3.1.1 Why trade in services is important?

Literature about trade liberalization in services surged during the Uruguay Round negotiations. Many Canadian and foreign academics explored various aspects of services. However, there has been a limited number of contributions regarding the importance of trade in services. Now the question is not "whether trade is applicable to services but whether services have particular empirical characteristics that warrants attention".[72] From Rada's perspective, services play an increasingly important role in international trade due to their enhanced transportability, the increasing service content as input in manufacturing and services (without appearing in statistical books).[73] With the coming round of WTO GATS negotiations in the year 2000, it is prudent to give some attention to the overall dynamics of trade in services.

3.1.2 Trade in services issues

-Comparative advantage

There is a consensus in conventional trade theory that the Hecksher-Ohlin-Samuelson (HOS) model based on relative abundance of factors inputs (comparative advantage) can be applied to services.[74] In this sense, services are not fundamentally different than goods. Sapir and Lutz (1981) found that the main factors shaping comparative advantage in services trade are the availability of physical and human capital. Scale economies may also represent an important asset for certain sectors such as insurance.[75]

Canadian authors like Melvin (1989) argued that comparative advantage in services is seen to depend on human capital, which is more ephemeral than factors considered in traditional theory. That means that service producers that are "human capital" intensive are very mobile and can make a country lose its comparative advantage by moving to another country. Consequently, he suggested that Canada should invest in education and R&D in order to retain and develop skilled labour. Moreover, he argued that a large size country like Canada would benefit internationally by improving its domestic transportation facilities. Overall, he found that a small economy like Canada would benefit more from trade in services than a larger economy. Conklin and St-Hilaire (1987) have a similar finding and suggested that the importance of some information technologies industries will influence a nation's comparative advantage.[76]

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[72] Norman and al. in Giarini (1987), p.44
[73] Rada, J.F. in Giarini (1987)
[74] Hindley and Smith (1984), Sandmo (1984), Sapir and Lutz (1981) and Krommenacker (1984)
[75] Sapir and Lutz (1981)
[76] Conklin and St-Hilaire in Grubel (1987)