

Focus Workshop on Trade

Telecoms
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Background to Telecom Trade in Services Agreements

- **GATT Uruguay Round (1986-94)** - issue of trade-in-services liberalization introduced into GATT →
 - Group of Negotiations in Services (GNS) →
 - GATS agenda = telecoms, construction, transportation, tourism, finance and professional services.
- **WTO Marrakesh Agreement (1994)** - 57 WTO Members agreed only to liberalize telecom value-added services →
 - Negotiation Group on Basic Telecommunications (NGBT) →
 - 1997 Basic Agreement on Telecommunications (BAT)

Background to Telecom Trade in Services Agreements

- **WTO Doha Round (2001)** - aim to finish January 2005

- Some conditional offers available at:

http://www.wto.org/english/tratop_e/serv_e/s_negs_e.htm

- **Basic versus Value Added** - a purely policy & regulator distinction - *but its all value added in reality!*
 - ‘Basic’ fixed or mobile telephony involves electronic reformatting of voice! Basic = not for liberalization!
 - ‘Value-added’ = what people are prepared to pay more for!
- **Technologies** - fast undermining the basis of these policy and regulatory restrictions - especially Internet Protocol

Issues of Liberalization

- MFN - accounting rate regime based on bilateralism vs. by-pass and ISR
- National Treatment - equality of treatment
- Market Access - requires commercial presence, cross-border supply of services, extended presence of foreign nationals, etc. as well as local service markets

WTO Restricted Commitments

- **FDI in Basic Services** - often prohibited or restricted
- **FDI -in Value-Added Services** - often restricted
- **Cross-Border Supply/Trade** - sometimes prohibited and often restricted
- **Labour Mobility/Commercial Presence** - often restricted
- **No Commitments** - usually based upon (a) sunseting of existing restrictions, or (b) constitutional and legal changes prior to policy and regulatory reform

Costs of Liberalization

- **Loss of monopoly rents -**
 - Where do they go? Who gets the benefits? Profits to new/foreign entrants and/or local business and residential consumers?
- **Loss of foreign currency earnings**
 - What is IDD elasticity? <1 ?
- **Loss of employment in incumbent operators**
 - How much new investment by new entrants? What is the local economy multiplier?

Benefits of Liberalization

- **Dynamic efficiency**
 - new entrants have to innovate and offer value-for-money services
 - especially important moving from the certainties of the narrowband world to the uncertainties of the broadband world
- **New sources of investment**
 - accelerates growth
 - frees up resources for USO/ digital divide?
- **Consumer benefits** - see next slide

Estimates of Benefits of Telecoms Competition in Hong Kong

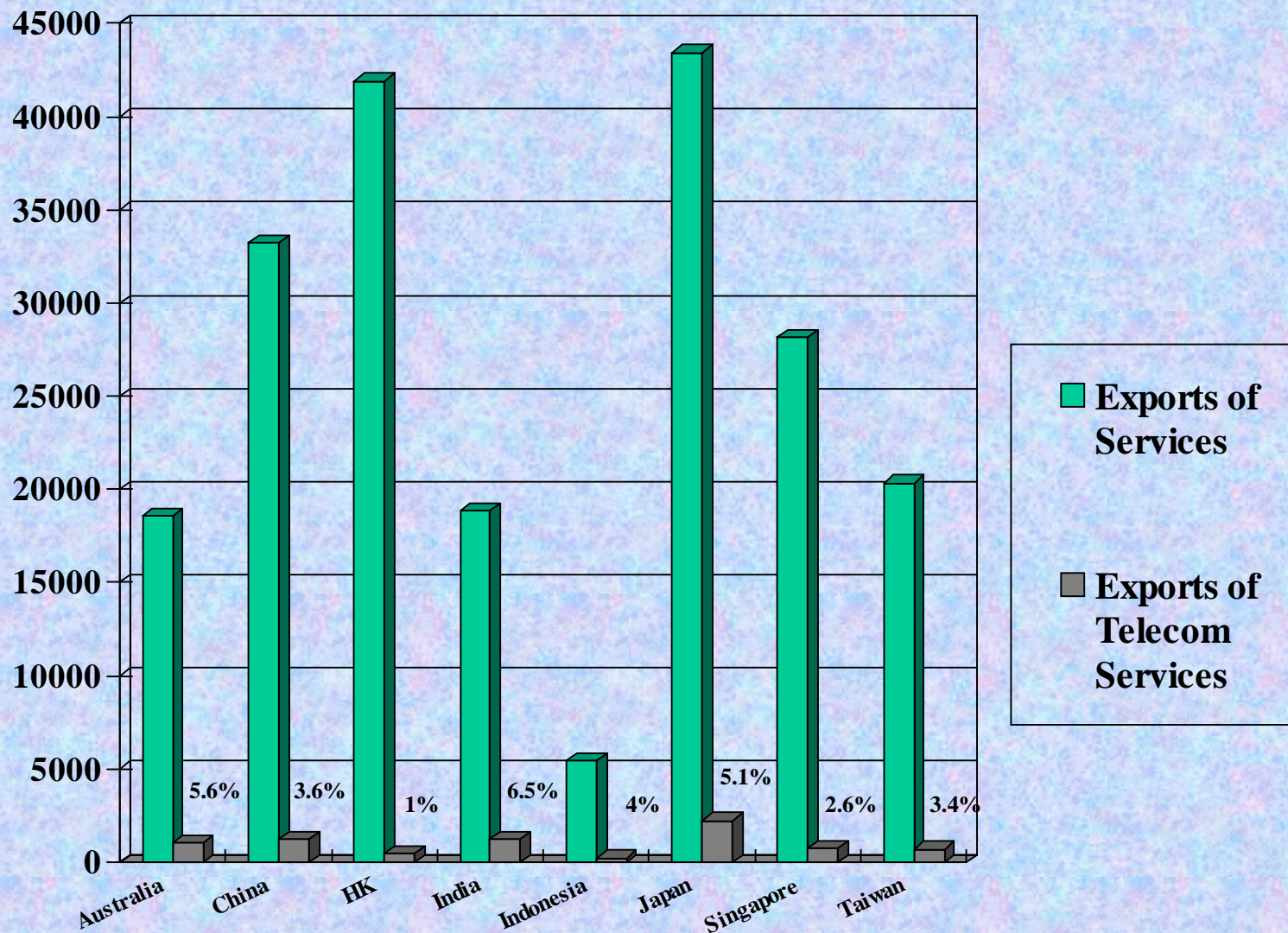
Spectrum Report for OFTA, June 2003

Consumer savings

- **Mobile 1996-2002** due to induced price reductions = US\$9bn - cf J.Ure - US\$0.8bn 1995-1997
<http://www.trp.hku.hk/papers/1997/PECC2.DOC>
- **International 1999-2001** = US\$4bn
 - cf OFTA US\$2.2bn taking account of callback
 - cf J.Ure US\$1.2bn excluding callback at 1995 prices; 5.3% of total business telecoms expenditures

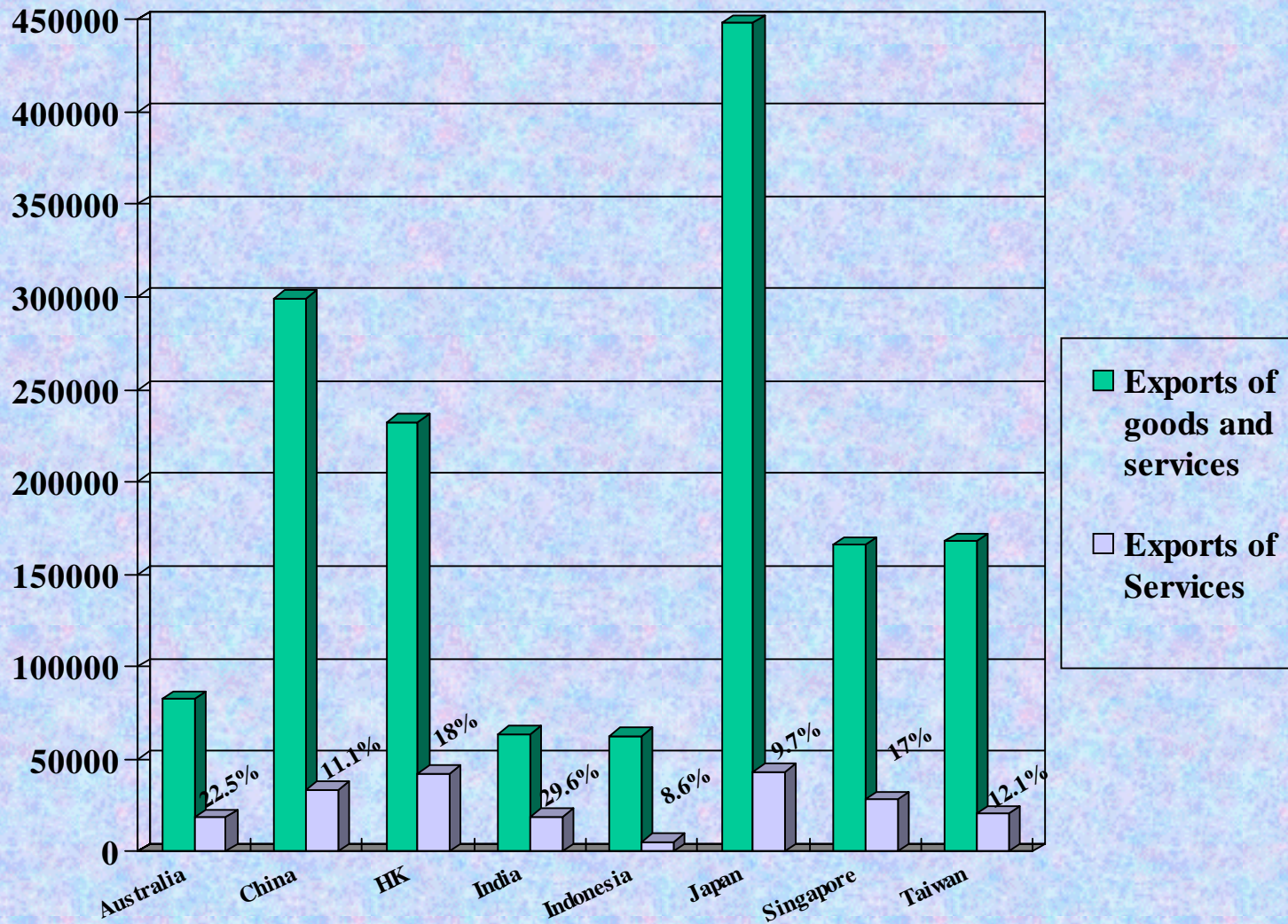
Telecom as percentage of trade in services 1999-2001

Million US\$

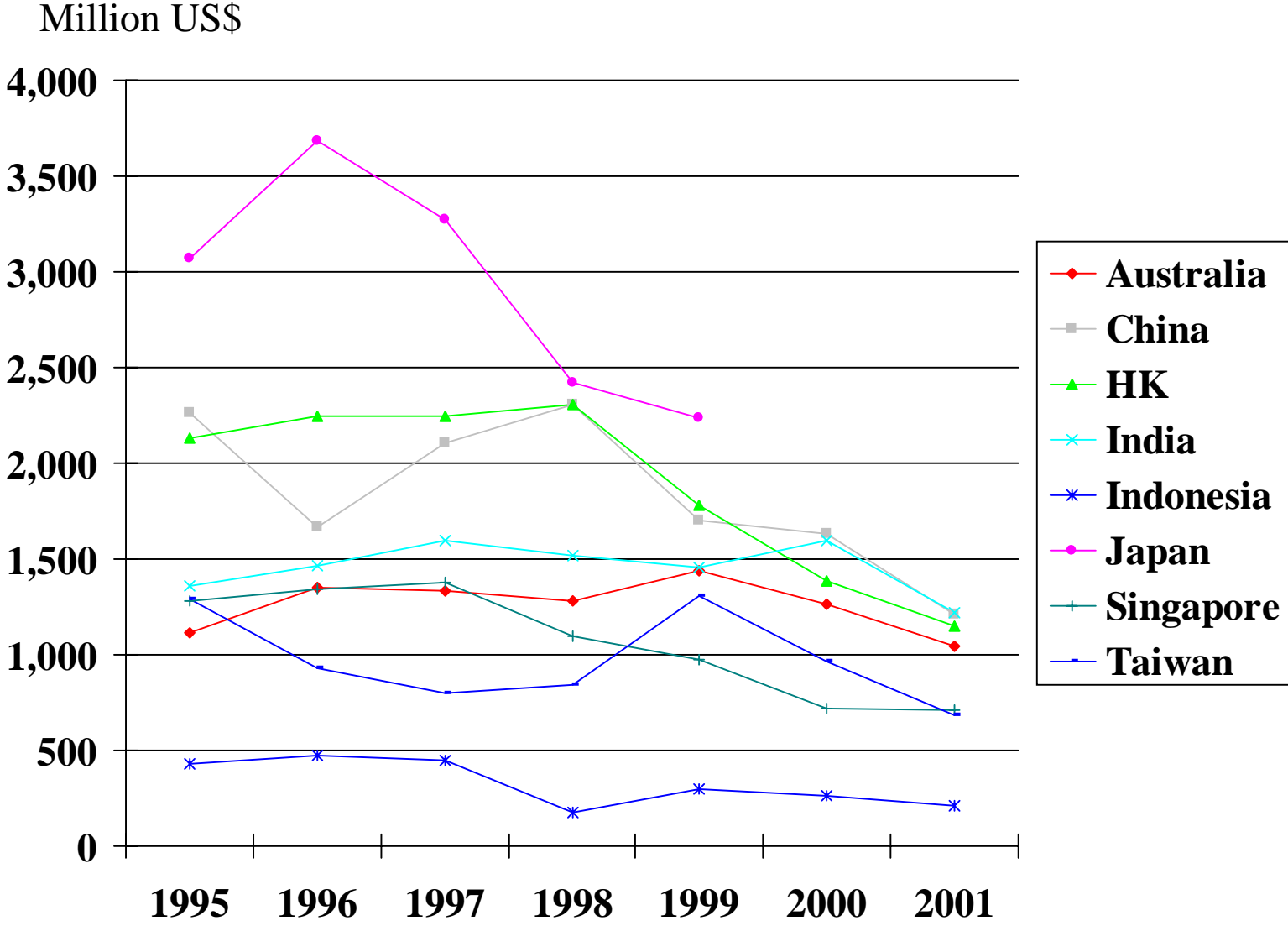


Trade in services as percentage of total trade 2000-2001

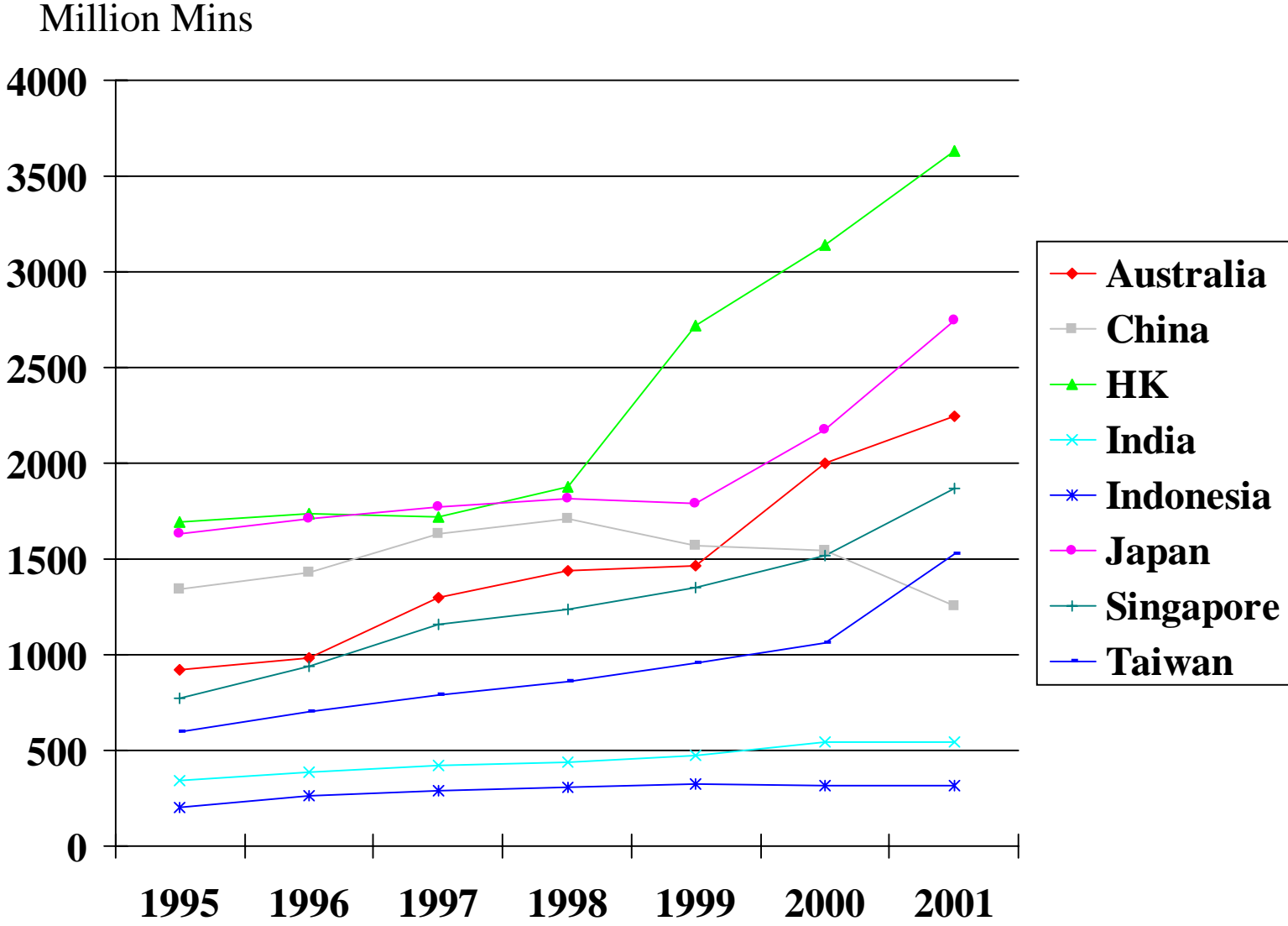
Million US\$



International Call Revenue



International Outgoing Minutes



Liberalization By Other Means

- By-pass of official tariffs is market-driven
 - Technology makes this easy, esp. VoIP
 - Demand for lower prices makes it profitable
 - Profitability makes it irresistible
 - Regulation too costly to prevent it
- International Simple Resale (ISR) spells the end of the accounting rate regime →
 - liberalization of ‘backhaul’ and domestic

Technology, Regulation, Convergence and Licensing (all these influence the issue of trade and investment)

- **Regulation vs Convergence** - distinguish service categories
 - Basic and value-added
 - Telecoms vs non-telecoms services (eg. information; broadcast)
 - Carriage and content (eg. digital transmission and digital media content)
- **Regulation and Convergence** - all service providers?
 - Makes sense in the broadband world of ‘content’?
 - Fixed-mobile convergence?