

## Appendix G

### AN ACP (AFRICAN, CARIBBEAN, AND PACIFIC GROUP) APPROACH TO SERVICES

There appears to be a difference of emphasis in the negotiations for a Successor Convention to the Lome III Convention between the development of services and trade in services. The majority view would seem to suggest that emphasis should be on developmental considerations. Indeed this seems to be the view generally held by most of the developing countries in the negotiations on the Uruguay Round.

It should be noted that the theory of comparative advantage, as first formulated by Ricardo and modified by others over the years, also applies to services. It is essential therefore for each country to assess its own areas of strength in services on the basis of their ability to contribute to the domestic economy, their ability to attract foreign investments and their amenability to exports. At the same time it is necessary for each country to identify and examine its weaknesses in this area. Finally, it is essential for each country to adapt to any changes that may be taking place with a view to creating its own comparative advantage in services.

However most developing countries, and more so the ACP States, believe that they have no comparative advantage in services. They therefore believe that this disadvantage means that they have little to gain from cooperation with the EEC in this field. They fear that liberalization of their services sector could lead to a surge in imports from the EEC, hamper the development of indigenous services industries in their countries, exacerbate their current account deficits and condemn them to being importers of services and high technology goods.

The ACP States seem to be of the view that opening up their economies to competition from EEC firms could damage their infant service industries. With many traded services (banking, insurance and telecommunications) dominated by multinational firms, the ACP States feel that their national firms, without the necessary capital resources and entrepreneurial know-how, would be placed at a disadvantage vis-à-vis EEC firms.

They seem also to fear that liberalization of their domestic markets could infringe on their national security and sovereignty. Their fear stems from the fact that such firms, if allowed into the traditional domestic sectors, could pose difficulties on social welfare and un-

dermine the role of regulatory authorities in these countries. They contend that these firms are interested in profit maximization rather than in social welfare. Their aim is to repatriate from their countries as much capital as possible without passing technological know-how to the residents of the ACP States in which they operate.

The ACP States further contend that these firms would demand national preference and could thereby infringe on their national sovereignty and economic goals. This might reduce their control on the national economy and thereby result in the policy makers in these countries losing political and economic control to foreign dominated firms.

These countries are further concerned that liberalization would reduce their control on the monetary policies and could thereby reduce the role of their central banks into clearing houses with major policies being taken outside their frontiers. As a result and because most of their currencies are not internationally convertible, the ACP States are afraid that liberalization of this sector will seriously reduce their policy options so that major policy decisions would now be made in London, Paris, Bonn, etc.

The ACP States therefore have deep-rooted concerns with the implications of liberalization of trade in services for their economic development. Regulation of the service sector serves legitimate purposes and safeguards important national interests which cannot be served by external authorities.

The question which must therefore be answered is—liberalization of services for whom, in what and by whom!

Therefore, without in any way sacrificing their primary objective to develop the necessary capacity in service infrastructure, the ACP States should be aware of the need to ensure that the trade dimension of services, particularly with regard to non-reciprocity, non-discrimination, most favored nation treatment and national treatment, is not forgotten.

The conventional approach to the definition of services assumes that the service sector is a residual category of industries which is neither agricultural, mineral or manufacturing—the service sector in other words has no unifying characteristics.

Services encompass an extremely heterogeneous set of activities with very different production processes, technologies, customers, suppliers, marketing characteristics, distribution channels, etc. They have no common characteristics except for the low volume of commodities and intermediate goods embodied in them and the fact that most services cannot be stored.

Traditionally a distinction was maintained between goods and services: goods were tangible whereas services were invisible. However, with the passage of time and the rapid rate in technological innovation, the boundaries between goods and services and those between industrial categories have become blurred.

The definition of these intangible and invisible activities has been further compounded by the fact that while trade in goods across borders can be easily identified and measured, most services are not tradeable across borders—e.g. hotel accommodation, airport and sea services, etc. In other cases services move across borders incorporated in goods or with the providers of services—consultants, migrant workers, etc. In yet other cases services move across borders in the form of money, information, equipment or in support of goods, people, money or information. Therefore, given the variety of ways in which services enter international transactions and the difficulties in separating the services component of trade in goods, many service transactions are not normally recorded.

It is possible to make a distinction between *traded services*, *non-traded services* and *tradeable services*.

*Trade services* would include transportation of freight and passengers by sea or air, international banking or insurance transactions and communication across national boundaries. On the other hand *Non-traded services* would include many personal services, social services such as education and health and government and infrastructural services such as transport, communications, electricity and water supply. *Tradeable services* would constitute those services that can either be produced at home or imported and those that can be produced either for the home market or for export markets.

Some services cannot therefore be traded internationally either because of physical reasons or because of economic considerations or because of security and other considerations. There is need therefore for countries to develop their own capacity in services.

This is one of the reasons why the ACP States, in the context of the negotiations for a Successor Convention to Lome III, have so far tended to emphasize the production side vis-à-vis cooperation aimed at increasing and improving the development of service activities in these countries.

Nevertheless the ACP States should not fail to acknowledge the fact that the development of infrastructure and thereby of their capacity to produce services could provide them the opportunity to trade in services either regionally or even internationally. Indeed to an extent this is already happening in some of the ACP regions

whereby coastal ACP States such as Djibouti, Cote d'Ivoire, Kenya, etc. are providing port services to the other countries in the region.

The ACP States consider the main objective of cooperation in the services sector to be the development of their economies, to stimulate productivity, to improve their competitiveness in international trade and to strengthen and enhance Intra-ACP cooperation including as appropriate intra-regional cooperation. The ACP States would like cooperation in this sphere to enable them to develop actual capacity to export services and not to be dependent on imported services. In this regard, they consider that the development of activities in the service sector should be conceived as an integral part of their overall economic development policy.

The service sector has great significance in the domestic economies of most ACP States—accounting for a large share of the GDP (more than 45% in most of these countries). In 22 of them the share of services in GDP was about 45% in 1980; for 16 others the share was between 45% and 55%; while for 15 others it was more than 55%. Nevertheless in the ACP States, like in many other developing countries, the service sector is characterized by a very low level of inter-linkage with the manufacturing sector.

*Non-traded services* such as community services, social and personal services, transport and related services account for a very significant share of the services sector. *Trade, restaurant and hotel services* are of particular importance for a number of ACP States, especially those involved in tourism, in particular the island states. However, *internationally traded services* account for a very small share of domestic product for most of these countries.

The services sector accounts for a significant proportion of employment in ACP States. In a number of these countries, particularly landlocked ACP States, the contribution of the service sector to employment, though substantial, is lower than in island and coastal ACP States. Even though the primary sector still accounts for a significant share, employment in the service sector has demonstrated a faster growth than the other sectors of the economy in most of these countries. For example while for the Sub-Saharan African countries the share of employment in the primary sector fell from 81% in 1960 to 75% in 1980, the contribution of the service sector increased from 12% to 16%. More recent figures would suggest that this trend has accelerated. Therefore, the service sector is an indispensable pillar for future economic development of the ACP States.

In spite of the significant importance of services in domestic production and employment, the service infrastructure in most ACP

States remains weak and highly inadequate. For example, there are fewer telephones for the whole of Sub-Sahara Africa than in New York or Tokyo. This inadequacy in service infrastructure has seriously handicapped overall economic development of the ACP States and retarded development of those sectors which may require these infrastructures. As a result regional integration is seriously impaired.

The relative importance of services in GDP in the ACP States does not seem to have been translated into their external trade. In the case of Africa, only Egypt has services accounting for 28% of export earnings. Indeed most ACP States in Africa recorded shares of less than 10% in 1985.

The participation of the ACP States on international trade in services is concentrated mainly in travel services, particularly tourism and leisure services, transportation (freight, passenger transportation services, etc). Workers' remittances by persons working abroad constitute a substantial source of revenue for a number of ACP states in particular: Lesotho, Botswana, Burkina Faso and Sudan.

However, over the years the ACP States have been running a deficit in their international trade transactions mainly as a result of their heavy dependence on imports of services. This dependence is demonstrated by the fact that most ACP States use between 20 and 50 percent of their foreign exchange to buy services from abroad. As a result, these countries have continued to run a deficit in their current account transactions even in those cases where they may have had positive balance in the goods sector.

This situation is particularly acute in the case of investment income where, except for some of the island ACP States, most ACP States have a deficit. The majority of them earn less than 3% of their foreign exchange from interest on portfolio or direct investments. On the other hand, they spend a significant proportion of their foreign exchange earnings on interests and profits on foreign credits or direct investments. As already pointed out above most of the ACP States, especially the major raw material suppliers, spend a large proportion of their earnings on imported capital.

The Lome III provisions on transport and communications (articles 84 to 94 on shipping), development of trade and services (articles 95 to 100 on insurance, export credits and tourism), investment (article 242 on support services—insurance and payment services), agricultural and rural development (articles 28, 31 and 37 on training and research and regional cooperation contain references to services.

ACP/EEC Cooperation in this field however does not seem to have had any significant effect on developing the necessary capacity

in the ACP States. Nevertheless the Community, under its various programs and as a result of the Lome Convention, has financed and in some cases co-financed with others a number of projects in this sector in the ACP States. In a number of these countries the Community has supported programs aimed at marketing, storage, transport infrastructure, etc.

There is need to build upon this cooperation in the future with a view to increased assistance and coordination in this area. This will be particularly essential for the ACP States to take advantage of the opportunities that the Single European Market and the outcome of the negotiations under the Uruguay Round might offer.

The Successor Convention to Lome III should provide for measures which take into account the potential of services and the important and increasing role that the services sector can play in the development process of the ACP States. The ACP States need assistance in the development of their services sector in order to improve their competitive position in world trade, expand their services exports, strengthen their domestic services capacity and facilitate and enhance their efforts to develop regional and intra-regional cooperation. The Successor Convention should address itself fully to these aspirations.

In the context of the on-going negotiations the ACP States have requested:

- special support in the establishment of road, rail and efficient maritime and air services;
- support to national and regional efforts to set up, maintain and modernize PTT equipment and improve management services, develop telephone and telex networks, etc.;
- appropriate financial and technical assistance aimed at improved access and participation in information networks and distribution channels including the implementation of computerized systems and the development of efficient data transmission networks;
- assistance for the development of efficient infrastructure for the services sector aimed at establishing appropriate credit facilities and encouraging foreign investment flows to the ACP States;
- assistance towards the development of a "knowledge based" service sector supportive of production and export services.

The ACP States will undoubtedly continue to develop these themes and add new ones as the negotiations progress. The final outcome will however depend on the political goodwill on the part of the Community and on the determination of the ACP States to promote effective cooperation in this sector. In the process the ACP states should bear the following considerations in mind:

the desired aim of cooperation with the EEC in this sector should result in the establishment of a strong service sector which is conducive to both domestic and foreign investors;

ACP/EEC Cooperation in this sector should promote and enhance regional integration by encouraging regional trade in services;

the need for equitable and guaranteed access by the ACP States to the EEC market for services including the movement of persons since the only means of delivering services for most ACP States is through persons crossing international frontiers;

the need to ensure that the acquest of the Lome III Convention, particularly with regard to non-reciprocity and non discrimination, is preserved in the Successor Convention. In this regard the ACP States may consider, for example, the possibility of making liberalization of their markets to Community services conditional upon improved access to knowledge and information available in the Community;

recognition on the part of the EEC of the need for the ACP countries to adopt measures, including the introduction of regulations necessary to increase the contribution of services to their development process;

recognition of the need for assistance to facilitate and promote the export of services from the ACP States including the establishment of an ACP preference for those services on which the ACP States may have a sufficient capacity to compete internationally.

While the question has not been answered the need has however been recognized for the ACP States to develop their own capacity so as to enhance their role as exporters of services. In this regard the ACP States will need to emphasize regional cooperation programs geared towards generating the capacity necessary at the regional level in services.

In conclusion, cooperation in this area, especially with regard to trade, should not be seen as a simple extension of the trade regime for goods under the convention. The barriers to trade in services are very different from those applicable to trade in goods. The Successor Convention must therefore provide solutions geared specifically to the problems of the ACP States in this sector. The extension of the provisions of the Convention regarding goods can not be a solution to the difficulties confronted by the ACP States in this important sector.