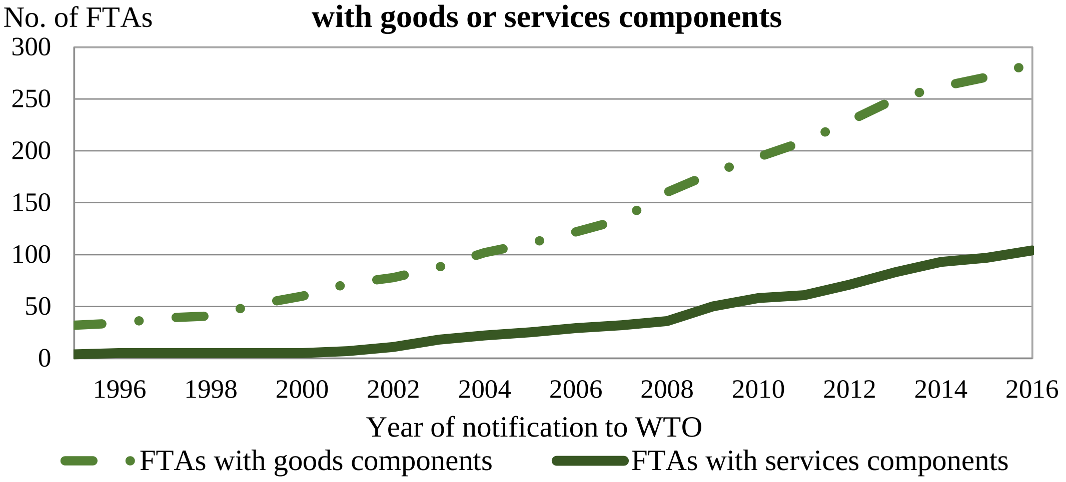
Box 2.2

Overview on the development of international services trade cooperation

Services are playing an increasingly important role in the modern world. Partly due to the continuous economic upgrading across the globe and also partly to the expansion of global value chains that has driven up the demand for such producer services as logistics, finance and professional services, the services sectors altogether now account for around 70% of the world's GDP, up from some 60% twenty years ago. Moreover, technology advancement has allowed many services to be delivered in a timely manner and be produced and consumed simultaneously but in different economies. Against this, policymakers worldwide have increasingly emphasised on how to promote services trade on their cooperation agenda. This article attempts to provide an overview of the development in Free Trade Agreements (FTAs) and other policies that facilitate services trade in the past two decades.

The World Trade Organization (WTO)'s General Agreement on Trade in Services (GATS), the first multilateral trade agreement that aims at removing barriers to services trade, entered into force in 1995. In contrary to the "barriers" to trade in goods which mostly relate to tariffs and border control arrangements, "barriers" to services trade are much more diverse given the unique characteristics of each sector, often in various forms of business regulations that limit market access of foreign service providers. The conclusion of the GATS formed a basis for international negotiations on services trade facilitation, and the number of FTAs that includes provisions on services flourished thereafter (***Chart 1***). According to the WTO, in 1995 only four out of the 32 FTAs in force covered the services sector. Yet by the end of 2016, provisions on services have already become an integral part of the overall landscape, with nearly 40% (104 out of 284) of the total number of FTAs in force having a services component.

Chart 1 : Numbers of FTAs in force with goods or services components



Source: Regional Trade Agreements Information System, WTO.

The way to facilitate services trade has also evolved over time. Under the GATS, market access obligations and national treatment commitments are made on a "positive listing" approach, in which the liberalisation commitments of each signatory are explicitly listed out so that the facilitation measures can be tailored to fit their national policy objectives. In recent years, the alternative "negative listing" approach has become more popular in FTA negotiations. The "negative listing" approach opens up all sectors to market access and national treatment except those on the "list(s) of non-conforming measures", and is hence generally more attractive to foreign businesses for its higher degree of stability and

Box 2.2 (Cont'd)

predictability[1]. Both approaches are in use nowadays, depending on the signatories' economic structures and their industries' stages of development[2].

Another important form of cooperation on services trade is international investment agreement (IIA). As companies establish commercial presence in the consumers' economy, foreign investment is involved and an IIA would help clarify some regulatory uncertainties and even provide preferential treatment. While the degree of liberalisation under IIA is smaller than a full-fledged FTA, it could serve as an initial step to foster closer economic relations. Indeed, according to the United Nations' World Investment Report and its Investment Policy Hub, the number of IIA rose rapidly in the past two decades from some 1 300 as at end-1996 to over 3 400 by end-2016.

In the context of Hong Kong, the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) vividly demonstrated the evolution of services liberalisation over time. In the early years after the signing of CEPA in 2003, the Mainland's liberalisation of services sector to Hong Kong adopted the "positive listing" approach with the coverage continuously enhanced through the ten Supplements. The Agreement between the Mainland and Hong Kong on Achieving Basic Liberalisation of Trade in Services in Guangdong signed in 2014 and the Agreement on Trade in Services signed in 2015 signified the shift to the "negative listing" approach that further expanded the market liberalisation to cover 95.6% of all the services sectors. More recently, the Investment Agreement and Agreement on Economic and Technical Cooperation signed in June this year further enhanced the CEPA framework by expanding commitments on admission of investment and investment protection and broadening the cooperation areas to cover especially the Belt and Road Initiative and Sub-regional Cooperation, making CEPA a comprehensive modern FTA.

As a highly developed services economy and an international financial centre, Hong Kong will spare no efforts in promoting services trade and actively participate in international initiative on services trade liberalisation. Notwithstanding the resurgence of protectionist sentiments in various parts of the world in recent years, we will continue our steadfast commitment on maintaining an open and free trade regime. For instance, we have been participating actively in the negotiations of Trade in Services Agreement (TiSA), which seeks to further liberalise trade in services with 22 WTO Members, representing more than 70% of the world's trade in services. Within Asia, on top of the continuously enhanced CEPA mentioned above, the negotiation work on the FTA with the Association of Southeast Asian Nations (ASEAN) is also progressing at full speed. Looking ahead, with the advancement in information and communications technologies, services trade is expected to further expand both in breadth - to encompass more professions and industries - and in geographical reach, made possible through business process outsourcing and offshoring practices. This global trend would certainly provide significant opportunities for Hong Kong to further expand our portfolio of services trade and in turn create more business opportunities which are beneficial to our long-term economic growth.

---

(1) The "list(s) of non-conforming measures" provides flexibility to businesses with the comprehensive coverage assumed. It includes all sector-specific measures and other restrictions that do not comply with full openness (therefore called non-complying or non-conforming measures).

(2) Latrille, P. and Lee, J. (2012), "Services rules in regional trade agreements: How diverse and how creative as compared to the GATS multilateral rules?", Working Paper ERSD-2012-19, WTO, Geneva.