

prevalence of trade barriers. Such sales in the United States, shown in Table D.2, are reported by the U.S. Department of Commerce in Foreign Affiliates Trade Statistics (FATS). They can be used to supplement Canada's balance of payments export data to provide a more comprehensive measure of Canada's services exports. Thirdly, various barriers and impediments limit trade in services. Even in industrialized countries that have relatively liberal merchandise trade regimes, barriers to trade in services and movements of natural persons can be particularly restrictive.<sup>13</sup> Table D.3 presents trade indexes in selected services in a number of major trading countries. This index quantifies the nature and extent of governments' regulatory restrictions that prohibit a foreign services supplier from entering and operating services activities in the host country.<sup>14</sup> Finally, while natural barriers such as languages, cultures and the legal systems apply to both goods and services trade, they appear to be a more formidable challenge to service suppliers. Engineers would find it extremely difficult to market their skills to foreign customers if they do not know the language of their customer. Service suppliers would hesitate to establish a permanent presence in a host country in which the language, culture and legal systems depart drastically from those in the home country.

From the above analysis, it can be seen that a large proportion of services activity is still confined to within a national boundary and carried out by domestic producers within their own borders, despite tremendous growth in cross-border services trade over the last decade. Nevertheless, there remains plenty of scope for trade in services to increase over time, to the extent that regulatory trade barriers are relaxed. A recent study indicates that an assumed 33 percent reduction of services barriers could increase world services exports by US\$118.6 billion, with US\$35.5 billion for the United States and US\$6.6 billion for Canada.<sup>15</sup> This would raise Canada's services exports by about 20 percent in the short term.

**Table D.3: Trade restrictiveness index for foreign services suppliers in selected services**

	Accountancy	Architecture	Banking	Distribution	Engineering	Legal	Maritime	Telecom
Argentina	0.29	0.16	0.07	0.09	0.15	n.a.	0.33	0.29
Australia	0.41	0.15	0.12	0.10	0.08	0.42	0.42	0.04
Brazil	0.39	0.16	0.51	0.23	0.23	n.a.	0.52	0.31
Canada	0.42	0.33	0.07	0.19	0.16	0.52	0.32	0.44
Chile	0.35	0.14	0.40	0.13	0.24	n.a.	0.50	0.09
France	0.31	0.14	0.07	0.33	0.03	0.58	0.33	0.21
Germany	0.39	0.15	0.07	0.24	0.28	0.49	0.39	0.05
Hong Kong	0.32	0.22	0.09	0.05	0.13	0.27	0.40	0.21
India	0.44	0.08	0.60	0.32	0.10	0.40	0.61	0.69
Indonesia	0.56	0.30	0.55	0.32	0.24	0.57	0.56	0.67
Italy	0.43	0.30	0.07	0.29	0.17	0.54	0.38	0.14
Japan	0.43	0.19	0.19	0.25	0.18	0.52	0.41	0.04
South Korea	0.48	0.19	0.43	0.33	0.12	0.44	0.58	0.68
Malaysia	0.51	0.33	0.65	0.40	0.26	0.54	0.52	0.58
Mexico	0.36	0.31	0.17	0.11	0.33	0.49	0.48	0.53
Philippines	0.63	0.33	0.53	0.37	0.15	0.54	0.64	0.45
Singapore	0.41	0.08	0.37	0.07	0.11	0.42	0.21	0.44
South Africa	0.44	0.11	0.19	0.07	0.10	n.a.	n.a.	0.59
Thailand	0.49	0.12	0.39	0.39	0.11	0.44	0.60	0.79
United Kingdom	0.19	0.07	0.07	0.19	0.07	0.31	0.24	0.00
United States	0.33	0.23	0.06	0.16	0.19	0.48	0.60	0.03

Sources: The Australian Productivity Commission's Trade Restrictiveness Index database, <http://www.pc.gov.au/research/memoranda/servicesrestriction/index.html>

Note: The value of the restrictiveness index ranges from 0 to 1. The higher the index value, the greater the restrictions imposed on a foreign supplier.

<sup>13</sup> McCallum, J. (1996) "National borders matter: Canada-U.S. regional trade patterns." *American Economic Review* 85 (June): 615-623. Helliwell, J. (1998) *How Much Do National Borders Matter?* Washington, D.C.: Brookings Institution.

<sup>14</sup> For each service subsector, the trade restrictiveness index calculated by the Australian Productivity Commission is based the government regulation pertaining to the subsector. Restrictions on establishment often include licensing requirements for new firms, restrictions on direct investment in existing firms and restrictions on the permanent movement of people. Scores are assigned to each restriction on the basis of how stringent it is. The restriction categories are then weighted according to a judgment about their relative economic cost for foreign services suppliers. The weights are generally chosen so that the value of the total restrictiveness index ranges from 0 to 1. The more stringent the restriction, the higher the index value.

<sup>15</sup> Brown, Deardorff and Stern (2001) "CGE Modeling and Analysis of Multilateral and Regional Negotiating Options," Discussion Paper no. 468, University of Michigan.