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Feature insight

Don't your

By Simon Masnick

A Plus looks at the deep-seated problems facing the World Trade Organization – and how they have hindered hopes for liberalisation of services.

The WTO attracts international attention, frequently for the wrong reasons. The biennial ministerial meeting is a chance for politicians to take stock, to review where trade negotiations stand – and where to move forward. One item on the agenda this month is reform of the WTO itself. Officials want to find a new structure for discussions, to avoid the circus of recent summits. They may also look at ways to open up discussion

on services and investment, the area most important to those of us in Hong Kong.

Hong Kong hopes

This month's ministerial meeting will be about finding the broad brushstrokes of agreements, to be fleshed out in back rooms over the next 12 months. It sounds a pretty humdrum, bureaucratic affair. So why is there so much anxiety? As the WTO prides itself on reaching agreements by consensus, the formation



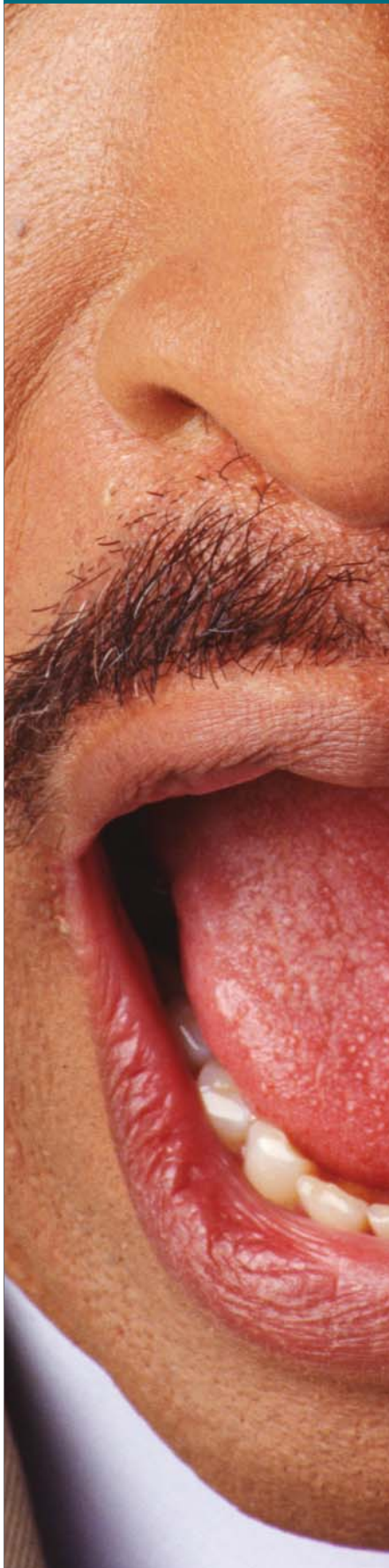
hold breath

of clear blocs (see table, page 23) has become a staple of the discussions. Getting 148 separate parties to agree on anything, let alone such a politically charged issue as trade, is a delicate task. The preference for brinkmanship, threats and hyperbole explain why WTO talks so often fall flat – and why hopes for the Hong Kong talks are clouded by pessimism.

The current round of negotiations, instigated in Doha, Qatar, in 2001 should be about more than just agriculture. But without an agreement on farming, where developing countries want reductions to trade-distorting subsidies, there can be little hope for other issues. What else might be at stake? A parallel negotiating track covers services, which account for more than 85 percent of Hong Kong's economic activity. As Elsa Hung of the Trade and

Industry Department puts it, "As a free, open and externally oriented economy, Hong Kong has been in the forefront of multilateral trade liberalisation efforts in the WTO."

The negotiations over services have crawled along even more slowly than those in agriculture because of their decentralised approach. Agreements can only inch forward as individual members offer concessions and then say what they would like in return. With so



few barriers around Hong Kong's own services industry, it has little to offer other countries under this format. Concessions granted to one or several trading partners must be offered to all WTO members – there can be no preferential deals. Reforming this laborious process is one of the main areas under review in the current negotiations.

Hong Kong's push has therefore been to extend the kind of humble gains made with China, via the Closer Economic Partnership Agreement (CEPA), to other emerging economies. Marshall Byers, a partner at Ernst & Young and a member of the Hong Kong Coalition of Service Industries (HKCSI), is not especially optimistic. He believes the best hope is for an agreement that would "open doors for Hong Kong to be a regional services centre for Asia-Pacific Economic Cooperation (APEC) members, rather than just the Pearl River Delta and China."

little benefit – in other words a bargaining chip for richer countries in the agriculture talks. At the last ministerial meeting, held in Cancun, Mexico, the developing countries had the Singapore issues jettisoned from the negotiations. The Mexican chair then terminated the meeting before discussion of agriculture had even begun.

With so little enthusiasm for the Singapore issues, the HKCSI concludes, "The [services] talks are in crisis... the politically difficult work needed to formulate meaningful services offers is not, by and large, being done." Nor is it likely to unless the Hong Kong meeting sees a successful outcome in agriculture, thus freeing the backlog of negotiations in other areas. Byers describes the chances of a successful agreement on services by the end of 2006 as "99-to-one against." But he concedes this could change quite suddenly if there is a breakthrough in the Hong Kong talks.

“Nothing is agreed until everything is agreed”

The Singapore issues

The European Union has been pushing hard in the services area, asking for certifiable benchmarks with which to measure progress in services liberalisation. In the run up to this month's ministerial meeting, the EU suggested reviving the so-called Singapore issues. These propose relaxing rules on foreign investment, trade facilitation, competition policy and government procurement.

The original intention behind the Singapore issues was for a trade-off between agricultural subsidies in the developed world and service and investment restrictions in developing countries. Not surprisingly, many developing countries saw the Singapore issues as a rich world matter offering them

WTO factoids

- ▶ The developed world spends an estimated US\$300 billion a year on subsidies, tariffs, market access restrictions and farm support measures. This outweighs the world's total aid budget by a factor of six.
- ▶ China claims to have reduced its tariffs to one quarter of the levels in the early 1990s, while imports are growing faster than exports.
- ▶ The WTO conference will cost an estimated HK\$250 million. That's 54 times less than the government put into Hong Kong Disneyland.

Bloc party: Introducing the key players

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| <ul style="list-style-type: none">▶ The Hong Kong meeting is critical to the current Doha round of negotiations largely because of an American deadline. In 2007, the United States' president George W. Bush will lose his "fast-track" negotiation authority from Congress. Without that, Congress can pick apart any deal, line-by-line, rendering it useless. | <ul style="list-style-type: none">▶ The Cairns Group of middle-sized agricultural exporters is typically led by Australia in negotiations. Their pro-free trade stance has often placed them at odds with the U.S., EU and Japan. |
| <ul style="list-style-type: none">▶ The European Union is frequently cast in the role of protectionist villain with their penchant for pandering to their farming community. Behind them hide other offenders, including Japan, South Korea and Norway. | <ul style="list-style-type: none">▶ The newest grouping, the G20, brings together the world's largest developing nations led by South Africa, Brazil, India and China. It was formed as a counterweight to the perceived strength of the other players, but still lacks cohesion. |

A stronger role for China?

While Hong Kong and China have separate delegations at the WTO, each side will be watching the other closely. Since joining the WTO in 2003, China has opened up its domestic wholesale and retail markets and lifted restrictions on foreign investment. In recent years China has taken a low-key approach to major set pieces such as ministerial meetings, but is said to often play a big role in committee meetings and is arguably shifting the balance of power in the WTO.

As the country gets more experience, and with the WTO negotiations being held on its doorstep, China's traditionally quiet role may start to change. China has been stung by the uproar over textile exports and subsequent caps imposed by both the United States and the EU, particularly after doing much to reduce its own tariffs.

In the accounting and auditing fields, a services agreement could offer potential gains for Hong Kong's accounting professionals. If market access limitations can be reduced, this could allow a massive opening up of the Chinese accounting and auditing services market. The Big Four's superior technology and global reach mean they already corner the lucrative market for initial public offerings (IPOs)

and audit all the largest listed firms. Dr. Charles Chen, acting head of the Department of Accountancy at City University of Hong Kong, thinks more intense competition could arise in the mid-tier – for comparatively routine audit work on China's medium-size firms.

The price of failure

At this stage, there is very little on the table for services industries at the WTO meeting, so should it fail, the immediate losses for Hong Kong will be minimal. The best hope is for a breakthrough in agricultural talks, allowing real progress on services to get underway in 2006. More importantly there are calls to change the structure of services negotiations, moving away from the current request/offer procedure to a process similar to the agriculture talks.

Still, don't hold your breath. Negotiation is a tricky business when it's between two parties over a single issue, let alone 148. In the words of former WTO director-general Mike Moore, "Nothing is agreed until everything is agreed." Meetings can look destined to fail, only to be seemingly saved at the last minute. With so much smoke and mirrors, not to mention the smog, it's no wonder few people can envisage a clear outcome. **A+**

