

MACROECONOMICS AT WORK EXERCISE

INTERNATIONAL TRADE IN SERVICES

REFERENCE: ‘The General Agreement on the Trade in Services’, *ACCI [Australian Chamber of Commerce and Industry] Review*, November 2002, pp.10-12.

CHAPTERS RELEVANT TO THIS EXERCISE: Chapters 19–21

OVERVIEW

International trade is generally understood and discussed in terms of trade in *goods* (commodities such as minerals or manufactured goods) but countries can equally trade in *services* (for example, education, tourism or the provision of financial or information technology services). The General Agreement on the Trade in Services (GATS), entered into in 1995 by members of the World Trade Organisation, is aimed at promoting free international trade in services as well as goods. The benefits of such free international trade are in principle the same, and the benefits of free trade *specifically in services* have been documented in a number of studies by organisations such as the World Bank. Trade in services has been shown to be of increasingly greater significance to countries with lower per capita GDP (often referred to generically as the ‘developing countries’) and thus the issue of free trade is an important determinant of economic development. This article summarises the benefits of trade in services and addresses some of the criticisms which have been levelled at GATS and the policy of free trade that (within certain limits) is embodied in GATS.

QUESTIONS

1. How does GATS define trade in services?
2. In what way does GATS provide for free trade in services, and what are the specific exceptions?
3. How significant is trade in services in the overall pattern of international trade (and thus what is the potential significance of GATS)?
4. What are the principal ‘theoretical’ arguments underlying the benefits of free trade in services?
5. What are the main criticisms commonly levelled at the policies embodied in GATS?
6. Assess the validity of criticisms of GATS.