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COMMUNICATION FROM THE UNITED STATES

An Assessment of Services Trade and Liberalization
in the United States and Developing Economies[1]

The following communication has been received from the delegation of the United States with the request that it be circulated to Members of the Special Session of the Council for Trade in Services.

I. INTRODUCTION

1. The service sector comprises a wide variety of industries, including professional and related services; computer and related services; advertising; management consulting services; telecommunications services; audiovisual services; express delivery services; construction and related engineering services; wholesale, retail, and franchising services; educational and training services; environmental services; energy services; insurance and insurance-related services; banking and securities services; health-related and social services; tourism and travel-related services; recreational, cultural and sporting services; and transport services.

2. Service industries play an important role in both developed and developing markets, accounting for a large and growing share of economic output and employment in the United States and developing economies. Although the United States and other developed economies continue to account for a larger share of the world market for services, developing economies' participation in this market has increased in recent years due, in part, to the new cross-border delivery options made possible by innovations in information and communications technology. U.S. data also suggest a growing role for some developing economy service providers. Such data indicate that certain developing economies account for rapidly increasing shares of U.S. direct investment abroad, and that U.S. admissions of temporary workers from middle- and low-income economies are growing at a

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[1] To the greatest extent possible, economies were classified using a World Bank definition, under which high-income economies are those in which gross national product (GNP) per capita is US$9,266 or higher, middle-income economies are those in which GNP per capita is US$756 - US$9,265, and low-income economies are those in which GNP per capita is US$755 or less.

To the greatest extent possible, "services" was considered to comprise those activities included in the W/120. However, all figures should be considered estimates, as economy classification and the definition of services vary slightly in each case due to data availability.

The term "developing" economy is used in this paper only with respect to World Bank and other international economic references. The use of the term has no relation to U.S. views regarding the treatment of a country's development status within the WTO.

faster-than-average rate. Available evidence suggests that past services liberalization has had a positive effect on the United States and developing economies, and that future liberalization would likely yield further benefits.

3. The current General Agreement on Trade in Services (GATS) negotiations provide member countries the opportunity to improve their current services commitments. GATS commitments do not prevent governments from taking actions necessary for the protection of national security interests, public morals and order, human, animal or plant life or health, to secure compliance with non-discriminatory laws or regulations, to equalize imposition or collection of direct taxes, or avoid double taxation.

II. THE IMPORTANCE OF THE SERVICE SECTOR

A. UNITED STATES

4. Throughout the latter half of the twentieth century, the service sector has been both the largest and the fastest growing component of the U.S. economy. Fifty years ago, the service sector accounted for about sixty per cent of U.S. output. By 2000, the service industry share of U.S. private-sector gross domestic product (GDP) had grown to 79.2 per cent.

5. Services firms provide more jobs, and more new jobs, than all other sectors of the U.S. economy combined. In 2001, service industries accounted for 81.1 per cent of total private-sector employment in the United States. Service sector payrolls have risen 65 per cent over the past twenty years, with almost 40 million more employees today than there were in 1978. These new service sector jobs accounted for the entire net gain in non-farm employment since the 1970s, a trend that is forecast to continue into the next decade.

6. U.S. Department of Labour data indicate that average hourly earnings in U.S. manufacturing industries ($14.83) exceeded average hourly earnings in U.S. services-producing industries ($13.84) in 2001. However, real hourly earnings in U.S. services-producing industries increased at an average annual rate of 1.6 per cent during 1995-2001, faster than the average annual growth rate of real hourly earnings in U.S. manufacturing industries (0.6 per cent) and contributing to an overall increase of 1.3 per cent in real average hourly earnings during the time period.

B. DEVELOPING ECONOMIES

7. In middle- and low-income economies, the service sector accounts for the largest share of total economic output. According to data published by the World Bank, the service sector accounted for 54 per cent of middle-income economies' total GDP in 2000, while industry and agriculture accounted for 36 per cent and 11 per cent, respectively. In that same year, services, industry, and agriculture respectively accounted for 44 per cent, 33 per cent, and 23 per cent of total GDP in low-income economies. Services typically account for a larger share of total output in small, open markets, such as the Caribbean island countries.[2]

8. World Bank data also indicate that service sector GDP is the fastest-growing component of total GDP in both low- and middle-income economies. Moreover, service sector GDP in such economies is growing faster than the world average. During 1990-2000, service sector GDP in low-income economies increased at an average annual rate of 5.1 per cent, faster than the average annual growth rates experienced by world service sector GDP (2.9 per cent) and total GDP in low-income economies (3.2 per cent). Likewise, in middle-income economies, average annual growth in service

[2] Sherry M. Stephenson, "Approaches to Services Liberalization by Developing Countries", Organization of American States, Trade Unit, February 1999.

sector GDP (3.9 per cent) exceeded that of total world service sector GDP (2.9 per cent) and total GDP in middle income economies (3.6 per cent).

9. Barriers to the provision of services may raise manufacturing prices and prevent productivity gains, as services are often used as production inputs.[3] In contrast, efficiency in service industries such as telecommunications, transportation, and financial services improves competitiveness in the goods sector, enables firms to track consumer demand, facilitates product distribution, and builds capability to engage in international trade.[4]

10. Efficiency in service industries may yield other benefits for both consumers and the overall economy in developing markets. For example, access to efficient accounting and legal services may lead to lower transaction costs. Access to environmental services facilitates efforts to achieve sustainable economic development. Effective regulation and efficiency in the financial services industry enables investors to distribute their resources in a manner that maximizes returns and spreads risks. Access to health and education services may benefit and build a country's labour force.[5] Domestic social services in developing economies also benefit from the availability of foreign-provided information technology services.[6]

11. Service sector output makes an important contribution to other market sectors. For example, a recent World Bank study[7] indicates that in Bangladesh, every unit increase in infrastructure services output (including output in the energy, health, public administration, and transport industries) led to a 30- to 43-per cent increase in demand in other sectors. Unit increases in banking and insurance, construction, and housing sector output creates 15 to 20 per cent increases in the demand for output produced by other sectors.[8]

12. Approximately 20 to 25 per cent of production in Bangladesh's ready-made garments sector, that economy's top source of foreign exchange earnings, is comprised of services inputs.[9]

13. A substantial share of workers in developing economies are employed in the services sector. Between 1960 and 1999, the share of workers in Latin America and the Caribbean that were

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[3] World Bank, *Global Economic Prospects and the Developing Countries, 2002*, (World Bank: Washington, DC, 2001), pages 70, 76, found at Internet address http://www.worldbank.org/, retrieved 8 January 2003.

[4] Sherry M. Stephenson, "Approaches to Services Liberalization by Developing Countries," Organization of American States, Trade Unit, February 1999; and World Bank, *Global Economic Prospects and the Developing Countries, 2002*, (World Bank: Washington, DC, 2001), page 70, found at Internet address http://www.worldbank.org/, retrieved 8 January 2003.

[5] World Bank, *Global Economic Prospects and the Developing Countries, 2002*, (World Bank: Washington, DC, 2001), page 70, found at Internet address http://www.worldbank.org/, retrieved 8 January 2003.

[6] Sherry M. Stephenson, "Approaches to Services Liberalization by Developing Countries," Organization of American States, Trade Unit, February 1999.

[7] For more information, see A.K. Azad, "Inter-industry Linkages of Services in the Bangladesh Economy (With a Case Study of the Ready-made Garments Industry) and Potential Service Trade," (World Bank: Washington, DC), paper prepared for presentation at WTO 2000 South Asia Workshop, New Delhi, India, 20-21 December 1999.

[8] A.K. Azad, "Inter-industry Linkages of Services in the Bangladesh Economy (With a Case Study of the Ready-made Garments Industry) and Potential Service Trade," (World Bank: Washington, DC), paper prepared for presentation at WTO2000 South Asia Workshop, New Delhi, India, 20-21 December 1999; and OECD, *GATS: The Case for Open Services Markets*, 2002, page 37.

[9] OECD, *GATS: The Case for Open Services Markets*, 2002, page 37.

employed in service industries increased from 31 per cent to over 50 per cent. Likewise, more than half of workers in East Asia are employed in the services sector.[10]

III. CROSS-BORDER TRADE AND SALES THROUGH AFFILIATES

A. DEVELOPED/DEVELOPING ECONOMY COMPARISONS

14. Due to the development of advanced information and communications technology, firms are now able to procure services that they once performed in-house - such as computer and related services, financial services, and professional services - from service providers in foreign economies. Low labour costs and the falling price of information and communications technology are among the factors that have enabled many developing economies to become important cross-border suppliers of these services.[11] For example, companies such as America Online, American Express, British Airways, Hong Kong Shanghai Bank Corp., and McKinsey & Co. outsource back office services such as accounting, customer service, finance, and research from low-wage economies.[12]

15. Since the establishment of the WTO, middle- and low-income economies' services exports have increased at a faster rate than services exports by high-income economies. According to data published by the WTO Secretariat, exports of commercial services by middle- and low-income economies increased at an average annual rate of 4.2 per cent during 1995-2001, while services exports by high-income economies increased at an average annual rate of 3.3 per cent.

16. WTO data also indicate that several middle- and low-income economies experienced remarkably high services export growth during 1995-2001. Economies which registered increases in services exports of more than 10 per cent per year include, *inter alia*, Albania (31.9 per cent), El Salvador (20.6 per cent), India (20.2 per cent), Angola (17.9 per cent), Lithuania (15.5 per cent), Belarus (14.0 per cent), Cape Verde (13.2 per cent), Kazakhstan (13.0 per cent), Croatia (12.0 per cent), Malawi (11.9 per cent), Estonia (11.1 per cent), Morocco (11.1 per cent), and China (10.1 per cent). By comparison, U.S. services exports grew at a faster-than-average annual rate of 4.8 per cent during 1995-2001.

17. Middle- and low-income economies account for a growing share of total world services exports. The share of services exports accounted for by middle- and low-income economies rose from 18.2 per cent in 1995 to 19.1 per cent in 2001, while the share of total world services exports accounted for by high-income economies decreased from 81.8 per cent to 80.9 per cent. During 1995-2001, the share of world services exports accounted for by the United States increased from 16.7 per cent to 18.1 per cent.

18. Trade in services has created a substantial number of jobs in developing markets. For example, General Electric employs at least 10,000 persons in India who provide services such as accounting and customer service to its offices throughout the world. Call centers in countries such as the Czech Republic, Estonia, Hungary, India, Jamaica, Morocco, and the Philippines provide services to foreign economies. In Morocco alone, such call centers employ at least 2,000 workers.[13] Approximately 3,300 software engineers are employed by Hewlett-Packard Co. in India. Proctor & Gamble Co. employs 650 tax preparers in the Philippines. Other back-office and technology services

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[10] Percentages are regional averages. Sherry M. Stephenson, "Approaches to Services Liberalization by Developing Countries," Organization of American States, Trade Unit, February 1999.

[11] Sherry M. Stephenson, "Approaches to Services Liberalization by Developing Countries," Organization of American States, Trade Unit, February 1999.

[12] Douglas Lavin, "Globalization Goes Upscale," *The Wall Street Journal,"* 1 February 2002, page A18.

[13] Douglas Lavin, "Globalization Goes Upscale," *The Wall Street Journal,"* 1 February 2002, page A18.

which developing-country professionals provide to developed-country firms include, *inter alia*, medical services, research and development, architecture, and financial analysis.[14]

B. UNITED STATES

19. Services trade makes an important contribution to the economic welfare of both U.S. firms and U.S. workers. Imports of foreign services give domestic businesses and consumers access to a wider variety of products at lower prices than would otherwise be available. This enables businesses to lower their costs and become more efficient, and enables consumers to increase the real purchasing power of their income. Imports provide the competition that encourages domestic firms to operate more efficiently and increase their productivity, and increased productivity is the ultimate determinant of rising standards of living. In addition, over 12 million American jobs are supported by goods and services exports.

20. The United States is highly active in the global services market, ranking as the world's premier exporter and a top importer of services. In 2001, U.S. cross-border exports of private services totaled $266.2 billion, while imports totaled $192.3 billion. U.S. cross-border services trade is a significant component of total trade, having accounted for 20.8 per cent of total U.S. cross-border trade volume in 2001. U.S. trade in private services[15] typically generates a substantial surplus. For example, in 2001, trade in private services generated a surplus of $73.9 billion, which offset 17.3 per cent of the $427.2 billion U.S. merchandise trade deficit.

21. U.S. cross-border trade in services increased at an average annual rate of 4.6 per cent during 1995-2001, with several discrete service industries-- including financial services; accounting, auditing, and bookkeeping services; computer and data processing services; database and other information services; legal services; medical services; operational leasing; and research, development, and testing services-- posting average annual growth rates of over 10 per cent (table).

22. Despite the substantial volume of U.S. cross-border trade in services, transactions carried out by foreign affiliates account for a larger share of total U.S. services sales to foreign clients. In 2000, sales by majority-owned, foreign-based affiliates of U.S. companies totaled $392.8 billion, exceeding cross-border exports of services by $115.3 billion. Purchases from majority-owned, U.S.-based affiliates of foreign firms amounted to $346.7 billion in 2000, $144.6 billion greater than the value of U.S. services imports in that same year.

23. Although relatively small, U.S. affiliate purchases from certain middle- and low-income economies have increased rapidly in recent years. For example, during 1997-2000, U.S. purchases from Philippine-, Indian-, and Brazilian-owned affiliates increased by 35.7 per cent, 27.8 per cent, and 24.2 per cent, respectively. During the same period, total U.S. purchases from Eastern European-owned affiliates increased by 38.4 per cent per year.[16]

C. DEVELOPING ECONOMIES

24. In developing economies, services trade is becoming an increasingly important source of foreign exchange earnings. In the coming years, services exports by developing economies could

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[14] Pete Engardio, Aaron Bernstein, Manjeet Kripalani, *et al*., "The New Global Job Shift," *Business Week Online*, Feb. 3, 2003, found at Internet address http://www.businessweek.com/, retrieved 27 January 2003.

[15] In 2001, the total services surplus stood at $68.9 billion, offsetting 16.1 per cent of the merchandise trade deficit.

[16] Comparable data on U.S. affiliate sales are available only for 1999 and 2000, precluding a meaningful analysis of growth rates.

double, as the use of communication and computer technologies has facilitated the cross-border provision of services.[17]

25. Certain developing economies have demonstrated a comparative advantage in international services markets. For example, Panama has demonstrated a comparative advantage in financial services. Other developing economies that have an established comparative advantage in international services markets include, *inter alia*, Mexico, India, Malaysia, Thailand, and Egypt.[18]

26. Computer and related services exports by India and certain Caribbean economies are increasing rapidly.[19] A recent industry association study predicts that by 2008, India's exports of information technology (IT) services and IT enabled services will total approximately $49-54 billion.[20] Potential also exists for developing economies to increase exports in traditional service industries, such as tourism, and to create export capacity in other service industries, such as advertising and audiovisual services.[21]

IV. INVESTMENT

A. Developed/developing economy comparisons

27. Although OECD countries account for the vast majority of world foreign direct investment (FDI) stock, developing economies host a more rapidly increasing share of such stock. The World Bank indicates that, during 1988-1997, FDI stock in OECD countries experienced a three-fold increase, while stocks in east Asia and the Pacific, South Asia, and Latin American and the Caribbean grew by ten-fold, seven-fold, and five-fold, respectively. Data were available for only three Sub-Saharan African countries, in which FDI stock decreased from 1.2 billion to 0.6 billion during the time period. Investment in service industries comprises approximately half of total FDI stock in developing regions, with the exception of Sub-Saharan Africa. This represents a major shift in South Asia and Latin America and the Caribbean, where services respectively accounted for about one third and one fifth of these regions' FDI stock in 1988.

B. U.S. Direct Investment Abroad

28. U.S. direct investment in service industries has grown at a particularly rapid rate in some middle- and low-income economies. During 1995-2001, the stock of U.S. direct investment abroad in services industries increased at an average annual rate of 15.1 per cent, from $345.3 billion to $801.2 billion. During that same period, U.S. direct investment in services increased at a faster-than-average rate in China (25.9 per cent), Argentina (17.3 per cent), and Brazil (16.6 per cent).[22]

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[17] Sherry M. Stephenson, "Approaches to Services Liberalization by Developing Countries", Organization of American States, Trade Unit, February 1999.

[18] Sherry M. Stephenson, "Approaches to Services Liberalization by Developing Countries", Organization of American States, Trade Unit, February 1999.

[19] Sherry M. Stephenson, "Approaches to Services Liberalization by Developing Countries", Organization of American States, Trade Unit, February 1999.

[20] NASSCOM, "NASSCOM-McKinsey Report Predicts Robust Growth for Indian IT Services and IT Enabled Services Industry," June 10, 2002, found at Internet address http://www.nasscom.org/, retrieved 28 January 2003.

[21] Sherry M. Stephenson, "Approaches to Services Liberalization by Developing Countries", Organization of American States, Trade Unit, February 1999.

[22] Data were not available for many developing economies, as BEA does not routinely publish discrete data for all developing economies, and because some data were suppressed in order to avoid disclosure of confidential information.

29. U.S. firms provide a significant number of jobs in middle- and low-income economies. In 1999, foreign services affiliates of U.S.-owned firms employed no less than 845,600 persons in middle- and low-income economies, and accounted for at least 22.7 per cent of total employment by such affiliates. Middle- and low-income economies that account for a particularly large share of employment by U.S.-owned foreign services affiliates include Mexico (224,800, or 6.0 per cent), Brazil (109,500, or 2.9 per cent), and South Africa (at least 67,100, or 1.8 per cent).

V. ADMISSIONS TO THE UNITED STATES

30. A large number of temporary workers[23] are admitted to the United States each year, and in recent years, the number of such admissions has grown rapidly. During 1996-2000, the number of temporary workers, exchange visitors, and intracompany transferees admitted to the United States increased at an average annual rate of 19.3 per cent, from 610,359 to 1,234,112.

31. Temporary workers from middle- and low-income economies account for a significant share of total U.S. admissions of temporary workers, particularly in the specialty occupation alien category. In 2000, citizens from middle- and low-income economies accounted for 43.8 per cent of all U.S. admissions of temporary workers, exchange visitors, and intracompany transferees, and 59.9 per cent of all U.S. admissions of specialty occupation aliens.

32. In recent years, U.S. admissions of temporary workers from middle- and low-income economies has grown at a faster rate than total U.S. admissions of temporary workers. During 1996-2000, U.S. admissions of temporary workers, exchange visitors, and intracompany transferees from middle- and low-income economies increased at an average annual rate of 21.9 per cent, while admissions of such persons from high-income economies increased at a rate of only 17.3 per cent. A similar trend was recorded for specialty occupation aliens. U.S. admissions of specialty occupation aliens from middle- and low-income economies increased at an average annual rate of 29.2 per cent during 1996-2000, while admissions of specialty occupation aliens from high-income economies increased by 20.3 per cent per year.

33. The U.S. market also hosts a significant number of foreign consumers of U.S. services. For example, approximately 135,000 foreigners received inpatient or outpatient medical care in the United States during 1997. In 2002, the number of foreign students attending U.S. institutions of higher education reached 582,996, with India, China, and Korea ranking as the top three sending countries of such students.[24]

VI. BENEFITS OF SERVICES LIBERALIZATION

A. UNITED STATES

34. The liberalization and expansion of U.S. trade overall, and services trade in particular, has benefitted U.S. consumers.

[23] Data on admissions of temporary workers reflect total admissions of temporary workers, regardless of whether the workers are employed in a goods or service industry. However, as services accounted for 79.2 per cent of U.S. private-sector gross domestic product (GDP) in 2000, it is likely that a significant share of such workers are employed in the services sector.

[24] Institute of International Education (IIE), "International Student Enrolment in U.S. Rose in 2001/2002, Matching Last Year's Increase as Highest Growth Since 1980 - India is the Top Sending Country", press release, 18 November 2002, found at Internet address http://opendoors.iienetwork.org/, retrieved 30 January 2003.

35. Services liberalization has resulted in lower consumer prices. For example, as a result of airline deregulation in the United States, average airfares decreased by 45 per cent during 1970-1997, from $0.144 per mile to $0.079 per mile.[25] Moreover, liberalization of the U.S. telecommunication sector and the completion of WTO negotiations on basic telecommunication services led to decreases in the price of international calls placed in the United States. For example, the price of telephone calls from the United States to the United Kingdom and Japan fell by 86.8 per cent and 67.3 per cent,[26] respectively, upon completion of the WTO basic telecommunications agreement in 1997.[27] Such price decreases result in increased call volumes and cost-savings to businesses and consumers that use telephone services.

B. OECD

36. OECD member economies in general have realized a number of benefits from service sector reform. Such benefits include modernization of air transport and distribution networks; increased efficiency in the energy, telecommunications, and air transport sectors; product diversification; and innovation. In addition, competition resulting from market liberalization has led firms to invest in inputs that increase their productivity.[28]

C. DEVELOPING ECONOMIES

37. Anecdotal evidence suggests that services liberalization has had a positive impact on developing economies.

38. The liberalization of Chile's telecommunication industry in 1994 led to rapid infrastructure modernization and the introduction of new services. In addition, rates for local calls, long-distance calls and international calls dropped by 36 per cent, 38 per cent, and 50 per cent, respectively.[29]

39. Liberalization of El Salvador's telecommunications industry led to service quality and infrastructure improvements, the coverage of the entire country for cellular service, and a reduction in the waiting period for fixed line connection from as long as 6 years to a few days.[30]

40. During 1993-1998, the number of telephone lines in the Philippines increased from 1 million to 6.5 million as a result of telecommunication sector reforms. These reforms also led to an increase in the share of municipalities with telephone service, from 20 per cent to 37 per cent.[31]

41. Increased competition in the telecommunication sector has also contributed to greater participation by developing economies in the global markets for accounting, consulting, marketing, and other services.[32]

42. Financial sector reform in Chile has had a positive effect on that country's banking system. As a result of this reform, deposits increased from $350 million to $12.2 billion, interest rates fell from 40 per cent to about 9 per cent, and productivity increased from $27,000 loans per employee to

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[25] Prices expressed in 1999 dollars. OECD, *GATS: The Case for Open Services Markets*, 2002, pages 29-30.

[26] Based on the price of a seven-minute phone call.

[27] OECD, *GATS: The Case for Open Services Markets*, 2002, pages 29-30.

[28] OECD, *GATS: The Case for Open Services Markets*, 2002, page 28.

[29] OECD, *GATS: The Case for Open Services Markets*, 2002, page 39.

[30] OECD, *GATS: The Case for Open Services Markets*, 2002, page 39.

[31] OECD, *GATS: The Case for Open Services Markets*, 2002, page 39.

[32] Douglas Lavin, "Globalization Goes Upscale," *The Wall Street Journal"*, 1 February 2002, page A18.

$490,000 loans per employee during 1989-1997. Reforms also led to improvements in, *inter alia*, loan availability and banking services, benefitting society as a whole.[33]

43. In Colombia, the mere announcement of market opening led to increased competition in the banking sector. Reforms in the Colombian banking sector led to a decline in interest spreads and an improvement in loan quality.[34]

44. In South Africa, expansion of the financial services market has led to a significant increase in employment. Additionally, South Africa has become a regional financial center, as foreign participation has led to lower prices, a greater variety of products, and improved service quality in that country's financial services market.[35]

45. As a result of reform, privatization, human resource improvements, and international cooperation, Sri Lanka has experienced an average annual increase of 13 per cent in its air transport, port, and shipping services surplus.[36]

VII. BENEFITS OF FUTURE SERVICES LIBERALIZATION

A. THE UNITED STATES AND DEVELOPING ECONOMIES

46. Recent studies suggest that further services trade liberalization could have a positive impact on the economic welfare of the United States, as well as developing economies. A 1999 study contends that the United States would experience a 1.2 per cent increase in economic welfare if both tariffs and service sector restrictions were reduced by 25 per cent, but only a 0.2 per cent increase in welfare if such reductions were limited to tariffs. India's economic welfare would increase by 1.4 per cent due to a 25 per cent decrease in tariffs and services restrictions, and by 0.7 per cent due to a reduction in tariffs only. The rest of South Asia (Bangladesh, Bhutan, Maldives, Nepal, Pakistan, and Sri Lanka) would experience welfare gains of 3.0 per cent and 2.1 per cent, respectively, under these scenarios, while NIE (Hong Kong, China; Singapore; Korea; and Chinese Taipei) would experience welfare gains of 2.5 per cent and 0.8 per cent.[37]

47. Another study estimates that a 33 per cent reduction in all trade barriers under the WTO would increase U.S. economic welfare by $177.3 billion, while a 33 per cent reduction in services barriers only would increase welfare by $150.0 billion. Developing economies would also experience the greatest potential gain from service sector liberalization. Specifically, a 33 per cent reduction in trade barriers would increase the economic welfare of developing economies by $122 billion, with liberalization in the services, manufacturing, and agriculture sectors respectively accounting for $59.9 billion, $51.6 billion, and $8.5 billion of this increase. In Mexico, such trade liberalization would increase welfare by $6.5 billion, with liberalization in the services, manufacturing, and agriculture sectors accounting for $5.2 billion, $1.1 billion, and $0.1 billion, respectively.[38]

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[33] OECD, *GATS: The Case for Open Services Markets*, 2002, page 40.

[34] OECD, *GATS: The Case for Open Services Markets*, 2002, pages 40-41.

[35] OECD, *GATS: The Case for Open Services Markets*, 2002, page 40.

[36] OECD, *GATS: The Case for Open Services Markets*, 2002, page 41.

[37] Rajesh Chadha, "GATS and Developing Countries: A Case Study of India", 1999; and OECD, *GATS: The Case for Open Services Markets*, 2002, page 37.

[38] Drusilla K. Brown, Alan V. Deardorff, and Robert M. Stern, "CGE Modeling and Analysis of Multilateral and Regional Negotiating Options", University of Michigan, Discussion Paper No. 468, 23 January 2001; and Cordula Thum, "Trade Liberalization Benefits to NAFTA Countries", and "Trade Liberalization Benefits to Developing Countries", found in *Globalization, Trade Liberalization and Benefits*, (Mark Twain Institute, July 2002).

48. Liberalized services markets may also have a positive effect on long-term economic growth. A recent study found that economic growth in economies with open financial services markets exceeded growth in other economies by an average of 1 per cent. Countries in which both financial services and telecommunications markets were liberalized experienced economic growth rates exceeding growth in other countries by an average of 1.5 per cent. However, a World Bank report indicates that the success of services liberalization depends on well-structured reform programs and effective regulation.[39]

B. UNITED STATES

49. Access to low-cost, foreign-provided services may have a positive effect on productivity in the United States.[40]

C. DEVELOPING ECONOMIES

50. Services trade liberalization is important for developing economies for several reasons, such as the service sector's role in promoting economic development, the expense of maintaining services restrictions, and the service sector's increasing contribution to trade and GDP in many developing economies.[41] In addition, an increase in cross-border services trade could alleviate poverty and increase wealth in developing economies.[42]

51. Multilateral liberalization under the GATS may be of greater benefit to developing countries than unilateral reform, as reductions in foreign market access barriers cannot be achieved unilaterally. Multilateral liberalization may also facilitate domestic reform, as the opportunity to increase market access abroad could reduce opposition to liberalization in the home market.[43]

52. Information technology could enable developing economies to achieve rapid economic development. However, in order for this to occur, developing economies must liberalize their telecommunications markets.[44]

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[39] World Bank, *Global Economic Prospects and the Developing Countries, 2002*, (World Bank: Washington, DC, 2001), pages 77-78, found at Internet address http://www.worldbank.org/, retrieved January 8, 2003.

[40] Douglas Lavin, "Globalization Goes Upscale," *The Wall Street Journal*, February 1, 2002, page A18.

[41] Sherry M. Stephenson, "Approaches to Services Liberalization by Developing Countries," Organization of American States, Trade Unit, February 1999.

[42] Douglas Lavin, "Globalization Goes Upscale," *The Wall Street Journal,"* Feb. 1, 2002, page A18.

[43] World Bank, *Global Economic Prospects and the Developing Countries, 2002*, (World Bank: Washington, DC, 2001), page xvi, 86, found at Internet address http://www.worldbank.org/, retrieved 8 January 2003.

[44] Sherry M. Stephenson, Organization of American States, Trade Unit, "The Benefits of a Service-Based Economy and Electronic Commerce to Developing Countries," XIII Annual Meeting of the Coalition of Service Industries, Santiago de Chile, 28-29 September 1998.

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Table: U.S. Cross-border Trade in Private Services, 1995-2001

	Exports			Imports		
Industry	1995	2001	Average annual growth rate, 1995-2001	1995	2001	Average annual growth rate, 1995-2001
	Millions of dollars		*Per cent*	*Millions of dollars*		*Per cent*
Travel	63,395	73,119	2.4	44,916	60,117	5.0
Passenger fares	18,909	18,007	(0.8)	14,663	22,418	7.3
Freight and port services	26,081	28,306	1.4	27,034	38,823	6.2
Royalties and license fees	30,289	38,668	4.2	6,919	16,359	15.4
Education	7,515	11,493	7.3	1,125	2,378	13.3
Financial services	7,029	15,209	13.7	2,472	4,016	8.4
Insurance [1]	1,296	18	(51.0)	5,360	4,906	(1.5)
Telecommunications	3,228	4,796	6.8	7,305	4,298	(8.5)
Accounting, auditing, and bookkeeping services	181	403	14.3	170	928	32.7
Advertising	425	513	3.2	833	881	0.9
Computer and data processing services	1,340	2,644	12.0	126	1,016	41.6
Construction, engineering, architectural, and mining services	2,550	2,623	0.5	345	471	5.3
Database and other information services	1,078	2,192	12.6	160	260	8.4
Industrial engineering	726	780	1.2	160	260	8.4
Installation, maintenance, and repair of equipment	3,218	4,546	5.9	160	996	35.6

	Exports			Imports		
Industry	1995	2001	Average annual growth rate, 1995-2001	1995	2001	Average annual growth rate, 1995-2001
Legal services	1,667	3,143	11.1	469	755	8.3
Management, consulting, and public relations services	1,489	1,859	3.8	465	998	13.6
Medical services	856	1,676	11.8	([2])	([2])	([2])
Operational leasing	978	2,753	18.8	407	212	(10.3)
Research, development, and testing services	638	1,317	12.8	364	1,064	19.6
Other services	30,880	52,144	9.1	15,328	31,149	12.5
Total private services	203,768	266,209	4.6	128,781	192,305	6.9

[1] Cross-border trade data for insurance services are presented on a net basis; i.e., imports comprise premiums paid to foreign insurers minus claims received, and exports comprise premiums received from foreign policy holders minus claims paid.

[2] Not available

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