ASEAN-CER Integration Partnership Forum
Manila, 19 May 2012

Regional economic integration: the CER approach to a single market for services

A policy perspective – personal views from Charles Finny, sometime trade negotiator, New Zealand

- Some views on trade in services
- The New Zealand experience
- CER
- The future

Economic Importance of Trade in Services

- 20 – 90 + % of the modern economy depending on development status
- 20% for PNG
- 92% for Hong Kong
- Japan, Australia and New Zealand all around 70%
- ASEAN 25% through to 75%
- APEC average 56% of GDP

Important Part of Global Trade

- Poorly measured
- Probably understated (hard to value embedded services)
- WTO suggests that services constitute 20% of global trade
- 17% of APEC exports
- Close to 30% of US exports, 25% of NZ exports
- Important also for many ASEANs – almost 20% of Philippine exports, 25% for Singapore

Important role in economic development

- Important role in growing productivity
- Crucial role in developing economy transition to middle income status
- World Bank sees a stronger correlation between services sector growth overall GDP growth than between manufacturing growth and overall GDP Growth
- Growth in services more closely correlate with poverty reduction than growth in agriculture
- Services growth = higher female participation = poverty reduction

Services in Trade Negotiations

- Still the poor cousin to NAMA and agriculture in WTO
- Same is true in many FTAs
- Was not part of negotiations until the mid 1980s
- Australia and New Zealand were pioneers in CER
- But even in 2004 New Zealand was prepared to agree an FTA without real services component
- Hong Kong WTO Ministerial removed one of the three legs of the stool thus destabilizing the overall negotiation

Why the poor cousin?

- Services not well understood
- Poorly measured
- GATS poorly designed?
- Too complex and poorly understood
- Four modes meaningless to many services businesses
- At best, a statement of the status quo, most often not even that
- Flaws of positive list
- Real liberalisation only apparent in FTA context

Sign of change?

- Increasing lobbying effort in the US, EU and elsewhere
- No longer a developed/developing country divide (India at the 2008 WTO Ministerial)
- Current WTO focus on possible plurilateral
- NZ Trade Minister now a real convert!

To quote Minister Groser

- “Trade in services is another way NZ business can participate in global value chains…
- “The distinction between manufactured goods and services in breaking down. Services are often embedded in physical goods and their real combined value is in their IP…
- “The combination of our traditions strengths in primary production together with niche services and manufactures will deliver on the promise of an ambitious future”.

CER

- One of the first international services agreements
- Was part of the 1983 Agreement’s Built in Agenda
- Was integrated in 1988
- An agreement designed by economists rather than lawyers?
- Pre-dates WTO GATS
- Negative list, rather than positive list
- Essentially about national treatment

CER (2)

- Limited list of restrictions
- These have been progressively removed over time
- Modes 1 and 4 already covered by TT Travel Arrangement
- Didn’t cover market access, investment, or subsidies
- Updated by TTMRA in the mid 1990s
- Investment most recently added in 2011

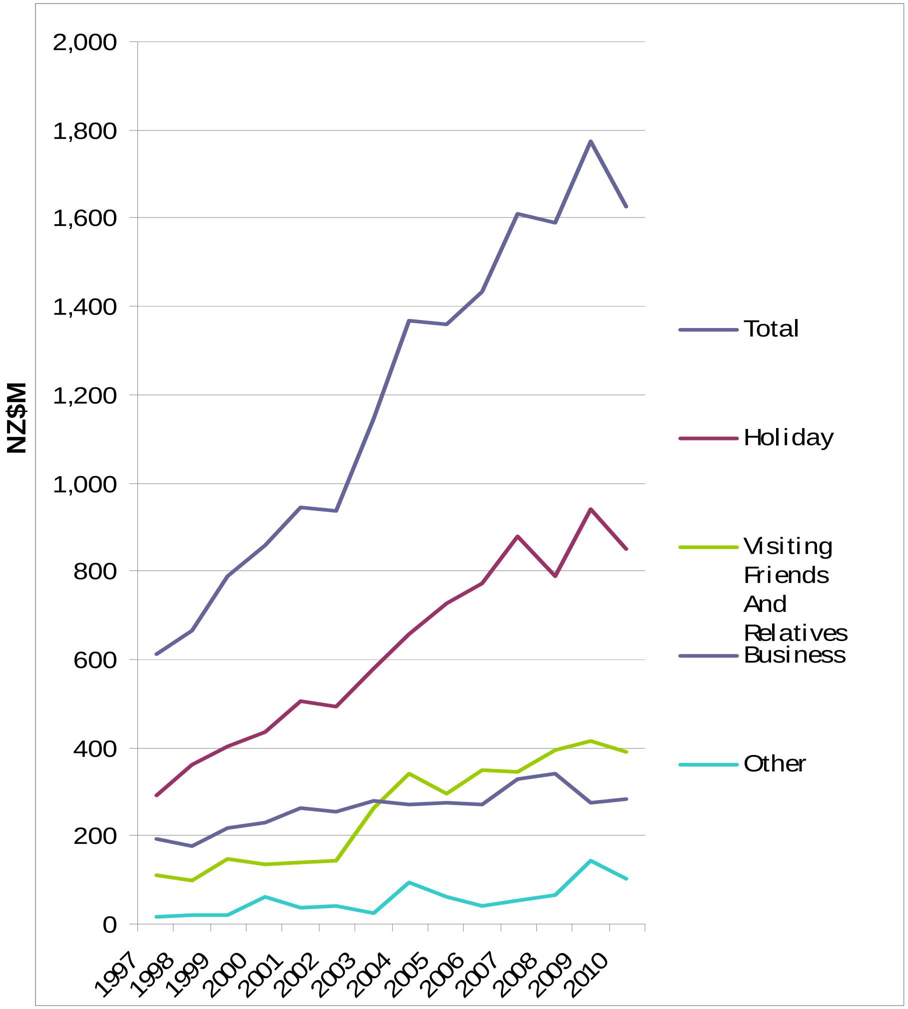
TTMRA

- Came into force in 1998
- a good that may be legally sold in Australia may be sold in New Zealand, and a good that may be legally sold in New Zealand may be sold in Australia. This is regardless of differences in standards or other sale-related regulatory requirements between Australia and New Zealand;
- and a person registered to practice an occupation in Australia is entitled to practice an equivalent occupation in New Zealand, and vice versa, without the need for further testing or examination.

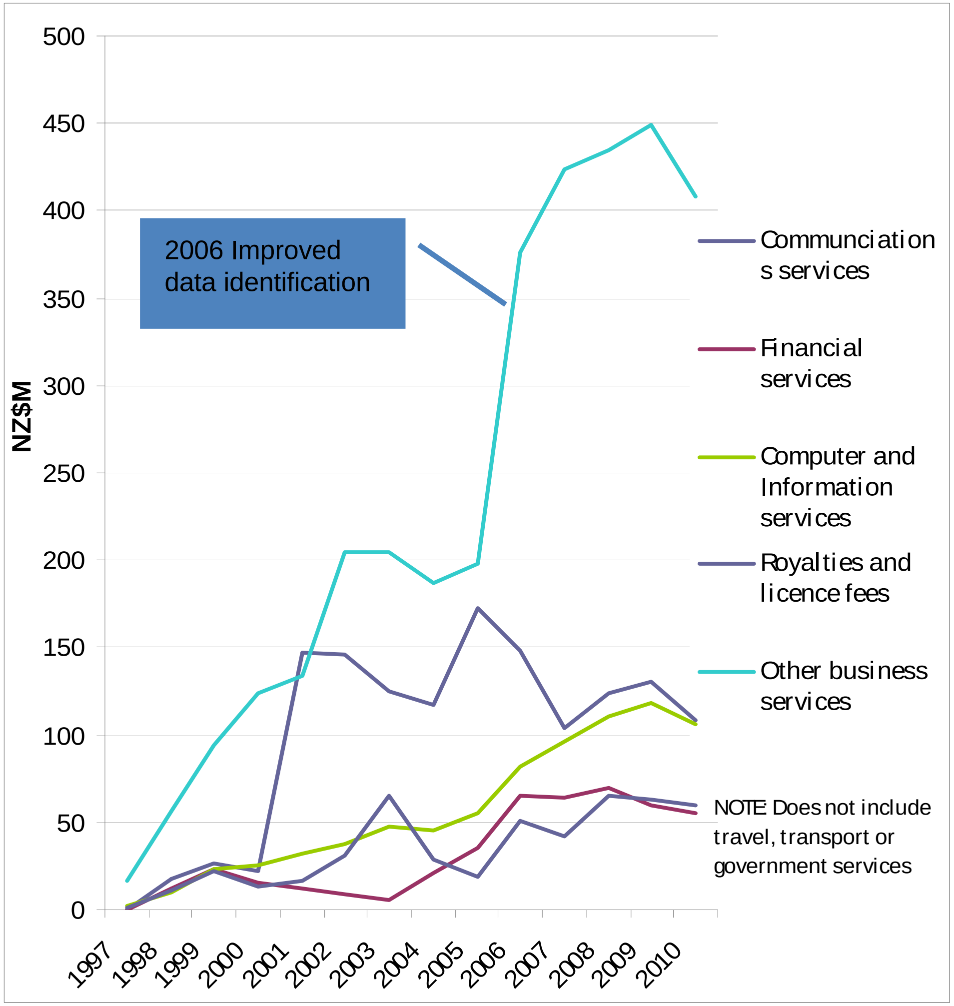
Services flows

- Australia is NZ's largest inbound tourism market, accounting for half (1.1M) of all visitors and a $1.6B spend
- While tourism has shown strong growth, exports of other services have stalled ($753M in 2006, $767M in 2010)

International Visitor Survey
Australia - Total (Nominal) Expenditure



Exports of selected services to Australia



The future

- Policy makers increasingly aware of benefits of services trade liberalisation
- Services liberalisation may have twice the economic benefit of goods liberalisation (CSI 2006)
- Liberalisation tend to be win win – regulatory reform tends to improve the business environment for both domestic firms and foreigners

The future (2)

- Services will be key to reinvigorating the WTO
- A major component of future bilateral and regional FTAs
- High priority in TPP
- Watch out for the CT-NZ ECA – negative list negotiation