Regional Dialogue on
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Measuring and comparing trade liberalization in services in LAC

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MEASURING AND COMPARING TRADE LIBERALIZATION IN SERVICES IN LAC

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Regional Dialogue on “Promoting
Services Development and Trade in Latin America and the Caribbean”
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Organization of the Presentation

1. Comparison: GATS and S-PTAs

- Vaillant; Marcel and Saez Sebastian, 2010: “The Negotiation and Management of Regulations in the Trade in Services “, Trade in Services Negotiations: A Guide for Developing Countries edited by Sebastian Saez. p.: 87 - 119, World Bank, Washington, ISSN/ISBN: 0821384104 .

2. Latin-American S- PTAs

3. Some Stylized Facts

TRANSPARENCY IN RELATION TO THE DOMESTIC NORMATIVE: LEGAL AND REGULATORY LEVEL

- Transparency is a general goal regardless of the level of specific restrictions applied in each of the negotiated rules.
  - ➢ It can be achieved with a unilateral effort of each country.
- Transparency is a prerequisite for any trade negotiations.
  - – First step to any liberalization process is to know the barriers and restrictions which are applied
  - – If it is necessary to reclaim it to the partner, is essential to have the ability to provide it unilaterally.
  - – It is always easier for a developing economy to negotiate when they know for sure which the assumed commitments are.

GOODS AND SERVICES LIBERALIZATION AT THE MULTILATERAL LEVEL

- Goods liberalization has been deeper than in services but:
  - has not addressed all barriers that discriminate against foreigners;
  - in contrast, services liberalization has addressed a wider set of issues but so far has not reached significant results. <u>Scope of barriers to trade addressed by GATS is more general</u>
    - includes aspects of business practices (BP) and market structure (MS) such as the existence of monopolies.

Comparison of rules and disciplines between goods and services (Snape, 2000)

ACCESS BARRIER		FORM OF MARKET ACCESS					
		Cross border (CB- M1&2)		Investment/Commercial Presence (M3)		Movement of people (M4)	
		GATT	GATS	GATT	GATS	GATT	GATS
Discrimination against foreigners	Border	MFN	MFN;NT	Covered only when related with CB	MFN;NT	--	MFN;NT
	Domestic	NT	NT; MA, BP	--	NT; MA, BP	--	NT; MA, BP
Barriers to both nationals and foreigners		Little	MA,MS, BP	--	MA, MS, BP	--	MA, MS, BP

MULTILATERAL LIBERALIZATION FACED AND WILL FACE SERIOUS DIFFICULTIES :

- Positive list negotiations allow all countries (developed and developing) to adopt commitments at a very low level of ambition.
  - General commitments represent less than the status quo, countries' commitments –in particular, for developing countries do not necessarily represent the actual level of liberalization of their service sectors (in particular in LA countries);
  - Complexity of the process- identification of measures, organization of information, and selection of activities is imperfect, particularly in many developing countries,
    - objective of transparency has not been reached;
    - the classification of service activities is incomplete and old. A more robust system and a greater level of disaggregation is required.

SERVICES AND PREFERENTIAL TRADE AGREEMENTS (S-PTA)

- Countries have been actively engaged in services negotiations at different level (regional blocs and bilateral level).
  - In particular S-PTAs have accelerated over the last decade
- Why countries pursued regional or bilateral negotiations (Hoekman and Kostecki, 2001):
  - Globalization creates the need increase efficiency and improve access to foreign technologies and investment;
  - Domino effect- the need to reduce the cost of exclusion from trading blocs;
  - Political economy and credibility- a way to lock in policy reforms;

GATS and S-PTAs

- Preferential trade agreements , like the GATS, have followed comprehensive liberalization objectives.
- However, there are some differences that are relevant to identify:
  - PTAs have a more strongly sectoral profile.
    - Liberalization in certain sectors, such as financial services and telecommunications, have been deeper both in terms of rules and elimination of barriers;
  - Frequently, liberalization in PTAs follows a negative list approach.
    - Under this approach countries may reserve certain activities from a limited number of rules, but having to justify - as a general criterion- the exemption. This is achieved by listing nonconforming measures in force in the domestic legislation that justify the exception.

GATS and S-PTAs

- These differences were designed to reach a greater level of liberalization in PTAs compared to the results achieved under GATS. However, existing studies have not found conclusive evidence in this regard. This is a complex issue from a technical point of view where empirical research is recently emerging.
  - Nevertheless, some studies have concluded that liberalization has been more substantial at the level of PTA than under GATS in terms of sector coverage (See Roy, Marchetti, Lim, 2007)
  - In addition, because PTAs negotiations seek to bind the existing level of liberalization, the agreements tend to result in more liberalization.
  - Moreover, because in many service sectors, unlike trade in goods, it is not feasible to implement a discriminatory liberalization, preferential agreements in services tend to be more consistent with multilateral liberalization.
  - Finally, rules of origin are less strict in services than in goods and therefore less discriminatory.

Measurement Degree of Restrictiveness

- By outcomes
  - Price methodologies
  - Trade specialization patterns
- By Policies
  - Unilaterals
  - Trade Agreements
    - Frequency indexes
    - Type of agreements and partners

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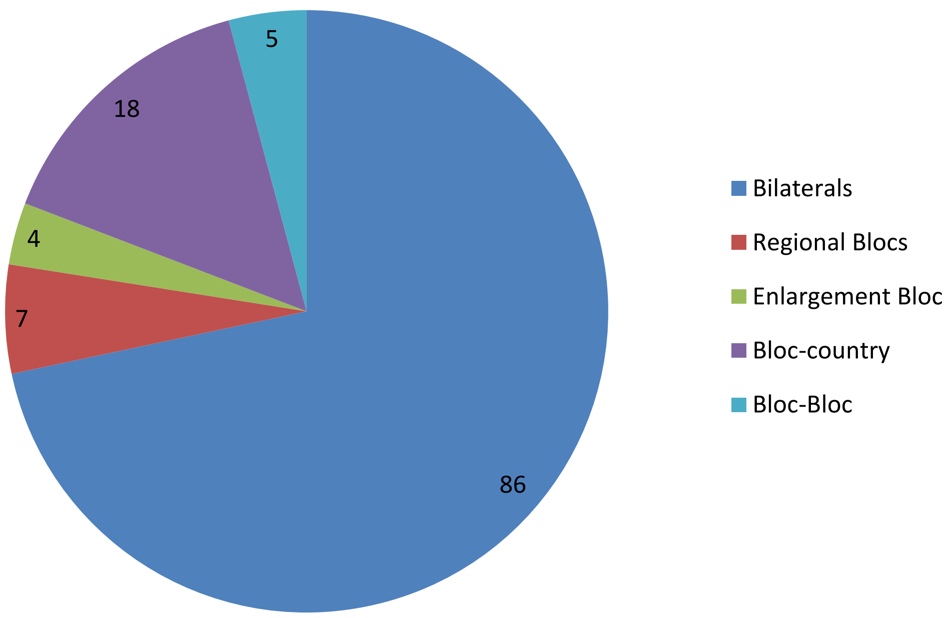
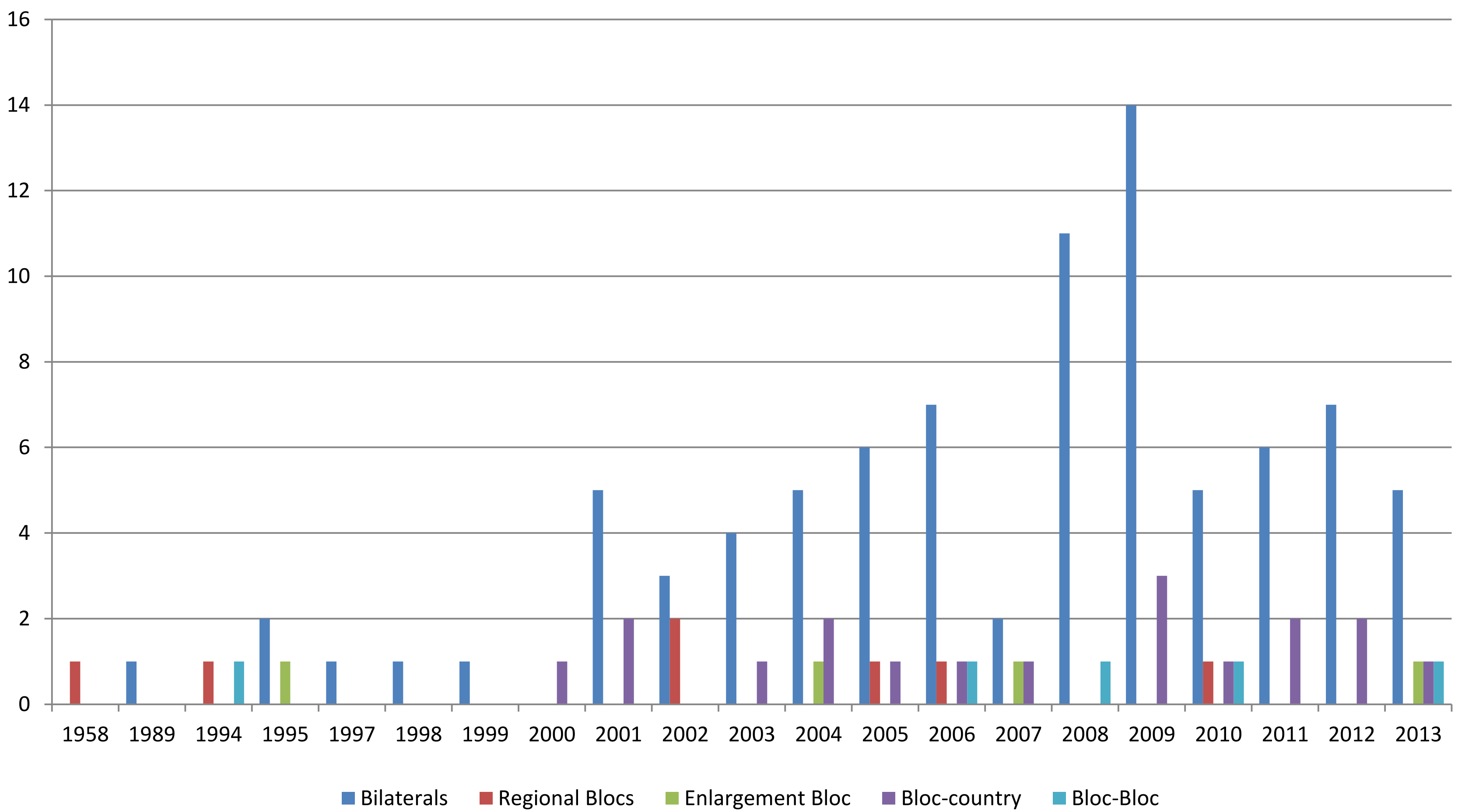
TYPOLOGY OF SERVICES PTAs
(WTO RTA Data base)

- 119 S-PTA (118 G&S and 1 only services EEA)



TYPE	%
Bilaterals	72
Regional Blocs	6
Enlargement Bloc	3
Bloc-country	15
Bloc-Bloc	3
Total	100

EVOLUTION BY TYPE 1958-2013 (number of S-PTAs)



S-PTA BILATERALS

		1989	1995	1997	1998	1999	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total
UNITED STATES	SUBTOTAL						1			2	1	2			2			3		11
	CENTRAL AMERICA																	1		1
	SOUTH AMERICA									1					1			1		3
	REST SOUTHEAST ASIA									1								1		2
	NEAR EAST						1					1			1					3
	OCEANIA										1									1
	AFRICA											1								1
REST NORTH AMERICA	SUBTOTAL		2	1	1	1	3			1					1		1	1	1	13
	CENTRAL AMERICA		1		1		3												1	6
	SOUTH AMERICA		1	1		1				1					1		1	1		7
CENTRAL AMERICA	SUBTOTAL						1		1					2	3			1	1	8
	CENTRAL AMERICA								1					1	3					5
	SOUTH AMERICA													1				1	1	3
SOUTH AMERICA	SUBTOTAL							2						1	3	1		1		8
	CENTRAL AMERICA							2						1		1		1		5
	SOUTH AMERICA														2					2
	OCEANIA														1					1
JAPAN	SUBTOTAL							1			1	1	2	3	2		1	1		12
	SOUTH AMERICA										1		1					1		3
	EUROPE (EFTA)														1					1
	REST SOUTHEAST ASIA							1				1	1	3	1					7
	SOUTH ASIA																1			1
CHINA	SUBTOTAL								**2**					**1**	**2**	**2**	**1**			**8**
	CENTRAL AMERICA																1			1
	SOUTH AMERICA															2				2
	REST SOUTHEAST ASIA								2						1					3
	SOUTH ASIA														1					1
	OCEANIA													1						1
REST SOUTHEAST ASIA	SUBTOTAL						**1**		**1**	**2**	**4**	**3**		**2**	**1**	**2**	**3**		**2**	**21**
	CENTRAL AMERICA									1		2		3					1	7
	SOUTH AMERICA									1					1		1			3
	REST SOUTHEAST ASIA											1								1
	SOUTH ASIA										1			1		1	1			4
	NEAR EAST										1									1
	OCEANIA						1		1		2					1	1		1	7
OCEANIA	SUBTOTAL	1																		1
	OCEANIA	1																		1
EUROPE (EFTA)	SUBTOTAL											1								1
	EUROPE (EFTA)											1								1
EASTERN EUROPE	SUBTOTAL																		1	1
	EASTERN EUROPE																		1	1
	Total general	1	2	1	1	1	5	3	4	5	6	7	2	9	14	5	6	7	5	86

SUMMARY BILATERALS

	Participation	Countries	Average
UNITED STATES	11	1	11
REST NORTH AMERICA	14	2	7
CENTRAL AMERICA	33	6	6
CARIBE			
SOUTH AMERICA	30	4	8
EUROPEAN UNION	0		
EUROPE (EFTA)	3	3	1
EASTERN EUROPE	2	2	1
JAPAN	12	1	12
CHINA	8	1	8
REST SOUTHEAST ASIA	36	11	3
SOUTH ASIA	6	2	3
NEAR EAST	4	4	1
OCEANIA	12	2	6
AFRICA	1	1	1
Total	172	40	4

FEW COUNTRIES CONCENTRATED BILATERALS

COUNTRY	TOTAL	SHARE (%)
CHILE	15	8,7
JAPAN	12	7,0
PANAMA	11	6,4
SINGAPORE	11	6,4
US	11	6,4
MEXICO	10	5,8
PERU	10	5,8
CHINA	8	4,7
COSTA RICA	6	3,5
AUSTRALIA	6	3,5
NEW ZEALAND	6	3,5
MALAYSIA	5	2,9
KOREA	5	2,9
TAIWAN PENGHU KINMEN AND MATSU	5	2,9
GUATEMALA	4	2,3
NICARAGUA	4	2,3
EL SALVADOR	4	2,3
HONDURAS	4	2,3
CANADA	4	2,3
COLOMBIA	4	2,3
INDIA	4	2,3
SUB TOTAL	149	86,6
TOTAL	172	100,0

REGIONAL BLOCS WITH SERVICES AGREEMENTS

BLOC	1958	1994	2002	2005	2006	2010	Total
NAFTA		1					1
CAFTADR					1		1
CARICOM			1				1
MERCOSUR				1			1
EC (Treaty)	1						1
EFTA			1				1
EAC						1	1
Total	1	1	2	1	1	1	7

ENLARGEMENT ONLY IN EU

Rótulos de fila	1995	2004	2007	2013	Total general
EUROPEAN UNION	**1**	**1**	**1**	**1**	**4**
EC (15) Enlargement	1				1
EC (25) Enlargement		1			1
EC (27) Enlargement			1		1
EC (28) Enlargement				1	1
Total general	**1**	**1**	**1**	**1**	**4**

MEGA BLOCS IN SERVICES

		1994	2006	2008	2010	2013	Total
TRANS-PACIFIC STRATEGIC PARTNERSHIP			1				1
ASEAN- Australia New Zealand					1		1
EU	SUBTOTAL	1		1		1	3
	EFTA (EEA)	1					
	CARIFORUM States EPA			1			1
	Central America					1	1
	TOTAL	1	1	1	1	1	5

BLOCS-COUNTRY S-PTA

	2000	2001	2003	2004	2005	2006	2007	2009	2010	2011	2012	2013	Total
CENTRAL AMERICA		1						1					2
Colombia (NT)								1					1
Dominic Republic		1											1
ASEAN							1	1					2
China							1						1
Korea, Republic of								1					1
EU	1			1	1			1	1	1		1	7
Albania								1					1
Chile					1								1
Colombia and Peru												1	1
Korea, Republic of										1			1
Mexico	1												1
Montenegro									1				1
Republic of Macedonia				1									1
EFTA		1	1	1		1				1	2		7
Chile				1									1
Colombia										1			1
Hong Kong, China											1		1
Korea, Republic of						1							1
Mexico		1											1
Singapore			1										1
Ukraine											1		1
Total general	1	2	1	2	1	1	1	3	1	2	2	1	18

- Could be a collection of bilaterals

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ALMOST ALL AGREEMENTS IN SERVICES (S-PTA) ARE ALSO IN GOODS EXCEPT ONE (EEA)

- A more systemic perspective of trade liberalization: goods, services and disciplines
- 119 S-PTA all notification under GATS V (MFN exception)
- Near ¾ are bilateral agreements.
  - 40 countries participate with an average of 4 agreement each
  - Concentrated in few countries 21 (more than 86% share)

Latin american countries

- LA countries higher than average but <u>heterogeneous behaviour</u> (the pacific side of the sub continent)
  - México (10)
  - CA countries (Panama 11, rest CA 4)
  - SA: Chile (15 champion), Perú (10) and Colombia (4)
  - Unilateral pro markets reform with no reversion.

New tendency

- Megablocs:
  - US-TPP;
  - EU-EFTA/EU-CA/EU-CARICOM;
  - ASEAN-AUS-NZ.
- Blocs-country type of PTAs
  - ASEAN;
  - EFTA

- Spaghettis bowl is not full when more mature type of PTAs are considered (services and complementary matters)
  - Another filter could be applied by enforcement and performance. Few deep PTAs are relevant.
- So the problem of convergence could be more easy to administrate
  - a different approach to the negotiation process. Could be TISA