

# The General Agreement on Trade in Services - An Opportunity for Developing Countries?

**Ralf Kronberger**

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**Verstehen. Denken. Handeln.**



- Applies fundamental principles of the GATT: national treatment, most-favoured nation (MFN) treatment, transparency in domestic regulation, ...
- Covers principally all service sectors except those supplied in the exercise of governmental authority (services of general interest partly covered). Every WTO member chooses freely the service sectors that it wants to open.
- Preamble: Acknowledgement that the integration of developing countries into the multilateral trading system must be facilitated by reinforcing the capacity, efficiency and competitiveness of their domestic service industries.

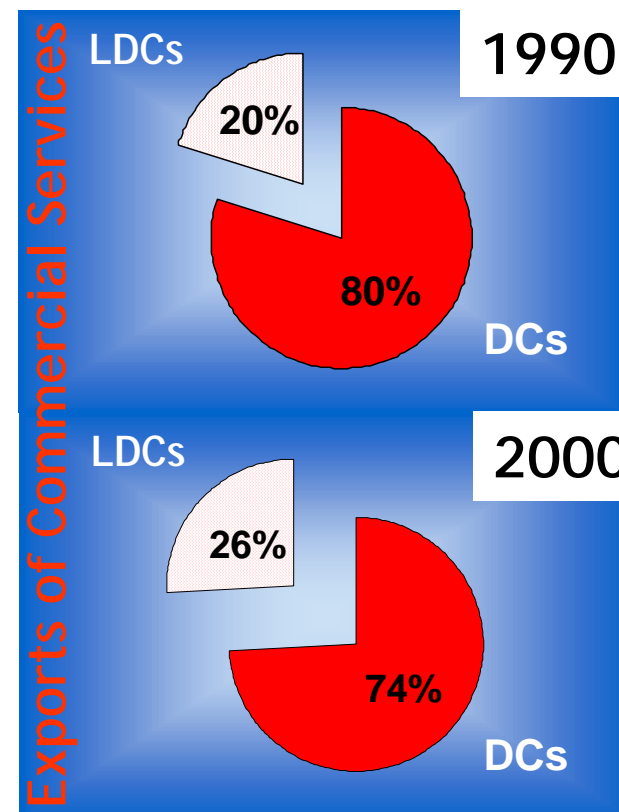
# Commitments and Trade Structure

Committed Sectors (Total ~160)	Members	Composition
1-20	44	LLDCs & LDCs
21-60	47	LDCs
60+	53	DCs & (LLDCs + LDCs recent accessions)

Source: WTO

Between 1980 and 1999 world exports of services have grown annually by 5,4%, exports of goods by 3,4% and GDP by 3,1%.

Mode 3-trade (commercial presence) represents 56% of total services trade under GATS. Cross border supply (mode 1) makes up for the half of it. The movement of persons is almost negligible.



## The trade and development linkage

In general the economic literature is somewhat ambiguous on the links between trade, growth and economic development. Relatively broad consensus on positive impact of trade liberalization over the long run exists, over the short run a negative impact is also possible (UNCTAD, 2003).

With respect to services trade only sector specific studies exist:

- Mattoo et al. (2002) find a positive link between the liberalization of telecom and financial services and economic growth for LDCs.
- Chadha (1999) computes a general equilibrium model. A hypothetical reduction of barriers to services trade combined with a similar tariff reduction raises the welfare of India by 1.4%, of the EU by 1.0%

Weak institutions pose risk for economic development.

# Risks and Opportunities for LDCs (2)

Financial, Fiscal  
and Trade Policy  
Department

## Development of the software sector in India

India has opened subsector „Computer and related services“ in GATS under mode 3 (commercial presence). In mode 4 only a horizontal commitment was undertaken, mode 1 and mode 2 stayed unbound.

In 1997-98 158 of Fortune 500 companies outsourced their software requirements to India.

The exports of software increased from USD 225 mil. in 1992-93 to USD 1.750 mil. USD in 1997-98.

### Case Study India

TCS - Tata Consulting Serv.  
IT Consulting, services, and  
business process outsourcing

Total Revenues: 1,041 mil.  
USD (2003)

Branches in 32 countries:  
E.g. in Germany branches in  
Frankfurt, Köln, Hamburg,  
München, Stuttgart

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- Chadha, R. (1999), GATS and Developing Countries: A Case Study of India, Mimeo, National Center for Advanced Economic Research.
- Mattoo, A., R. Rathindran, and A. Subramanian (2001), Measuring Services Trade Liberalization and its Impact on Economic Growth: An Illustration, Weltbank, Research Working Paper, No. 2655, Washington, D.C.
- OECD (2002) GATS: The Case for Open Markets, Paris.
- UNCTAD (2003), Back to the Basics: Market Access Issues in the Doha Agenda, United Nations, New York and Geneva.