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FOREWORD

Gone are the days when services used to be considered as non-tradables. Not only did trade flows in services change as a result of technological innovation and trade opening, but our own conception of trade was substantially modified by the WTO General Agreement on Trade in Services (GATS), which prompted us to view trade in services through a different lens – that of the so-called four modes of supply. We came to accept that trade, particularly trade in services, can take place not only on a cross-border basis but also through the movement of natural persons, or, indeed, companies. That new paradigm opened up novel and promising perspectives for trade negotiations; no longer was there any excuse to ignore services in trade negotiations.

Very few would have predicted that world services exports would have come close to $2.8 trillion in 2006. Even this large sum, however, underestimates the real size of services trade, since international trade statistics simply do not cover all trade in services as defined by the GATS. Moreover, it is not only the value of services trade that is impressive but also the pace of its growth. In fact, since the 1980s, world services trade has actually been growing more rapidly than world production and merchandise trade. Today, more than a half of annual world foreign direct investment (FDI) flows are in services.

The services revolution does not stop with the creation of new commercial opportunities in the services sector. Rather, services underpin virtually every economic activity needed in the production and distribution of other goods and services. Indeed, economy-wide gains from trade in manufacture and agriculture cannot be fully reaped if essential services do not support it; services are the speedy highways for trade. No company can function without a telephone, grow without finance, nor get its goods to a market without transportation. No modern enterprise can work efficiently without access to telecommunication, legal, accounting, computing, and other business services. No economy can prosper without an efficient services infrastructure. Additionally, an inefficient and costly
services infrastructure would not only prevent trade flows but also hamper overall economic growth. Agricultural producers would suffer if they did not have access to efficient logistic and transport services. Restrictions limiting competition in the wholesale and retail sectors would reduce consumer choice and increase prices of goods. Companies would face multiple delays and obstacles if communication networks and services were substandard. Manufacturers would not be competitive if they did not have access to the best and most affordable finance available. Indeed, one proposition arising consistently from a broad range of studies is that the gains to be achieved from the further opening of trade in services far exceed those from lowering barriers to trade in goods.

For all these reasons, it is no wonder that countries have rushed to negotiate the opening of trade in services on both the bilateral and multilateral fronts. It is not regionalism, or preferential trade agreements (PTAs), that should come as a surprise. After all, almost 300 of these preferential agreements have been negotiated in the last half-century. Rather, what is more noteworthy is the inclusion of services trade within those agreements. A casual look at the notifications to the WTO suffices to highlight the flurry of negotiating activity on services in this first decade of the twenty-first century.

I think it is only fair to acknowledge that the proliferation of preferential agreements, in services as in other areas of trade, is causing concern – concern about incoherence, confusion, the exponential increase of costs for business, unpredictability, and even unfairness in trade relations. I would not go as far as to say, however, that bilateral trade deals are all bad. On the contrary, some of them, particularly those achieved in the context of broader regional integration initiatives, have contributed to economic welfare and political stability.

To help improve our understanding of services trade negotiations, this volume brings together contributions from specialists in services trade from different regions and backgrounds: academics, negotiators, and experts from international organizations, including some from the WTO Secretariat. Two key concerns underlying this book are, on the one hand, the need to fully grasp the extent of services trade opening achieved in bilateral agreements, and how that interacts with multilateral negotiations at the WTO; and, on the other hand, the need to improve our understanding of the motivations, forces, and interests behind services
trade negotiations, including key issues in the WTO services agenda. In
essence, it is a discussion about the political economy of bilateral and
multilateral negotiations on trade in services.

One could say that the chapters in this book go from the general to the
specific. The general chapters deal with the positive economics of services
trade opening (to remind us of the benefits and challenges of services
trade opening), with the political economy of preferential negotiations (to
examine some hypotheses about countries’ motivations to negotiate
bilaterally), and with the achievements of bilateral negotiations in services
(to show the concrete inroads made by these negotiations in the long and
winding road of trade opening, and the intended or unintended challenges
posed to the multilateral trading system).

More specific chapters assess market access issues at the bilateral and
multilateral levels by focusing on sector and country experiences. On the
one hand, various chapters review negotiating issues in such key sectors
and areas as distribution, finance, telecommunications, energy, cross-
border trade, and the temporary movement of natural persons. These
contributions consider market access issues in a comprehensive manner,
reviewing unilateral reform, assessing bilateral deals, and comparing
the latter with achievements at the WTO so as to underscore future
opportunities and challenges in multilateral negotiations. As such, they
are not just surveys of the state of play but true guides to some uncharted
land.

On the other hand, probably the heart of the volume, several case
studies compare the experiences of a number of countries with bilateral
and multilateral negotiations on services. The experiences of countries as
diverse as Australia, Chile, Colombia, Costa Rica, the Dominican Republic,
India, Singapore, South Africa, Thailand, and Uruguay have been
addressed, with a view to shedding light on the political economy of
these negotiations. Why and how do governments negotiate bilaterally
and multilaterally? What forces and interests shape those negotiations?
What kind of impact do bilateral negotiations have on multilateral
negotiations? Finally, do these bilateral agreements on services really
discriminate against non-parties? These, among others, constitute the key
questions that the authors have addressed.

As I have already suggested elsewhere, I find the debate about whether
regionalism is a good or a bad thing rather sterile. Whether we like it or
not, policy-makers are already into it. Rather, we need to better understand preferential trade agreements, to look at the manner in which they operate, and what effects they have on trade. And we definitely need to reflect on whether or not regionalism is causing harm to multilaterally based trading relationships. For example, it is now clear that a number of WTO members have entered into PTAs that contain significant improvements over their existing multilateral commitment in terms of the scope and depth of access granted. Moreover, these often go well beyond the offers that, by mid-2008, had been tabled in the Doha Development Agenda (DDA), and one wonders whether the ongoing preferential hyperactivity has not incited some members to make minimal DDA offers in services so as to have further negotiating chips to offer in other negotiating contexts. I would rather hope that those taking part in preferential agreements could lead the way and show support for multilateralism by narrowing the gaps between PTA commitments and GATS offers, thereby inspiring greater ambition. In any event, the benefits that members, especially developing country members, can get in return for their services commitments are much greater in the WTO than in bilateral deals. Together, the chapters in this volume provide valuable insights into all these issues, which are crucial not only to services trade policy but to trade policy in general at the dawn of this new century.

I could not end this foreword without a reflection on something dear to my heart – the Doha Development Agenda. At the time of writing, bringing the Doha Round to closure continues to be my priority. A successful round of multilateral negotiations would help governments refocus their attention on their broader global trade interests. It would also – I hope – significantly reduce the scope for discriminatory trade policy, not to mention all the other benefits from multilateral trade cooperation in terms of the global expansion of production and trade.

I hope readers will enjoy this book as much as I did.

Pascal Lamy
Director-General, World Trade Organization
Geneva
The Uruguay Round of trade negotiations, from 1986 to 1994, marked, to a great extent, the debut of services in trade negotiations. Since then, trade in services has become an indispensable element of such endeavors, be they bilateral, regional, or multilateral. Over time, what used to be an arcane issue, whose secrets were to be revealed only to a few initiates, has been attracting an increasing attention on the part not only of policymakers and trade negotiators but also of businesspeople, researchers, and civil society. Why this increasing interest? There are several reasons for this. For one, services play a central role in economic activity in virtually all countries of the world. Their participation in gross domestic product (GDP) ranges, on average, from 50 percent in low-income countries to 54 percent in middle-income economies, and to 72 percent in rich countries.\(^1\) The importance of employment in services activities is no less impressive, averaging 72 percent of total employment in high-income economies.

Another reason for this increasing interest in services trade is its rising share in investment and trade. In 2006 commercial services exports, measured by traditional balance of payments standards, reached almost $2.8 trillion. In spite of this highly significant increase in absolute value, trade in services still accounts for about 20 percent of world trade. These figures highly underestimate the importance of services for world trade, however. Indeed, ‘trade in services,’ as understood nowadays by both researchers and negotiators, encompasses not just the transactions recorded in the balance of payments but also the sales of services by local companies that establish a presence abroad – the so-called foreign affiliates trade. According to the WTO Secretariat, data available for the foreign affiliates of Organisation for Economic Co-operation and Development

\(^1\) World Bank Development Indicators online.
(OECD) countries in services-producing activities suggest that these global sales are approximately one and a half times larger than conventional cross-border trade flows measured through the balance of payments. The increase in services sales through the presence of companies abroad is driven, not surprisingly, by increasing flows of foreign investment in services activities. In fact, services represented almost two-thirds (61 percent) of the global FDI stock in 2005, compared to 49 percent in 1990. Services also remain the dominant sector in cross-border merger and acquisition (M&A) deals.

The inclusion of services in the multilateral trade agenda coincided – or perhaps followed – the regulatory reform trend launched in the early 1980s, which resulted in the removal or loosening of substantial restrictions to competition in services industries, thereby focusing new attention on the possibilities of international competition and the enhancement of trade and investment opportunities. Over time, the multilateral trading system – or, more specifically, the WTO – came to share its almost exclusive role with an increasing number of preferential trade agreements, in which services also became one major focus of attention.

This book presents nineteen contributions, listed as individual chapters, analyzing trade in services. Together, they highlight key challenges, opportunities, and experiences for services sectors and countries in bilateral and multilateral negotiations. Some of the chapters adopt a general approach to discuss the economics of services reform and the political economy of trade negotiations. Others analyze the situation in various sectors and policy areas, such as the movement of natural persons or cross-border trade. Some chapters examine specific country experiences with liberalization and negotiations. They all shed light on the many factors involved in the liberalization of trade in services, be it autonomously or through trade negotiations.

While each of the chapters can be read independently, they also complement each other. In what follows, we attempt to discern the main messages arising not only from each chapter but also from the whole project.

1 From policy to negotiations

The ultimate objective of trade liberalization is to raise people’s standards of living through productivity gains. Services play an essential role in economic development and growth insofar as modern economies have become more services-intensive. Although the expanding importance of services in the economy has certainly been noticed, Hoekman and Mattoo remind us that research on the interaction between services trade, services-related policies, and economic performance has not been as prominent as it ought to be. Their chapter provides a review of some of the recent literature on these topics, and discusses the policy implications arising from the extant research. As such, their contribution constitutes a natural point of departure for the book, and provides solid background for the rest of the chapters.

Although we know intuitively that services should have a powerful influence on growth, growth theory used to accord no special role for services activities, apart from finance. Recent research, however, as documented by Hoekman and Mattoo, shows that services have a significant productivity-enhancing role, which contrasts with a long-standing concern in the economic literature that a steadily expanding services sector is associated with declining overall productivity and therefore with declining growth rates in an economy. Noting that the productivity performance of services industries differs significantly between countries, Hoekman and Mattoo ask to what extent regulation and trade restrictions affect services performance. The studies available, which due to data limitations have focused on certain services sectors, such as finance, distribution/transport, and telecommunications, show that trade openness is a key channel for improving services performance.

After surveying the literature on trade and growth, the authors home in on two important policy implications: first, how to enhance comparative advantage in the production and export of services; and, second, how to design policy reforms to open services markets to greater foreign participation. Focusing on India, whose emergence as a services powerhouse is nowadays beyond doubt, they show that the main determinants of services production and exports are endowments, institutions, and infrastructure. Therefore, services exports depend not only on what a country inherited but also on institutions, regulation, and the development of critical infrastructure-supporting services activities. In other
words, policy matters – and, if that is the case, then the design of policy reforms becomes of critical importance. Services regulation is generally motivated by a mix of efficiency and equity considerations. The prime challenge for policy-makers is to strengthen such regulation without making it inappropriately restrictive. Furthermore, such regulation need not discriminate against foreign suppliers. Maximizing competition on the domestic market is generally a good rule of thumb from efficiency and equity perspectives alike, though there is also likely to be a need for complementary policies, such as combating anticompetitive practices and guaranteeing universal access to services, in order to ensure that the benefits of competition are widely enjoyed by society.

2 Multilateral and bilateral negotiations on services: Overall perspectives

The chapters by Marchetti and Roy and by Fink complement each other. While the former presents an overview of the multilateral and preferential liberalization of services, including a quantitative assessment of GATS+ liberalization achieved in recent PTAs, the latter considers the experience of services PTAs negotiated so far and discusses the political economy of regional integration. Both chapters analyze the nature of preferential liberalization in services and its consequences for the multilateral trading system.

Conducting a thorough overview of the current multilateral commitments and the offers submitted in the Doha Development Agenda, Marchetti and Roy remind us not only how little had been achieved in the Uruguay Round but also how disappointing the services negotiations in the DDA have been so far.4 Most WTO members seem to have chosen an alternative route to services trade liberalization in the form of bilateral PTAs. The achievements of PTAs, at least in terms of market access commitments, are quite impressive. Building on a database covering forty PTAs involving thirty-seven countries, the authors construct liberalization indices for the GATS commitments, Doha offers, and PTAs covered, and provide a full assessment of the added value of bilateral negotiations over multilateral commitments and negotiations.

4 This summary and overview, like the rest of the book, was finalized in mid-2008. For an overview of the Doha negotiations on services, see the appendix to this volume.
Of course, concerns about PTAs would be lessened if they did not lead – or had the potential to lead – to discrimination against non-parties. This is a crucial question: as shown by both Fink and Marchetti and Roy, evidence in this regard is not conclusive. The way services are traded (through four modes of supply), the way services are protected (through regulations instead of border measures), the rules of origin applicable to services trade, and the most-favored-nation (MFN) clauses that some of these agreements include are all factors that come into play. At the end of the day, however, it is an empirical question; and, as reminded by Hoekman and Mattoo, the empirics regarding services trade present enormous challenges.

Related to the previous question, a major concern on the shores of Lake Geneva is the impact of PTAs on the multilateral trading system. In other words, how do bilateral deals affect multilateral negotiations on services trade? Are these PTAs stepping stones or stumbling blocks for the multilateral liberalization of trade in services? Although it may be a little too early to reach final conclusions, both Fink and Marchetti and Roy have tried to identify the main forces at work – or, in other words, the main incentives arising from bilateral negotiations that could help or hinder the multilateral liberalization of trade in services.

3 Challenges, issues and opportunities in services sectors

The title of this part is slightly misleading, since it includes not only sectors but also other – non-sectoral – trade areas, such as cross-border trade in services, the temporary movement of natural persons (mode 4), and government procurement of services.

It would have been impossible to include all services sectors in this volume. We have preferred to focus on important – albeit very different – ones. Some of them are part of the key infrastructure of any economy, such as distribution, finance, and telecommunications. Others, in spite of their economic importance, are “newcomers” to trade negotiations, such as energy and postal-courier services. Others have proven difficult to liberalize at the multilateral level, such as audiovisual services and air transport. Exports of services on a cross-border basis or through the movement of natural persons have appeared as two of the main areas of comparative advantage for developing countries. Finally, the importance of government procurement for many services sectors aroused our
curiosity to see how much PTAs had achieved in this area, in comparison with the multilateral arena, where the issue shines largely by its absence.

Our motivating questions were simple. How much liberalization has been achieved in these sectors and areas at the WTO and in bilateral PTAs? What are the key negotiating issues and challenges faced? Further, can we draw lessons from the bilateral negotiations that could be used in pursuing liberalization objectives at the WTO? In replying to these questions, however, we wanted the chapters of this book to provide not just an analysis of negotiating issues but also an overview of the different industries. As far as possible, then, all the chapters share a similar structure: they review the major trends in these industries, highlighting both the evolution of regulatory practices and the underlying market forces; they discuss trade policy in these sectors, identifying the main barriers and actors; and they discuss, of course, trade negotiations, analyzing market access achievements in both multilateral and bilateral fora.

If choosing the sectors was difficult, summarizing the content of all these chapters is no less daunting. Therefore, we limit ourselves to the main thrust of each chapter – a sort of “avant-gouˆt”.

As explained by Roy, technological advances are exerting an increasingly strong influence on the way audiovisual services are consumed, distributed, and traded. These services have long been a sensitive issue in the WTO, where key members have traditionally held very divergent views. It is therefore not surprising that this sector has failed to attract either a significant number of commitments under the GATS or offers in the Doha Round. In comparison, PTAs have provided for significant advances. Indeed, the audiovisual industry is one of the sectors where the contrast between multilateral and preferential commitments is the greatest. These advances may not transpose so easily to the multilateral arena, however. On the one hand, discussions are more polarized at the WTO, especially as regards the cultural aspects. On the other hand, larger countries do not exert the same kind of negotiating pressure on their trading partners in a multilateral context. Paradoxically, these difficulties, probably inherent to any multilateral discussion on these matters, might further encourage the pursuit of audiovisual commitments on a bilateral basis, even though the multilateral arena should be the optimal one for considering fully both the commercial and cultural aspects involved.

Air transport services have been even less lucky than audiovisual services, as Latrille explains. Indeed, the sector has been excluded – for
the most part – from multilateral and bilateral trade agreements, and commitments on the few activities included in the GATS and PTAs have not been extensive. This situation is a clear reflection of the myriad of regulatory controls applied to this sector in the post-World-War-II era, including the management of trade through a multitude of bilateral reciprocal aviation agreements. In this context, the chapter undertakes a comprehensive review of air services agreements, including “open skies agreements”, and maps out their key features and the resulting state of play in terms of liberalization. This raises the question of how best to capture and extend the openness achieved in the bilateral and plurilateral contexts. Overall, the future may not be so bleak, as market forces continue to unfold almost everywhere.

Despite being an essential infrastructure service in any economy, as explained by Roy, distribution services have not attracted significant multilateral commitments. Preferential trade agreements, however, have provided for a number of advances, especially as regards the market access commitments of developing countries. With the use of an index that illustrates the extent to which governments restrict competition in the sector, the chapter shows that many countries that have avoided liberalization commitments in this sector apply in fact few or no restrictions to trade in this area, at least under mode 3 (trade through commercial presence). That said, a number of developing countries continue to maintain important restrictions, but the experience of a number of governments over the past decades suggests that trade negotiations – whether bilateral or multilateral – can help encourage and consolidate reforms in the sector.

Some sectors have been “winners” in past multilateral negotiations. Cases in point are telecommunication and financial services, where post-Uruguay-Round negotiations provided in both cases for significant commitments. As explained by Tuthill and Sherman, governments all over the world have now generally embraced competition in telecommunications as a means of achieving national policy objectives in both the sector itself and the economy as a whole. The willingness of governments to lock in their telecom reforms in international commitments has been impressive. Today, over 100 WTO members have WTO commitments that allow new entrants to compete in some or all segments of the industry. The situation is still brighter in PTAs, where the majority of agreements provide for further improvements over GATS commitments,
by covering more services, decreasing foreign ownership caps, and, in some cases, eliminating them entirely. Countries have even gone a step further in bilateral PTAs by enhancing disciplines on regulatory matters beyond the WTO Reference Paper, in order to deal more effectively with new technologies and services, as well as convergence. The advances in PTAs may be a question of timing, as some countries continued to liberalize well after the previous WTO negotiations were concluded in 1997, and decided to lock in those reforms in the first available trade negotiation, which happened to be bilateral. While the stumbling blocks faced by WTO negotiations have never been telecom-specific, it remains to be seen whether these PTA commitments can be “multilateralized” once other WTO negotiating issues are resolved.

As explained by Marchetti, the financial services sector has been going through a dramatic process of change for the last two decades. Technological innovation, deregulation, and the opening up of financial systems to international competition, amongst other factors, have reshaped the financial landscape for ever. Against this background, trade in financial services has expanded at a rapid pace, prompting a deeper integration of markets worldwide. In parallel to these developments, countries have negotiated international agreements at the bilateral and multilateral levels in order to consolidate and foster the expansion of cross-border competition in financial services. PTA negotiations have indeed provided for significant advances compared to the WTO, but barriers remain, particularly in developing countries. After the analysis of bilateral and multilateral negotiations, the author points to two forward-looking ideas. On the one hand, the WTO appears as the most appropriate forum for binding liberalization, providing true global platform for financial services. On the other hand, the negotiating model, at both the multilateral and bilateral levels, may need to be updated, by giving higher priority to the liberalization of cross-border trade in financial services in line with the evolving best practices around the world. That would not only reflect the global nature of the financial business, but would also provide an incentive to countries to continually modernize their regulatory regimes.

In spite of their economic importance, some sectors such as energy and postal-courier services are “newcomers” to the trade arena. In her chapter, Zhang explains that the postal sector was traditionally characterized by state-owned monopolies providing basic mail services and privately owned
courier companies handling parcels and providing expedited mails services. Since the 1990s, however, market reforms have prompted significant changes in the industry, in many cases blurring the old boundary between public and private operators. The reforms have cut both ways, moreover, with private operators venturing into areas that were formerly monopolized, and public operators competing in the express/courier segment of the market. Commitments in this sector at the WTO are minimal. Countries have bound higher levels of liberalization in bilateral PTAs, although trade negotiations have not been the main force leading liberalization in the sector. As emphasized by Zhang, liberalization of the sector is at such a historic juncture that policy and regulatory matters deserve further attention.

**Energy services**, as becomes evident in Cossy’s chapter, were one of the “forgotten” sectors during the Uruguay Round, not only because of the low level of liberalization commitments but also because its actual classification among other service sectors is not absolutely clear. PTAs have provided for market access advances compared to the GATS. The question is not, as explained by the author, whether PTAs go further than the GATS, but to what extent they go further. The situation varies considerably from one PTA to another, and significant differences are found between negative- and positive-list PTAs. What is clear, thinking about the DDA negotiations, where energy services have been given a clear focus, is that most WTO members have scope – and sometimes significant scope – for improving their GATS commitments and DDA offers.

As stated earlier, this book also deals with important negotiating issues, such as the liberalization of cross-border trade in services, the temporary movement of natural persons, and government procurement of services.

For different reasons, the liberalization of cross-border trade and the movement of natural persons have been addressed as “horizontal” matters in the WTO. As explained by Carzaniga, **mode 4** has always had a unique status in the GATS. Undeniably, various developing countries have a comparative advantage in the supply of many services through the temporary movement of natural persons. Nevertheless, governments’ concerns, in developed and developing countries alike, about temporary migration turning into permanent presence, as well as other sensitivities, have always haunted negotiations on this matter. Moreover, negotiations on this issue typically get mixed up with migration-related aspects. It should not be a surprise, then, that multilateral negotiations during the
Uruguay Round, and so far in the Doha Round, have not yielded satisfactory outcomes, particularly in the eyes of the main *demandeurs*. Assessing progress in this area in the bilateral context is not straightforward. On the one hand, bilateral negotiations do not seem to have escaped the political sensitivities surrounding the movement of natural persons, and commitments in PTAs on categories of natural persons of most interest for developing countries are far from reaching their full potential. On the other hand, mode 4 commitments in PTAs provide for a number of advances, especially when compared with the shallow state of existing GATS commitments and modest progress in Doha offers. That said, the WTO, where power relationships are not as asymmetrical as in bilateral negotiations, probably presents a better forum for developing countries to obtain concessions in this area.

One of the notable trends in recent years has been the increasing importance of the **cross-border supply of services**, through such activities as business process offshoring (BPO). Developing countries are quickly taking advantage of these developments by exploiting their natural comparative advantage in labor-intensive services, and by putting in place appropriate policies to develop the necessary infrastructure. India is the paradigmatic case, but others are joining the bandwagon. Mindful of these trends, and aware of the big economic stakes involved, developing countries have turned the expansion of the cross-border supply of services into one of their workhorses – together with mode 4 – in the current Doha Development Agenda.

The chapter by Chaudhuri and Karmakar explains these trends and provides, as do other chapters, a comparison of bilateral and multilateral negotiations. While the issue of cross-border supply has been specifically identified in the WTO as a unique negotiating issue, amenable to a “formula type” of negotiation whereby all countries could undertake similar commitments in a cluster of many services sectors, it does not seem to have acquired such a status in bilateral negotiations. Nonetheless, the analysis shows that PTAs have in general led to substantial improvements in binding commitments. Developing countries, for example, have undertaken very significant commitments in PTAs, which have not been reflected thus far in their offers at the WTO. On the other hand, in spite of improvements, significant gaps remain in the bilateral commitments undertaken by developed countries. In the authors’ view, the WTO may be the only forum where a “grand trade-off” in this area can be attempted.
between developing and developed members, thus providing a truly global marketplace where exports from developing countries could flourish.

Through their purchases, governments are very significant participants in services markets. Government procurement is not subject to multilateral disciplines, however, but to a plurilateral agreement at the WTO (the Government Procurement Agreement – GPA) and to bilateral disciplines in various PTAs. Anderson and Müller provide, to our knowledge, the first comparative assessment of market access achievements in the WTO and in various PTAs in this important area of trade. Indeed, apart from the disciplines and commitments in the WTO, many PTAs include detailed provisions and market access commitments regarding the procurement of services by governments. The authors find that, while PTAs between parties to the GPA provide for limited advances as compared to their commitments at the WTO, those involving non-parties are often more substantial. This begs the question of why such countries have chosen not to join the GPA. Such advances in preferential agreements are likely to provide another motivation for services suppliers, especially in developed economies, to ask their governments to engage in bilateral negotiations.

### 4 Country experiences with services trade

The inclusion of services in the bilateral trade agenda has become unavoidable for several reasons. First, services industries in developed countries increasingly demand business opportunities from trade negotiations. Second, developed economies have come to view PTAs as mechanisms not only for addressing several issues excluded from the WTO agenda (e.g. investment and competition) but also for making progress in stalled areas at the WTO, including services. These two arguments also apply to some extent to developing countries that have developed a comparative advantage – and therefore an offensive negotiating interest – in services (e.g. Chile, India, and Singapore). Finally, some developing countries view PTAs with developed partners as a catalyst for the reform of certain key service sectors.

This part of the book presents a collection of case studies of countries as diverse as Australia, Chile, Colombia, Costa Rica, the Dominican Republic, India, Singapore, South Africa, Thailand, and Uruguay. These countries differ in terms of size, economic structure, level of development,
regional context, and political system. They have also shown different approaches to WTO and PTA negotiations on services. The aim of these case studies is not simply to show the experience of these countries in negotiating and implementing multilateral and bilateral trade agreements encompassing the services sector, but also to shed light on the factors leading to the different trade policy stances and outcomes.

All these economies are true “services” economies, with services sectors representing more than 50 percent of GDP in all cases. For all of them, services exports are of significant importance, both in absolute terms and as a share of total exports. Moreover, some of them – e.g. Chile, Costa Rica, Singapore, and Uruguay – have the ambition of becoming services hubs in their regions. All of them have embarked on ambitious processes of unilateral liberalization since the 1980s, although the pace – and the success – of those reforms have varied. While some have reached a high degree of openness in most sectors (e.g. Australia, Chile, and Singapore), others are still in the process of opening up key sectors of their economy, such as distribution, finance, and telecommunications (e.g. India and Thailand).

The main interest of these cases studies lies in the insights they bring into different aspects of the negotiating dynamics. Why do countries negotiate PTAs? How do they choose their partners? What explains the difference in commitments across PTAs signed by the same country? How do countries deal with domestic constituencies and, eventually, with vested interests? What role – if any – has unilateral liberalization played? In other words, the case studies shed light on essential political economy aspects of trade negotiations. As such, they complement the discussion in the chapters by Fink and by Marchetti and Roy, which is of a more general nature. Each case study speaks for itself, and we would do little justice to them if we tried to sum up all the information they contain and the insights they provide. Rather, we attempt simply to outline some of the main themes emerging from them.

Even at similar levels of development, or having reached rather equivalent levels of openness, these countries have all adopted different approaches to trade negotiations in the services field, either at the multilateral or bilateral levels. Both in terms of commitments and participation in the current Doha negotiations, Australia, for example, appears as having a clear offensive agenda in multilateral services liberalization. Some of the others have targeted specific areas of export interest (e.g. Chile, India,
and Singapore), or have adopted more defensive positions (e.g. the Dominican Republic, South Africa, and Thailand).

Save for South Africa, which so far has not wished to negotiate bilateral PTAs with non-regional partners, all these countries are involved in bilateral negotiations with non-neighboring countries. Not all of them are equally enthusiastic, however. Within this group, Chile and Singapore, and to a lesser extent Australia, appear as championing preferential trade liberalization of services through an increasing network of bilateral agreements. Others, such as India and Thailand, are more cautious, probably hampered by slower and more hesitant and uncompleted services policy reforms. South Africa’s case highlights the paradox of a country hesitant to push for greater services access through bilateral PTAs – or indeed multilateral negotiations – despite burgeoning services exports.

The motivations of countries to negotiate vary. Political and strategic reasons stand out clearly in almost all cases. The slow progress of multilateral negotiations is also often cited as a force behind the rush toward PTAs. This is clearly the case for Chile and Singapore, but also for more “systemically” important countries such as India, which modified its customary reliance on multilateral negotiations to also seek market opportunities through bilateral negotiations. Concrete economic reasons have prompted some countries to enter into bilateral agreements. This may be the case with Costa Rica, the Dominican Republic, and Colombia, which sought to consolidate the United States’ unilateral preferential schemes into a permanent framework of rules and obligations. Sometimes, bilateral PTAs appear to have emerged from dissatisfaction with other initiatives in which these countries were involved: Mercosur (the Common Market of the South) in the case of Uruguay, which decided to start looking elsewhere, in the direction of the United States; or the fading Free Trade Area of the Americas (FTAA), which appeared as an additional factor behind the rapid move of Colombia toward a PTA with the United States. The motivations are closely linked to the choice of partners.

Previous unilateral liberalization has played a significant role in countries’ negotiating positions in PTAs. When significant, it has been a “facilitator” of negotiating outcomes (e.g. Australia and Chile); when postponed, it has, by contrast, proved a major negotiating hurdle (e.g. Costa Rica with regard to insurance and telecommunications) or an impediment to more ambitious outcomes (e.g. India and Thailand). This conclusion is, of course, highly dependent on the trading partner.
Indeed, while few countries see trade negotiations – either bilateral or multilateral – as the main driver of further reforms, the negotiation with a big trading partner such as the United States may imply the need to introduce further liberalization even in the context of a generally open environment.

The case studies also show the specific role of services in bilateral negotiations involving developing countries. What do they seek in the case of services? In some cases, developing countries’ negotiating interest seems to focus primarily on the dismantling of foreign barriers to their merchandise exports, and services appear as an inevitable down payment (e.g. those that negotiated with the United States). In other cases, ambitious services commitments, particularly when undertaken with a more developed partner, appear as a necessary element in the promotion of the country as a services hub for the region (e.g. Chile, Singapore, and Uruguay). Some have also used bilateral agreements to prompt and consolidate internal reforms. Finally, in other cases, developing countries have promoted their own services exports, even when negotiating with more advanced trading partners (e.g. Chile, Colombia, India, and Singapore).

Bilateral negotiations have sometimes led to different outcomes. Each bilateral negotiation is different, and the level of commitments depends on factors such as the bargaining power of the trading partner, the attainment (or lack of) reciprocal concessions in other areas, or the scheduling modalities – with a premium on the so-called negative-list approach.

The decision-making process varies between countries. For those that had liberalized extensively before approaching the negotiating table, taking decisions may be more straightforward, as the identification of sensitive sectors had already been done during the liberalization process (e.g. Australia and Chile). In other cases, the decision-making process appears more cumbersome, due to political structures or the influence of sectoral vested interests. In all cases, however, the case studies show that successful negotiations require political commitment at the highest level, and intense coordinating efforts not only with the private sector (e.g. the various ‘cuarto adjunto’ or ‘room next door’ processes described in the chapters) but also within the government, with other ministries and agencies in charge of policy in different services sectors.

In contrast with multilateral negotiations, bilateral talks tend to be more intensive and much quicker. As shown by some of these case studies, negotiations can last as little as two or three years, and even include monthly
meetings! The length of negotiations appears to be decreasing, probably influenced by the fact that large trading partners such as the United States and the European Communities\(^5\) negotiate on the basis of specific “templates,” which allow for small modifications, and which force trading partners to go directly to the business of negotiating market access conditions.

All these political economy aspects of services trade negotiations appear – one way or another – in these case studies. Of course, the studies do not approach the issues in the same fashion. Neither do they put the same emphasis in all of them. In other words, each study tells its own “story.”

For example, Sáez starts his analysis in the mid-1970s, at the time that Chile launched a long-term process of unilateral economic reforms that continues today. It was not until around 1997 that the country embarked on bilateral negotiations, starting with partners on the American continent, but soon spreading to others in the Asia-Pacific region in particular, where Chile has increasingly focused its export diversification efforts. The negotiations have been conceived by Chile’s successive governments (continuity in this regard has been remarkable) as a necessary complement to domestic reforms, with a view to opening markets for Chilean exports, including services exports. Except for very targeted restrictions, trade agreements have not led to services liberalization; but Chile has not feared to bind its unilateral reforms either. It represents a clear case of unilateral reform coming first, followed by – aggressive – negotiation and binding of reforms. Like other developing countries, Chile has not been dogmatic about the negotiating approach, adopting either the GATS or the NAFTA (North American Free Trade Agreement) models depending on the partner concerned. Over time, Chile has managed to also seek and extract concessions for its own services exports, showing once again that developing countries can also approach trade negotiations in services with an offensive agenda in mind.

Bosworth and Trewin compare the cases of Australia and Thailand, which have both been pursuing bilateral PTAs in recent years, including

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\(^5\) Technically, for reasons of international law, the European Union is known as the European Communities in WTO business. Accordingly, the latter term is used in this book. Similarly, the Hong Kong SAR (Special Administrative Region) and Macao SAR are officially referred to as “Hong Kong, China,” and “Maca, China,” respectively, in WTO business, while South Korea is referred to as the “Republic of Korea.”
between themselves, but whose negotiating stances clearly differ as a reflection of divergent approaches to unilateral reforms. Thailand has been somewhat reserved in opening key sectors, such as distribution and financial services, in part due to the adverse effects of the Asian financial crisis. Consequently, the authors argue, liberalization has occurred largely on an ad hoc basis, usually motivated by a general deterioration of economic conditions. In the authors’ view, the case in favor of further unilateral reforms in Thailand needs to be made more strongly and domestic institutional support for liberalization needs to be established. In Australia, on the other hand, despite a long-standing and successful record, unilateral reform efforts seem to have waned. Thus, according to the authors, there is a need to rejuvenate the commitment to reform. In both cases, probably more so in Thailand’s than in Australia’s case, trade negotiations have not prompted services liberalization on the ground. What’s more, it may even have failed to work as a lock-in – support – mechanism for those reforms. As one might expect, the authors make a forceful case in favor of unilateral reform, and the use of trade negotiations – both bilateral and multilateral – to support and sustain these endeavors.

Robert and Stephenson review the experiences of Costa Rica and the Dominican Republic in the negotiation with the United States of the Central America-Dominican Republic Free Trade Agreement (CAFTA-DR) Arrangement. This PTA prompted significant liberalization in these two countries, particularly in Costa Rica, which, for example, committed to fully liberalize its insurance and telecommunication sectors, previously subject to state-owned monopolies. This chapter provides a very interesting account of the negotiating process, explaining the domestic political constraints faced by these countries, and describing the domestic and external alliances built to support the agreement. The chapter provides not only insights into the US negotiating strategy and tactics, but also a better understanding of why smaller economies such as Costa Rica and the Dominican Republic have been willing to go much further at the preferential rather than at the multilateral level. The lack of clear incentives in the form of specific trade-offs and the complexity of the request–offer process in the WTO, as well as the PTAs’ negative-list modalities, are factors that help explain such different outcomes.

Singh’s chapter is another very interesting account of the political economy behind Colombia’s and Uruguay’s positions vis-à-vis the United States. While Colombia has managed to negotiate a PTA with the United
States, Uruguay has had to content itself – at least for the time being – with a bilateral investment treaty. The chapter sheds light not only on the specific aspects of these two negotiations but also on these two developing countries’ motivations to negotiate with the United States. As readers will see, and as confirmed also by the chapter authored by Robert and Stephenson, negotiating with such a large trading partner requires the mobilization of very important human resources, both in the public and private sectors. In Singh’s story, not only do the main characters – Colombia and Uruguay – matter, but the supporting actors as well. Indeed, the chapter reveals interesting insights into US policy for the region, and into the influence and constraints arising from these two countries’ membership in regional arrangements, namely the Andean Community and Mercosur.

By regional standards, the South African economy is quite diversified, with some strong and competitive services sectors. Exports of services have even been burgeoning in the last years, not only to developing countries but also to developed markets. If so, why aren’t these export interests more actively promoted through trade negotiations? This is the starting point of the chapter authored by Draper, Khumalo, and Stern, who approach the matter from a strictly political economy point of view. The answer is, of course, not straightforward. A myriad of factors are at play, including domestic and regional politics. The final assessment may well be a matter of degree. On the one hand, South Africa participates actively in multilateral negotiations, although their negotiating stance in services appears as defensive. On the other hand, it would be hard to argue that the country has no interest whatsoever in trade negotiations in other fora. Rather, its choice has been centered so far in the region, to the inevitable detriment of non-regional trading partners. Reconciling all these factors presents significant challenges for a country in such a unique geographic and political position.

Mukherjee’s comparison of Singapore (a “champion” of PTA negotiations) and India (a more cautious participant) also presents an interesting contrast. Both countries have liberalized unilaterally, albeit at different paces, have developed global competitiveness in selected services, and are now major exporters. Both have demonstrated a strong commitment to multilateral negotiations on services, India even playing a leadership role in many respects. Nonetheless, the slow progress of the multilateral negotiations, the fear of exclusion, and political and strategic
reasons have prompted them to also seek bilateral agreements to promote their own services exports. Differences in size, political system, and governance structure have resulted, however, in different ways of approaching PTA negotiations, which become more apparent with regard to the way sensitive issues or sectors are addressed. Singapore seems more willing to find a middle ground and to undertake bilateral commitments in a phased manner, giving the domestic industry time to adjust; India, on the other hand, appears more inclined to clearly sequence unilateral liberalization and trade commitments. In the case of India, any trade negotiations with such partners as the European Communities or the United States would be more demanding and may exert pressure for an acceleration of unilateral reforms.

5 Final comments

Before leaving the reader on his/her own with the book’s content, we would like to provide reassurance that you will not get lost in the trade jargon. To avoid this, an appendix has been included at the end of the book, explaining basic concepts and providing an overview of services negotiations in the WTO up to the time of writing.

A final reflection on services liberalization in the Doha Development Agenda: at the time of writing, bringing the Doha Round to closure continues to be a priority for the WTO; the success of the negotiations is essential – at least in the editors’ view – for global trade policy-making. In spite of progress made at the bilateral level, the multilateral liberalization of trade in services continues to hold the key to delivering maximum benefits in terms of the global expansion of production and trade, and the consequent improvements in global economic welfare.