account the share schedule entries binding full or partial market access and national treatment, Slovenia ranks highest among transition countries.

⁴ The initial offer was submitted in October 1994, first revised offer in November, and the final one in December 1994.

⁵ Eight main service sectors were taken into account.

Table 2: CEECs: Shares of schedule entries binding full or partial market access and national treatment in service sectors (in percent)

	Bulgaria	Czech Rep.	Hungary	Poland	Romania	Slovak Rep.	Slovenia
Full binding	26	31	38	26	32	31	36
Partial binding	43	51	54	45	37	50	57

Source: U.S. International Trade Commission, 1998.

15. Slovenia did not give any offer concerning audio-visual services. The latter present a very sensitive issue for a small nation, which has only recently become independent. The language and culture are of vital importance and are seen as a part of the national heritage, which has to be preserved. Slovenia shares the view of many European countries, which oppose a pure market approach to audio-visual services.

16. After the entry into force of the GATS, the negotiations on individual service sectors continued, in particular the second Protocol on Financial Services⁶ and the third Protocol on Movement of Natural Persons Supplying Services. It was too early for Slovenia to participate in these negotiations, but it was active in the subsequent financial service negotiations and improved its Schedule and accepted a greater openness of the Slovenian financial market. The participation of Slovenia in the 4th Protocol on Basic Telecommunications was hindered by the fact that the Ministry for Transport and Communication was preparing a new Law on Telecommunications and was not ready to participate in the negotiations before the Law was passed.

17. At the moment, preparations for "GATS 2000" are not a priority for the Slovenian authorities. As in the past, the government seems more interested in industrial and agricultural products, and the issue of services has not always been given due attention.⁷ However, the attitude regarding services has gradually changed, thanks to Slovenia's negotiations on EU accession. In particular, pressures for complying with the EU legislation in this area have fostered better understanding of principles and disciplines related to trade in services.

3.3 Liberalisation within the Europe Agreement

18. Parallel to the GATS negotiations on liberalisation of services, Slovenia embarked upon a process of negotiations with the EU, first within the framework of the Association Agreement and later within the accession negotiations. The liberalisation of trade in services gained strong impetus from negotiations with the EU and especially through harmonisation of the legislation with the "acquis".

19. Slovenian commitments within the GATS basically imply the binding of regulatory measures applied to trade in services and provide for their transparency. The Association Agreement with the EU contains commitments on progressive liberalisation of trade in services. They refer above all to the right of establishment and to the national treatment of legal and natural persons from the EU

⁶ However, the Article II (MFN) Exemption on Financial services was lifted later.

⁷ This is also the result of the fact that only few government officials are occupied with services. 13 Ministries are legally responsible for different services under the co-ordination of the Ministry of Economic Relations and Development which takes care of legal issues of trade in services. Problems with the lack of knowledge related to trade in services are even more serious. Only some professional associations deal with the analysis of international competitiveness of the respective sectors and with issues of international trade in services

member countries in Slovenia. Most of these commitments entered into force simultaneously with the Association Agreement. The Agreement provides, however, for a transitional period (to the year 2002) within which the exemptions for the right of establishment in some service sectors have to be gradually abolished. This concerns in particular reinsurance and retrocession, brokerage, life-insurance, investment fund management services, investigation and security services, exploitation of natural resources, and transport services via pipeline of natural gas.

20. Slovenia's negotiations on EU accession put the liberalisation of trade in services in a broader perspective. Before becoming an EU member, Slovenia has to commit itself to free flows of services, and thus change its legislation accordingly. This process of accepting the "acquis communautaire" is well under way and a number of requested laws liberalising service sectors was already adopted. The Banking Act, Insurance Act and Securities Market Act fully correspond to EU legislation. Many restrictions for foreigners related to the right of establishment have been already removed. New regulations were also introduced in service sectors, which were not previously regulated, and some additional conditions for the establishment of undertakings were established, for instance proof of goodwill, proof that the entrepreneur has not experienced bankruptcy, proof of sufficient equity capital and proof of formal qualifications. None of these conditions discriminate against foreigners.

21. The period of analysing the "acquis" of the EU on services allowed all competent Slovenian ministries and agencies to consider more seriously the problem of liberalisation of trade in services and thus improve their knowledge in this area. This was also helpful in the context of GATS negotiations. In 1996, the CEFTA countries made an effort for greater co-operation in the field of trade in services. However, the discussions showed that a special CEFTA agreement on trade in services is not realistic.

4. Implications of liberalisation of trade in services

22. In Slovenia, trade in services has been traditionally perceived as a means for generating a surplus, which alleviates the burden of the merchandise trade deficit, which increased constantly throughout the nineties. Discussions thus tend to focus primarily on how to increase exports of services. Trade in services is basically not understood as a two-way process embracing both exports and imports. Similarly, the fact that trade in services also includes a commercial presence mode, realised mainly through FDI and foreign affiliates' trade, has been so far relatively neglected. This attitude towards trade in services is probably common to other transition economies, especially those which run a large surplus in travel services.

23. When assessing the effects of liberalisation of trade in services in the context of transition economies, it is therefore necessary to avoid two major simplifications:

- viewing trade in services exclusively from the point of view of current account flows and balance; and
- considering only the effects of liberalisation on the service sector per se.

24. In view of the past underestimation of the service sector in former socialist countries, the starting point consists in underlying development implications of liberalisation of trade in services. Such an approach is justified by the increasing interlinkages between services and manufacturing at the national and the global levels, further strengthened by the progressive introduction of information and communication technologies in all sectors of economy.

25. The experience of Slovenia as one of the most economically advanced transition economies shows that exports of services increased slower than imports of services, particularly in the second half of the nineties. As a result, the service balance has deteriorated. Slovenia's largest surplus in

services trade of 1 140 USD mn achieved in 1990 was reduced by more than half to 513 USD mn in 1998 (Table 3). The declining surplus mainly reflects the weak competitiveness of the Slovenian service sector, but there are no estimates of the possible effect of liberalisation of trade in services. The aggravation of the service balance also results from increasing importing needs for services related to a higher development level (Stare, 1999). In this context, Slovenian imports developed in particular in the area of producer services needed as intermediate inputs (banking, insurance, communication and a variety of business services) and also in the areas benefiting from increasing consumer spending (e.g. travel abroad and other services). In other CEECs, recent trends for trade in various service categories have differed, but all these countries have been confronted with a deterioration of their service balances.

Table 3: Balance of trade in goods and services in the CEECs, USD mn

		Goods	Services	Travel	Transport	Other services
Bulgaria	1990	-757.0	185.0	78.0	51.0	56.0
	1998	-315.6	147.9	215.8	215.8	3.1
Czech Republic	1990	-252.3	152.0	1.6	239.4	- 89.0
	1998	-2580.7	1882.3	1850.2	737.1	-705.0
Hungary	1990	348.0	500.0	345.0	-164.0	319.0
	1998	-2121.0	678.0	1298.0	196.0	-817.0
Poland	1990	2214.0	-150.0	-120.0	-59.0	29.0
	1998	-13720.0	-509.0	-106.0	438.0	-841.0
Romania	1990	-3427	-177	3.0	-245.0	65.0
	1998	-2611	-503	-191.0	-125.0	-187.0
Slovak Republic	1993	-932.0	268.8	173.9	167.4	-72.5
	1998	-2292.5	19.6	14.3	323.4	-318.1
Slovenia	1990	-608.7	1139.4	-	-	-
	1998	-774.9	513.7	542.1	132.2	-160.7

Source: WIIW Handbook of Statistics, 1999.

26. In Slovenia and in some other CEECs, the deterioration of the service balance is often attributed to an excessively liberal regime granted to foreign suppliers of services.⁸ Moreover, further deterioration of the service balance can be expected with the opening of service markets in the process of integration to the EU (Potocnik, Majcen, 1996). Given that the situation in the service sector and its underlying economic factors are not sufficiently analysed, the policy-makers in all transition economies are under strong pressures from domestic service suppliers. These pressures for the reversal of existing liberal policies would be difficult to resist in the absence of binding agreements with the EU and within the GATS. All transition economies have thus to pay more attention to broader implications of liberalisation of trade in services and try to exploit them to the largest extent possible. In this context, the following considerations seem the most important:

- (a) The service export structure (in Slovenia but also in most other CEECs) is still dominated by traditional service sectors, in particular travel and transport. Other services account for a much lower share in total exports of services than in the world or in the EU exports of services (close to 45 % in the EU as compared to approximately 20 % in Slovenia). Notwithstanding the fact that traditional services

⁸ Slovenian suppliers of services sometimes complain that they are not put on an equal footing with foreign suppliers, saying that in developed economies there exist some sort of invisible forms of protection of domestic suppliers. This might be the result of the deficient regulatory framework in transition economies (particularly by-laws, standards and qualification requirements).

are important and generate allocative efficiency benefits from trade, Slovenia and other transition countries should not concentrate their efforts on increasing exports of traditional services only. They should diversify their service exports towards knowledge-intensive services with higher value-added. The latter make larger use of dynamic benefits from specialisation. Determined economic policy to improve the supply of such services should be used, relying in particular on measures such as securing seed capital for start-ups and providing subsidies to innovative service suppliers. Improving export capacity of other services is an important way for the CEECs to benefit from international trade. However, the import side should also be taken into account.

- (b) Imports of more efficient intermediate services (primarily knowledge intensive producer services) are critical for improving the competitiveness of enterprises using such services. With the strengthened complementarity of goods and services production, this aspect becomes increasingly important.⁹ Maintaining the protection of local service suppliers or the monopoly of exclusive suppliers, particularly in telecommunications and financial services, harms in fact the domestic economy. In that way, manufacturing and also other service enterprises are deprived of cheaper, more diversified and higher quality services and their competitiveness decreases.¹⁰ Indirect benefits of liberalisation of trade in services¹¹ have also been confirmed by the introduction of unilateral liberalisation measures (Adlung, 1999, Hoekman, Braga, 1997). At the same time, imported services strengthen competition on the domestic market, forcing local suppliers to improve efficiency and quality of their services.
- (c) Due to the need for physical proximity of producers and consumers of many services and given the specific nature of some services (intangibility, non-storability), commercial presence of foreign suppliers of services is a very important mode of trade in services. Delivery of services via FDI or foreign affiliate trade can complement or substitute for cross-border trade in services.¹² However, the benefits of the two modes of service trade differ for the host country's service sector. In the case of cross border trade, domestic production of services does not increase and may even contract. In the case of FDI, the host country's service production increases (Jones, Rouane, 1990). What matters even more in FDI, as a mode of international transactions, is not only sales but also broader effects on the host economy (Rojec, 1998). The evidence from FDI to business services in Slovenia confirms that crucial benefits of FDI in these services lie in the dynamic effects through the transfer of specialised knowledge and skills, and in increased efficiency via inter-industry linkages (Stare, forthcoming). Continuous upgrading of service quality and enabling access to global networks add to possible benefits of FDI in services in transition economies (Kostecki, Pietras, 1996). The above facts related to FDI in services are of utmost importance for transition economies, given the lag in the development of the service sector.

⁹ Producer services provide for an increasing share of intermediate consumption and are considered crucial determinants of successful implementation of market reforms in transition economies (Kostecki, Fehervary, 1996):

¹⁰The same refers to final consumers.

¹¹ Most of the potential gains from liberalisation of services will be the result of freeing access to domestic markets. Greater access to foreign markets will frequently constitute "the icing on the cake", not the cake itself (Liberalising International Transactions in Services, 1994).

¹² Some services are often delivered via non-equity forms of investment (franchising, licensing, partnership, management contracts).

5. Conclusion: Main lessons from the liberalisation of trade in services

27. Liberalisation of services puts forward new policy challenges for transition economies. In that regard, the experiences of Slovenia and other CEECs to date suggest the following main lessons:

- In re-shaping policies that affect trade in services, transition economies should bear in mind that development implications of liberalisation of trade in services are multi-dimensional and appear in exports, imports, as well as through foreign affiliate trade. They are direct and indirect.
- Trade policy in services should be viewed also as a means of promoting development of the service sector, thereby increasing the efficiency of the whole economy. Trade policy should be an integral part of a pro-active policy for enhanced development of services, particularly of the knowledge-intensive services. This should enable domestic enterprises to increase competitiveness and to take advantage of the benefits of trade liberalisation.
- Dynamic development of technology significantly expands the scope for services tradability and changes the way trade in services is carried out (e-commerce and e-business). Transition economies have to react fast in terms of economic policy and provide for adequate infrastructure and knowledge to capture the potential benefits of liberalising trade in services.
- Liberalisation of trade in services within the GATS has not brought about specific tangible results for transition economies. However, the process itself was important as the submission of national schedules facilitated the identification of existing barriers to trade in services and represented an important learning experience for government administration. The latter proved useful for Slovenia in negotiations of the Association Agreement with the EU. This process also helped in providing the basis for the formulation of economic policy in general.
- Binding of existing access to service markets and of national treatment within the GATS provides for irreversibility of ongoing policy reforms and predictability of markets in transition economies.
- The participation of Slovenia in the WTO shows that “solo” actions are unproductive. It is better to find countries with similar problems and present joint actions (e.g. Central American countries made a joint proposal that tourism services should be included into the GATS as a special annex). CEFTA and European transition countries have organised very few common actions so far.
- There are important non-economic considerations related to liberalisation of trade in services (national security, cultural identity, social and regional policy objectives), which should be dealt with in the framework of safeguard provisions and exemptions of the existing regional and multilateral agreements.

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