



« The voice of the European Service Industries for International Trade Negotiations in Services »



## Trade in Services and Investment: The Way Forward

Organized by: International Lawyers and Economists Against Poverty (ILEAP); European Services Forum (ESF); ICTSD

**Wednesday, 2<sup>nd</sup> December – 14:00 – 16:00**

**WMO - Meeting Room C1**

« FDI in Services sectors - the perspectives of European Services companies »

Pascal Kerneis – Managing Director

European Services Forum – ESF





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ESF covers most services sectors, including:

- Insurance
- Banking
- Business services: IT & Computer; consulting, advertising, after-sales services
- Professional services: legal services, accountants, architects, engineers
- Construction services
- Distribution services
- Postal & Express Delivery services
- Audio-visual services
- Energy related services
- Environmental services
- Telecommunication services
- Tourism
- Maritime Transport

But no members in  
**Education or Health services**



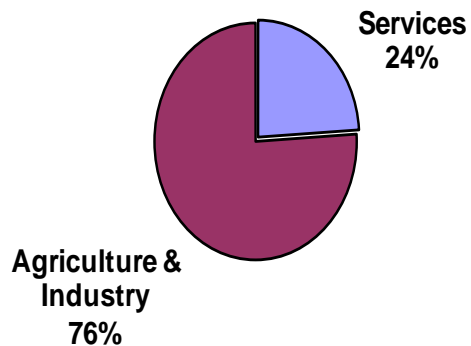
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## ESF MEMBERS INCLUDE:

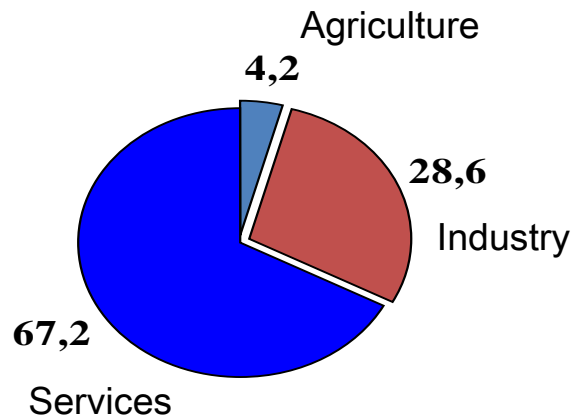


For more information, see [www.esf.be](http://www.esf.be)

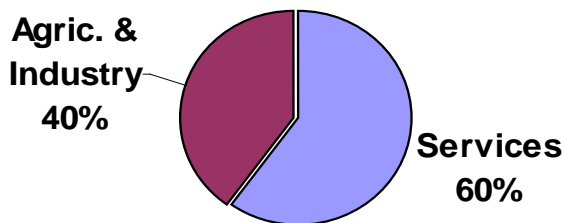
### Services Share of World Trade - 2007



### Services share of total employment in the EU

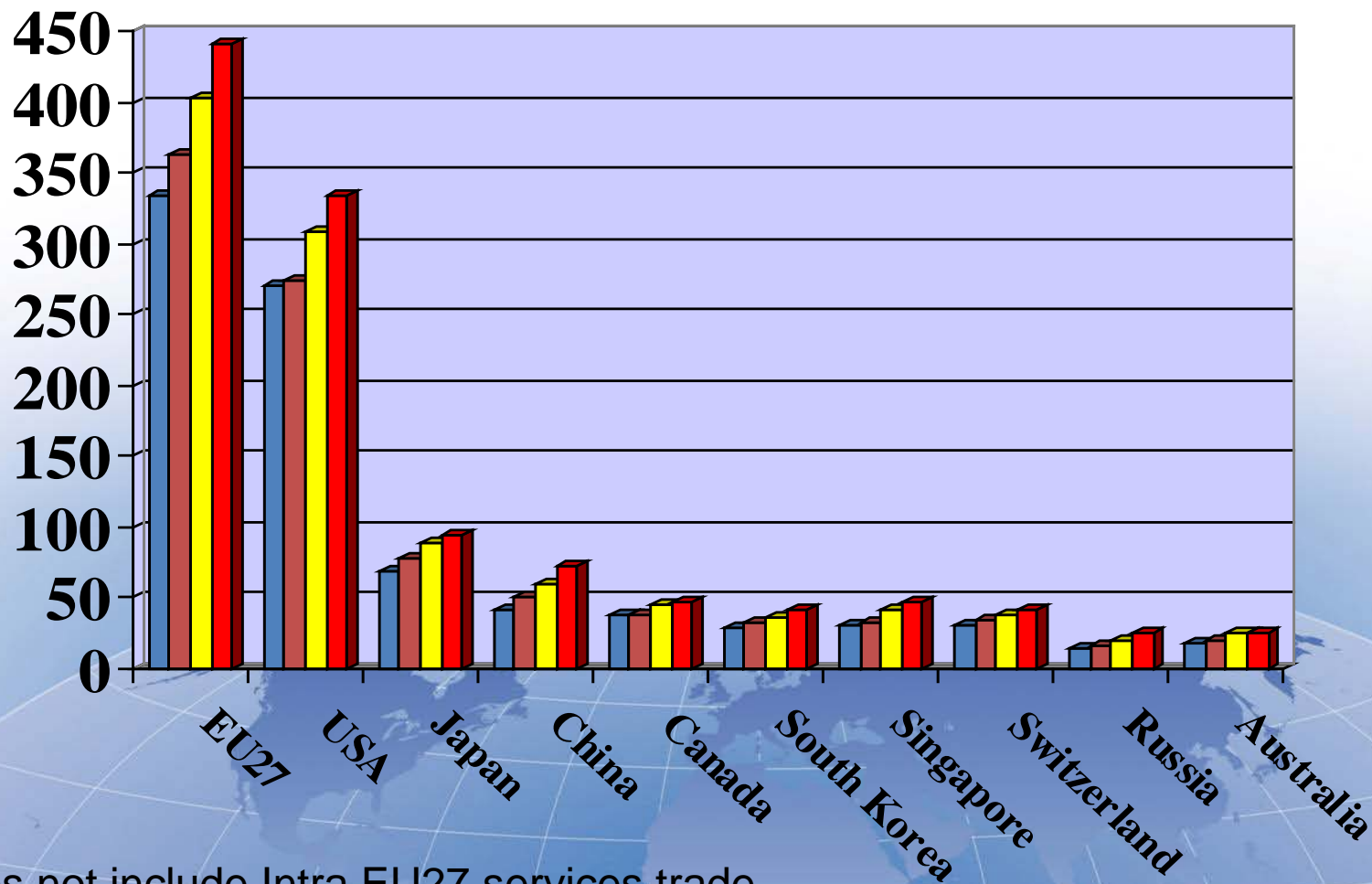


### Services Share of FDI

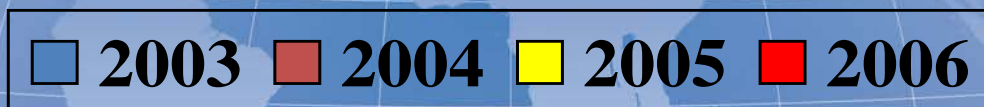


The Services sector generates 90% of new jobs in the EU15

# Trends in World Trade in Services

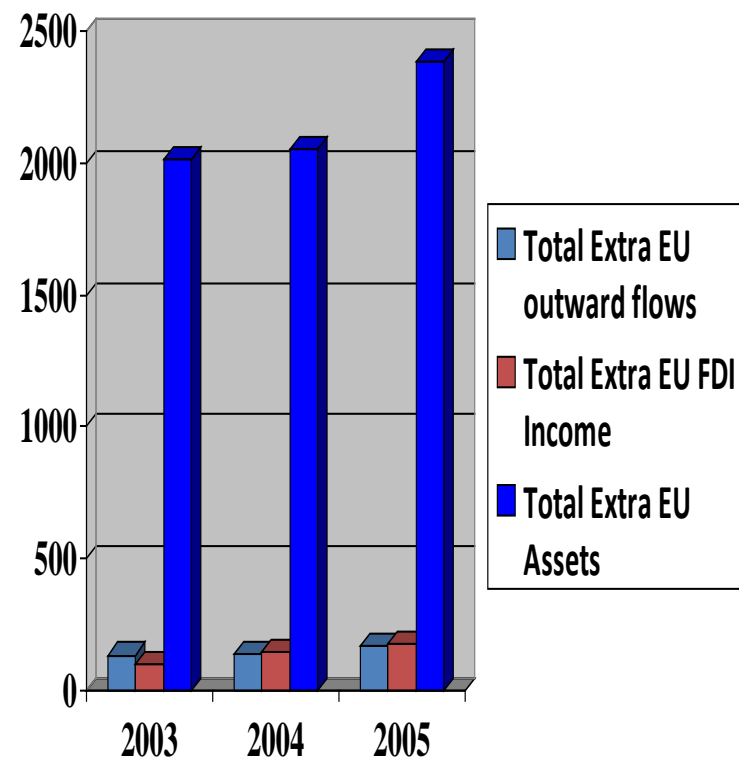


\* Does not include Intra EU27 services trade



# What does FDI include?

- FDI Capital Flows
- FDI income
- FDI stocks in a country at the end of the year



## EU FDI capital flows 2001-2005, EUR mn

	2001	2002	2003	2004	2005
<b>Total outflows to extra-EU</b>	306 140	133 897	135 711	136 388	171 757
Equity capital	204 111	138 210	106 051	86 037	102 349
Other capital	87 473	- 50 685	7 761	- 6 379	17 495
Reinvested earnings	14 558	46 370	21 910	56 721	51 907
<b>Total inflows from extra-EU</b>	145 867	126 567	123 541	53 072	94 149
Equity capital	42 085	85 983	85 906	36 318	71 823
Other capital	81 714	18 384	14 409	- 10 641	33 420
Reinvested earnings	22 094	22 204	23 221	27 397	- 11 093
<b>Total intra-EU flows*</b>	365 510	361 129	251 268	194 985	416 680
Equity capital	280 762	273 176	164 864	128 194	257 058
Other capital	68 908	76 119	61 069	19 518	95 697
Reinvested earnings	15 845	11 833	25 334	47 275	63 928

## EU total FDI income 2001-2005, EUR mn

	2001	2002	2003	2004	2005
Extra-EU, credits	86 198	85 769	103 704	150 424	178 097
Extra-EU, debits	83 183	68 407	60 137	86 827	109 514
Extra-EU, net	3 017	17 360	43 567	63 599	68 583
Intra-EU*	117 199	113 709	121 139	152 976	182 295

## EU FDI stocks at the end of the year, 2001-2004, EUR mn

	2001	2002	2003	2004	2005
<b>Total extra-EU assets</b>	2 017 386	1 904 845	2 011 069	2 048 346	2 380 303
Equity capital and reinvested earnings	1 609 252	1 551 341	1 678 283	1 721 461	2 040 244
Other capital	408 131	353 521	332 780	326 884	340 062
<b>Total extra-EU liabilities</b>	1 295 598	1 265 279	1 484 575	1 580 532	1 744 823
Equity capital and reinvested earnings	810 739	808 642	993 326	1 082 754	1 207 533
Other capital	484 861	456 637	491 247	497 768	537 292
<b>Total intra-EU stocks*</b>	2 656 338	2 792 869	3 054 812	3 300 533	3 810 415
Equity capital and reinvested earnings	2 049 913	2 151 806	2 389 280	2 609 054	3 040 227
Other capital	606 427	641 055	665 536	691 479	770 189

\* Intra-EU data are the average between inward and outward as declared by Members States.

# Services contribute to the largest share of FDI (1)

444,1 Bn € were invested in Services sectors by the EU in 4 years  
(63,6 % of total 697,5 Bn €) (extra EU)

## **Extra-EU FDI outflows\* by economic activity, 2001-2004, EUR mn**

	2001	2002	2003	2004	2001-2004
<b>Mining and quarrying</b>	17 221	1 242	14 200	17 197	49 860
<b>Manufacturing</b>	45 031	5 838	14 472	18 922	84 263
of which					
Food products	5 381	- 5 725	4 149	- 482	3 323
Textiles & wood activities	- 907	6 470	- 3 516	7 088	9 135
Petroleum, chemical, rubber, plastic products	6 498	4 218	7 501	9 657	27 874
Metal & mechanical products	5 869	4 887	1 597	2 313	14 666
Vehicles & other transport equipment	12 906	8 571	- 46	993	22 424
<b>Services</b>	<b>191 858</b>	<b>119 485</b>	<b>80 316</b>	<b>52 473</b>	<b>444 132</b>
of which					
Trade and repairs	6 877	6 815	7 768	- 464	20 996
Hotels and restaurants	- 972	- 2 065	- 1 314	- 54	- 4 405
Transport	2 165	1 222	- 171	- 1 948	1 268
Telecommunications	40 783	- 9 949	1 919	4 385	37 138
Financial intermediation	119 825	97 258	62 448	63 571	343 102
Business Services	28 342	20 031	4 541	- 16 414	36 500
Other Services	- 5 162	6 173	5 125	3 397	9 533
<b>**Rest of the sectors</b>	<b>37 474</b>	<b>7 332</b>	<b>26 723</b>	<b>47 796</b>	<b>119 325</b>
<b>Total</b>	<b>291 584</b>	<b>133 897</b>	<b>135 711</b>	<b>136 388</b>	<b>697 580</b>

\*Excluding reinvested earnings until 2001. Total outward FDI since 2002.

\*\*Rest of the sectors includes: agriculture and fishing, electricity, gas and water, construction, private purchases & sales of real estate, and unallocated.

## Services contribute to the largest share of FDI (2)

For the remaining partner countries, extra-EU FDI flows were characterised by a strong preference for *services*, with an average of 65 % for the cumulated flows.

**Table 4.5**

**EU-FDI outward flows<sup>29</sup> to major partners, 2001-2004,<sup>30 31</sup>**  
**EUR mn**

		2001	2002	2003	2004	2001-2004
Extra-EU	Manufacturing	15%	4%	11%	14%	12%
	Services	66%	89%	59%	38%	64%
	Other sectors	19%	6%	30%	48%	24%
	<b>Total</b>	<b>291 584</b>	<b>133 897</b>	<b>135 711</b>	<b>136 388</b>	<b>697 580</b>
*Other partner countries	Manufacturing	12%	18%	5%	13%	13%
	Services	69%	74%	71%	52%	65%
	Other sectors	19%	8%	24%	36%	22%
	<b>Total</b>	<b>132 686</b>	<b>93 849</b>	<b>59 436</b>	<b>128 055</b>	<b>414 026</b>
	<b>% of extra-EU</b>	<b>46%</b>	<b>70%</b>	<b>44%</b>	<b>94%</b>	<b>59%</b>

\*Other partner countries is the difference between extra-EU and United States, Canada, Japan and EFTA.

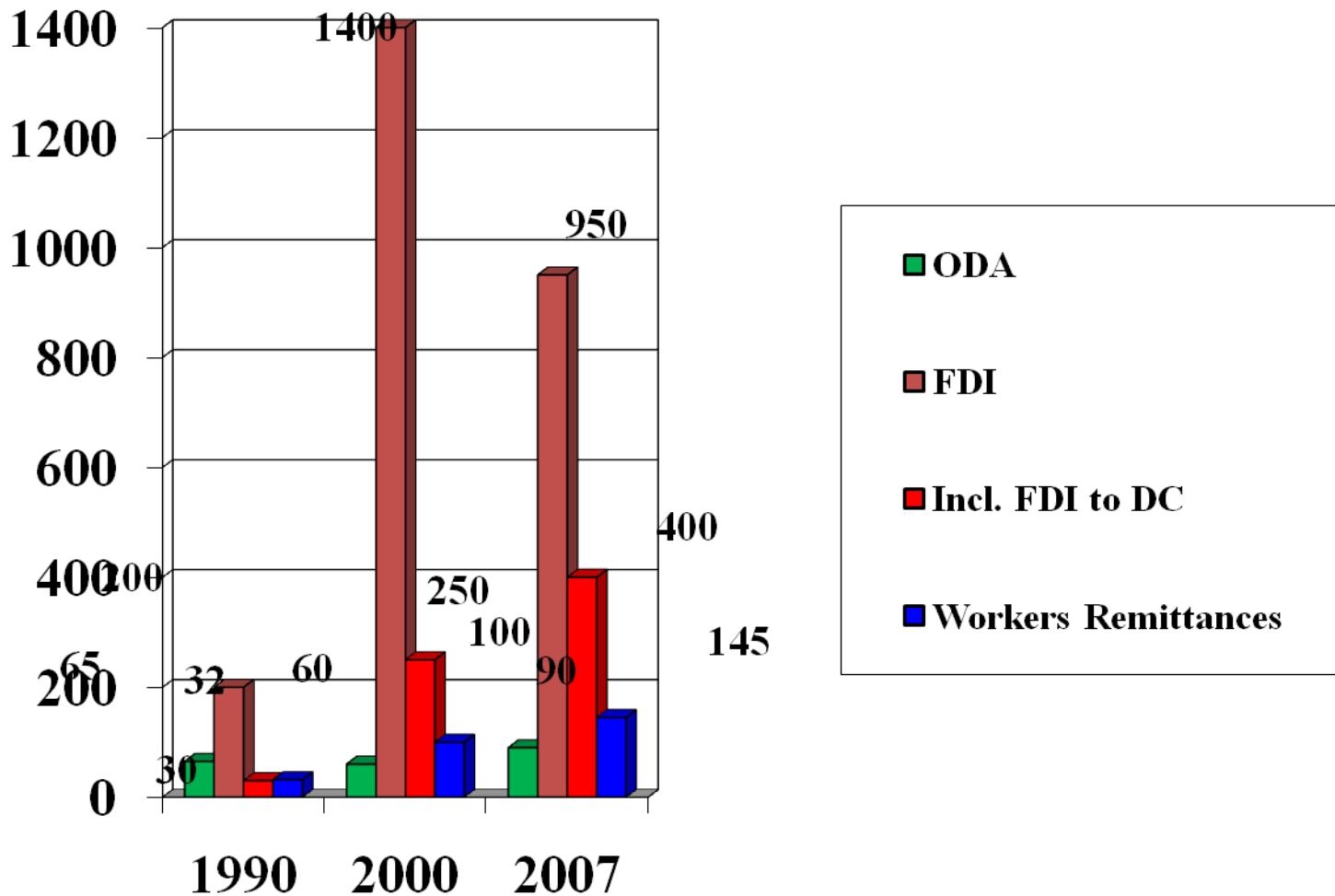
## 93% of the investment coming to the EU are done in the Services sectors;

**EU-FDI inward flows <sup>33</sup> from major partners, 2001–2004, <sup>34 35</sup> – EUR mn**

		2001	2002	2003	2004	2001-2004
Extra-EU	Manufacturing	12%	16%	14%	20%	15%
	Services	106%	76%	83%	65%	86%
	Other sectors	-18%	7%	2%	15%	-1%
	<b>Total</b>	<b>123 778</b>	<b>126 567</b>	<b>123 541</b>	<b>53 072</b>	<b>426 958</b>
*Other partner countries	Manufacturing	7%	25%	23%	3%	17%
	Services	178%	67%	76%	79%	93%
	Other sectors	-85%	8%	1%	18%	-10%
	<b>Total</b>	<b>22 406</b>	<b>41 042</b>	<b>32 580</b>	<b>23 651</b>	<b>119 679</b>
	<b>% of extra-EU</b>	<b>18%</b>	<b>32%</b>	<b>26%</b>	<b>45%</b>	<b>28%</b>

\*Other partner countries is the difference between extra-EU and United States, Canada, Japan and EFTA.

# The importance of private Foreign Direct Investment in Developing Countries



# But Developing Countries do not receive much of the FDI!

Table 1: Main destinations of EU FDI flows 2005-2007\*

	OUTFLOWS						INFLOWS					
	2005		2006		2007		2005		2006		2007	
Extra EU, of which	239.5	100.0%	317.5	100.0%	484.2	100.0%	129.2	100.0%	201.3	100.0%	360.1	100.0%
Europe (non-EU) of which	113.2	47.3%	71.5	22.5%	96.1	19.8%	40.9	31.7%	45.6	22.6%	54.0	15.0%
Switzerland	74.6	31.2%	19.4	6.1%	22.3	4.6%	19.1	14.8%	24.5	12.2%	22.8	6.3%
Norway	0.7	0.3%	5.8	1.8%	12.2	2.5%	1.4	1.0%	2.4	1.2%	7.4	2.1%
Croatia	1.0	0.4%	4.4	1.4%	3.0	0.6%	0.0	0.0%	0.0	0.0%	0.0	0.0%
Russia	9.7	4.1%	10.8	3.4%	16.7	3.4%	2.0	1.5%	1.4	0.7%	9.2	2.5%
Turkey	4.6	1.9%	12.2	3.9%	12.4	2.6%	0.0	0.0%	-0.3	-0.2%	0.3	0.1%
Ukraine	5.8	2.4%	2.1	0.7%	2.6	0.5%	0.0	0.0%	-0.1	0.0%	0.4	0.1%
Africa	16.3	6.8%	12.9	4.1%	17.6	3.6%	1.2	0.9%	2.6	1.3%	5.4	1.5%
North America of which	48.4	20.2%	139.2	43.9%	188.5	38.9%	75.1	58.2%	87.4	43.4%	190.3	52.8%
Canada	11.9	4.9%	31.1	9.8%	42.9	8.9%	8.0	6.2%	10.6	5.3%	10.3	2.8%
USA	36.5	15.3%	108.0	34.0%	145.6	30.1%	67.2	52.0%	76.7	38.1%	180.0	50.0%
Central America of which	6.1	2.5%	36.6	11.5%	97.3	20.1%	2.0	1.6%	24.4	12.1%	63.3	17.6%
Mexico	2.6	1.1%	1.6	0.5%	6.0	1.2%	1.2	0.9%	0.3	0.1%	0.3	0.1%
South America of which	11.0	4.6%	13.4	4.2%	18.3	3.8%	3.7	2.9%	1.8	0.9%	3.4	0.9%
Argentina	1.7	0.7%	2.1	0.7%	1.6	0.3%	0.4	0.3%	0.0	0.0%	0.2	0.0%
Brazil	8.4	3.5%	6.5	2.0%	15.3	3.2%	2.9	2.3%	1.3	0.7%	1.6	0.4%
Asia of which	42.6	17.8%	32.1	10.1%	57.8	11.9%	-0.1	0.0%	34.3	17.0%	34.8	9.7%
China (Incl. Hong Kong)	9.9	4.1%	10.3	3.2%	14.4	3.0%	0.0	0.0%	2.0	1.0%	-1.0	-0.3%
Indonesia	4.1	1.7%	-0.7	-0.2%	0.0	0.0%	0.0	0.0%	-0.5	-0.2%	0.8	0.2%
India	2.5	1.1%	2.5	0.8%	5.4	1.1%	0.5	0.4%	0.5	0.2%	0.9	0.2%
Japan	12.3	5.1%	-0.1	0.0%	12.9	2.7%	-4.2	-3.2%	15.7	7.8%	18.2	5.1%
South-Korea	5.0	2.1%	2.0	0.6%	1.7	0.3%	1.3	1.0%	0.9	0.5%	0.3	0.1%
Oceania of which	-1.0	-0.4%	7.3	2.3%	6.7	1.4%	5.3	4.1%	6.7	3.4%	5.0	1.4%
Australia	1.7	0.7%	6.8	2.1%	6.9	1.4%	5.2	4.0%	6.0	3.0%	4.8	1.3%
OECD (non-EU)	146.8	61.3%	187.3	59.0%	263.0	54.3%	101.2	78.3%	138.4	68.8%	245.0	68.0%

4.8 %  
av.

1% av.

58.2 % av.

\* EU-27 for 2005-2007. The sum of continents does not always equal total extra-EU because of double counting.

Parts may be higher than totals because of disinvestment.

## IMPORTANCE OF SERVICES IN A SUSTAINABLE DEVELOPMENT

### ➤ **Attract FDI in Infrastructure services:**

- Telecoms, IT related services,
- Logistics (Transports, Express Courier, Distribution, etc.),
- Energy distribution network,
- Water and Waste management,
- Financial services System, etc.
- Tourism (Hotel, travel, leisure, etc.)

**Experience shows that foreign service suppliers that invest in a country do it for a long period.**

### ➤ **Attract transfers of expertise and of know-how of foreign service suppliers, which in turn initiate:**

- Local jobs creations
- Staff vocational training, etc.
- Better quality of the services,
- Cheaper services,
- More choice for the consumers
- Reduction of the cost of doing business for local SMEs.

## **Main barriers to FDI in Services Sectors:**

- Obligation to enter the market through joint venture
- Limitations on capital ownership
- Limitations on licences allotted to foreign companies
- Restrictions on branching,
- Lack of National Treatment in many services sectors
- Local employment requirements
- Long and burdensome administrative procedures
- Restrictions on real estate access
- Lack of transparency in domestic regulation (economic needs tests, etc.)



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## List of criteria that a CEO looks at when taking a decision to invest in a developing countries:

- Potential market (size, income per capita, follow the demand, i.e. corporate customers)
- Existing competition, special treatment for local players
- Benefits prospects at short, medium and long terms
- Good governance (level of corruption, transparency of the legislation, etc.)
- State of the regulation (existing barriers at all levels, independent regulatory authority, implementation of the regulations, i.e. Regulatory Certainty)
- FDI incentives (special zones, tax incentives, corporate tax, etc.)
- Business Environment (incl. availability of human capital, level of education)
- Country Risk Assessment: political stability, GATS/Trade agreement sector specific binding commitments, BITs, etc. i.e.

**the GATS/BITs/FTAs Commitments are only additional criterion for companies to tick. But they can often make the difference. For the Developing countries, it is an additional opportunity to seize as to attract FDI.**

Companies need international agreements to  
provide legal security to their investments

**What EU companies want:**

1. WTO DDA (with GATS  
Mode 3 Commitments)
2. Regional Trade Agreements  
(with Integrated Markets)
3. Multilateral or Plurilateral  
agreements on  
investments
4. Bilateral Agreements (FTAs  
&/or BITs)
5. Autonomous  
Liberalisation... **BUT**

**=>What is happening  
in the reality:**

1. Autonomous Liberalisation
2. BITs, FTAs
3. RTAs (without  
Services !!!)
4. WTO ?? !!!
5. MAI (OECD): Dead

No Legal  
Security !

Lack of  
convergence in  
a global world



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**THANK YOU FOR YOUR ATTENTION !**

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