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### WTO Financial Services

A large delegation from the Financial Leaders Working Group visited Geneva on 9/10 February. The Group issued a public statement calling on WTO members to seek commitments for more substantial liberalization in the critical area of financial services. Negotiations in this area are not being pursued vigorously, the group said.

The delegation held a series of bilateral meetings with key developed and developing countries and hosted a 1/2 day seminar at the WTO entitled "The Benefits for Developing Countries of Liberalizing Financial Services Markets."

The ASR was represented at these meetings by Dr Barbara Carney, Head of Government Relations and Policy for IAG. The following is taken from Dr. Carney's report.

#### Bilaterals

A number of bilateral meetings were held with senior representatives, usually the Ambassador, of Australia, Brazil, Canada, Egypt, European Union, India, Indonesia, Japan, Philippines, Thailand, United States, Venezuela.

Key Points to emerge from these bilaterals:

It is a reality that progress in services liberalisation is inextricably linked to progress in other sectors, especially agriculture and the sensitivities of developing countries on trade in services have not lessened.

However, those countries such as Indonesia that have not made an offer will very likely do so by May 2005.

Countries such as India will not table better offers until they can have some confidence they will receive better offers – the potential for stalemate is high.

The issue of the temporary movement of business personnel is a threshold issue for many developing countries but the US seems light-years away from being able to deal with this at the domestic political level.

Developed countries are "cautiously optimistic" that there will be a conclusion to the Doha Round by the end of 2006. But given the time it will take for detailed negotiations to take place and the glacial rate of progress to date, questions remain as to whether there actually be enough time to conclude negotiations by the end of 2006?

In any case, It is the wrong time for FLWG to back away from the process; there is a need for the financial services sector to keep the pressure on its negotiators, or the progress that developed countries believe can be achieved will not occur.

In the context of regulatory transparency, FLWG members were advised that Trade Ministries in some developing countries were using the WTO process to pressure their own governments towards regulatory reform.



## Insurance and Insurance Intermediaries

Panel Speakers stressed the benefits to consumers, regulators and insurers of liberalised environments accompanied by robust regulation, prudential standards and corporate governance regimes;

Entry of foreign insurers and cross-border trade in insurance represents not only increased competition but also opportunities for innovation – India's experience was cited as an example of this;

For brokers and intermediaries, the pressure for liberalisation has come from clients. Global companies want seamless service provision – brokers and intermediaries in 80 countries agree on the need for and the nature of liberalisation;

Liberalisation of insurance services helps to provide greater certainty for overseas investors in developing countries as there is the capacity and expertise to insure commercial ventures, thus underwriting economic growth;

Societal benefits accruing from insurance include shift from public or no compensation for loss to private compensation and increased focus on loss prevention and mitigation.

## Banking, Securities, Asset Management and Pensions

The same points were made in regard to attraction of capital, certainty for investors as conferred by the binding nature of final WTO commitments and contribution to economic growth;

In countries where traditional family structures have changed/are changing to replicate the nuclear family structure – those changes are linked to the emergence of an identifiable middle class – it is important that there be vehicles for people to provide for their old age, children's education etc;

The progress many WTO members have made in freeing up their banking systems was welcomed, and speakers emphasised the need for countries to consider making offers that, at the least, replicated the current state of their systems.

## Temporary Movement of Business Personnel

US members of FLWG stated that they recognised the barriers that existed in the US Congress and reiterated their preparedness to work on the issue with members of Congress. It was acknowledged that solutions would not be easy to find.

## Insurance-Specific Issues

The FLWG is calling for:

Removal of foreign investment caps, lowering of barriers to market entry – FLWG members argue that the need for prior regulatory approval should be removed, given that the GATS allows financial and prudential regulators in member countries very wide scope;

Removal of Economic Needs Tests that many countries apply;

Freeing up cross-border trade to allow the sale of reinsurance;

No restrictions on type of insurance product to be sold;

Removal of restrictions on branching;

Removal of residency requirements;



No “emergency circumstances safeguards” whereby countries can suspend liberalisation provisions in the case of domestic emergency – as this leads to uncertainty and can be anti-competitive.

**In summary:**

Services, including financial services, is the hardest area of negotiation in the Doha Round;

Business has to accept responsibility for not pushing hard enough with governments;

The issues of national regulation are intrinsic to the liberalisation agenda, and the technical issues involved can slow progress;

Progress on services is hostage to progress in other areas, including agriculture, but specific linkage of particular areas will result in stasis in all;

Greater leadership by Japan, the US and EU is essential if progress is to be achieved;

Countries such as India and Thailand have serious concerns about the position of the US and EU on the temporary movement of business personnel and it will be up to US business in

particular to work with Congress to try to resolve this;

It is difficult to see an abatement of the tension between the multilateralism of the WTO on one hand and the bilateralism and regionalism in trade on the other so long as the WTO appears to embrace multilateralism as an end in itself.”

## World Services Forum Shanghai

The Shanghai WTO Affairs Consultation Committee, together with the Chinese Ministry of Commerce and the Shanghai Government, are planning a major globalservices industry event in Shanghai on 9 -10 June.

The event will include both a services industry expo and a roundtable session on the importance of services trade liberalisation, possibly in the margins of a proposed WTO Mini - Ministerial.

Along with other members of the Global Services Network, the ASR is working closely,

alongside other members of the Global Services Network, with the organisers in Shanghai with a view to ensuring the event is of interest to industry participants and is likely therefore to attract a substantial international participation. More details will follow in March.

### INVITATION TO ATTEND

**Luncheon Discussion with Mark Johnson, Deputy Chairman, Macquarie Bank and Member of the APEC Business Advisory Council on Liberalising and Strengthening Financial Systems in Asia- Pacific. The Outlook for 2005**

**Friday 8<sup>th</sup> April**

**12:15 for 12:30-2:15pm  
hosted by MinterEllison  
SYDNEY**

Numbers limited; Rsvp to [services@tesol.com.au](mailto:services@tesol.com.au)



## Services to be the Centrepiece in Australia/China FTA

Extract from a speech to  
CEDA on February 16/17  
by Mr Andrew Stoler,  
Institute of International  
Business & Law,  
University of Adelaide on  
the Priorities for Australian  
Trade Initiatives in 2005.

“Since it joined the World Trade Organization in 2001, China has come a long way in a short space of time. The country’s foreign trade volume doubled in just three years and exceeded \$1.3 trillion in just the first 11 months of last year.

China’s trade surplus with the world for the month of December hit \$14.5b, but the picture isn’t repeated automatically from one month to another. This is because China is not just an export powerhouse. Increasingly the country is a “balanced” trader, often importing more than it exports. For example, in the month of February 2003, China ran a trade surplus of \$884m but a year later in February 2004, China saw a

monthly trade deficit of \$10.3b. Exports were up by 40% but imports in the same period rocketed by 77%!

Australia can take some comfort from the fact that China is a net importer of agricultural products, running a sectoral deficit in 2004 of \$ 7.2b. Overall, China’s trade surplus for 2004 was just \$42b – less than the annual surpluses it racked up in the late 1990’s.

China’s trade volume accounts for 60% of the country’s GDP – an extraordinary figure. China is also a major engine of global economic growth. The United States and China taken together account for more than one-half of the growth in world trade. In the past two years, the growth in Japanese exports to China accounted for 80% of growth in the Japanese economy.

You could probably fill an entire speech with superlatives about China’s position in the world economy. After absorbing \$65b in FDI in 2002 and 2003, China attracted \$78b in FDI last year. The Chinese economy consumed 50 % of world cement production, 36 % of steel

production and accounted for 1/4 of global demand for copper and aluminium. Two-way bilateral trade between Australia and China has boomed.

**The opportunities look too good to pass up. So why not negotiate a free trade agreement and make a good situation even better?**

Clearly, there is no objection in principle. China has recently concluded an FTA with ASEAN. Australia’s about to join with New Zealand and negotiate a three-way deal with ASEAN. New Zealand kicked off separate negotiations with China on an FTA in December and a so-called scoping study is under preparation by officials and academics in Canberra and Beijing.

The results of the scoping study are due next month.

**With the two governments now having invested considerable political capital in the idea, it’s hard to see how the scoping study could come out against the idea of a negotiation.**



But why do we need an FTA with China? Where is the value added? China already enjoys excellent access to the Australian market – (Have you shopped at Bunnings lately?) Australia's tariffs on most goods made in China are less than 5 %, with about 50% of all imports coming in free of duty now. And we don't seem to need an FTA in order to sell greater quantities of mineral products to China. At first glance, it's hard to see how an FTA would substantially enhance competitive opportunities for either side.

**At the same time, we need to acknowledge that there are some downside political risks associated with an FTA. Australian manufacturers are worried – and many of them probably should be.**

Much of the manufacturing sector in this country is low and medium-value added and those manufacturers would be further threatened by eliminating existing protection. China is unbelievably price-competitive.

How competitive is China? In 2003, soft-sided luggage production shifted from

South East Asia to China and in 2004 the Chinese share of that market in the USA went from 13% to 75% while the average price dropped by 60%. This is made possible in part by a minimum wage in Shenzhen of 610 yuan - the equivalent of A\$96 (US\$74) a month. I don't think we need any further explanation of Treasurer Peter Costello's comment last December when he said there is no future for low-cost manufacturing in Australia.

**But with or without an FTA with China, low value-added Australian producers are probably in trouble anyway. Chances are pretty good that most current tariff protection these firms now enjoy will disappear before long anyway as a result of the WTO negotiations.**

The Australian Industry Group has objected to the idea that Australia should agree to treat China as a market economy for the purposes of antidumping actions. AIG thinks this would undermine its members' ability to protect themselves against predatory Chinese pricing. However, since China

became a WTO Member, any added protection linked to China's "Economy in Transition" status is more illusory than real.

If you are still wondering where the substance is of an Australia-China FTA, I am about to get to what I believe is the point.

**The real benefit for both countries lies in the service sector. If bilateral services trade can be freed up in an FTA, both China and Australia will benefit importantly. If services are not a major part of an agreement, then the deal may not be worth doing.**

Some background is in order. The Chinese authorities are becoming preoccupied by the fact that while the country has succeeded brilliantly at becoming the world's "factory", its service sector has lagged behind miserably.

Earlier, I referred to current wages in the manufacturing sector. Those wages often look good to the 60 % of the Chinese population that still works on the farm – at very low levels of pay and productivity. And the



Chinese are always looking over their shoulder at India – where they can now see a burgeoning and internationally competitive service sector.

Today in Australia, the services sector accounts for about 80% of national GDP. The world average is slightly over 60 % and services often represent 70% or more of GDP even in developing countries. In China, services account for only about 38% of GDP – and that share is falling. And where home-grown Chinese companies are services providers, they are often dismal performers.

One commentator observed the irony in the Chinese people having one of the highest domestic savings rates and then investing their money in banking institutions where it finances non-performing loans. It's a fact that Chinese state banks are struggling to transform their operations before the sector is liberalised in 2006 as a result of WTO commitments. The Chinese are right to be worried.

What steps should Beijing be taking? Unfortunately, so far, the Chinese reaction to the country's poor

performance in services has led Beijing to exclude the service sector from regional trade agreements. The recent China- ASEAN free trade agreement only covers trade in goods. There are a lot of reasons why we don't want to see that in the case of an FTA between Australia and China. And China should not want it either.

How do you make a services economy competitive? Through competition and the technology transfer that competition brings to the market place. This is where Australia and China have a real opportunity in the FTA. The Chinese can afford to expose their services sector to considerable competition from Australian services suppliers without fear of the potential competitive inundation that might result from full liberalisation vis a vis European or American services providers.

**Australia has a lot to offer China, from innovative architects and experienced event planners to experts in ICT services and healthcare. Australian financial services firms can play a big role in helping to fix the Chinese banking sector.** The

enhanced – and preferential - access resulting from a comprehensive free trade agreement would be very commercially significant for Australian services providers.

**The Australian Services Roundtable strongly supports the negotiation of an FTA with China that would have an important services component.**

The Roundtable and its members are well aware of the opportunities presented by the Chinese market and its directors and member companies are working at developing contacts with Chinese counterparts to build productive working relationships.

Informed Chinese observers know that at the same time an FTA could benefit Australian services providers, competition in the Chinese market from world-class Australian companies would provide the impetus needed to upgrade the performance of existing Chinese services suppliers and induce new entrants into the market.

In speeches I made in China last December I emphasized



Australian Services  
Roundtable

# NEWSLETTER

the mutual gains Australia and China could reap from a comprehensive bilateral agreement that incorporates across-the-board services trade liberalisation.

Because my audiences in Shanghai and Shenzhen understood the linkage between liberalisation and competitiveness, they were receptive to my pitch.

This is also a message we need to deliver here in Australia.

**In Canberra, Australian negotiators need to appreciate the significance for both countries of making trade in services the centrepiece of a deal with China.”**

**Melbourne Asia, Asialink  
& the  
Australia-Japan  
Research Centre  
present**

**“Liberalisation of Trade in  
Services: Policy Options  
and Implications for  
Australia-Asia Relations”**

**a panel discussion**

Christopher Findlay ANU  
Jane Drake-Brockman ASR  
Rhonda Piggott DFAT

Chaired by  
Howard Dick  
University of Melbourne

**12.30pm  
Friday, 11 March 2005  
APSEG Lecture Theatre  
McCoy Circuit  
ANU**

## About the Roundtable

The Australian Services Roundtable represents the interests of the services industries in Australia.

We aim to identify domestic regulatory obstacles to international competitiveness and highlight the need for domestic policy reform.

We aim also to contribute to strategies for negotiating services trade and investment issues internationally.

## Want to Join?

## Find out More?

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