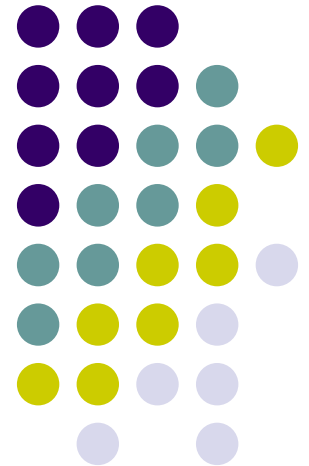


Services in free trade agreements

Ochiai, Dee and Findlay



Aims



- Review services treatment of a group of agreements
 - See Table 1
- Two criteria
 - Ease of extension to new members
 - Beyond the GATS

State of play in GATS



- Significant gains from services reform, according to quantitative work, but
- ‘most commitments have been confined to locking in status quo access conditions, or even less, at the time of the negotiations’
 - With the exception of recent accession countries
- Even in new Round, ‘few....new commercial opportunities’ have been tabled
- Contributors: complexity, novelty plus lack of institutional support and coordination problems,
- Developed countries seeking more liberalisation



State of play (cont.)

- Sectors
 - Commitments dominated by producer services
 - Health and education received few commitments
- Modes
 - mode 2 (consumption abroad) is the most liberal,
 - mode 1 and 3 is mixed (commitments made but with qualifications), and
 - mode 4 commitments are limited.

State of play (cont.)

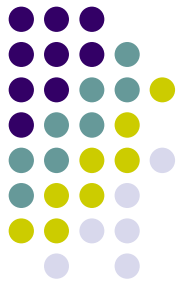


- Continuing negotiations on rules including regulation
 - Inappropriate application of regulation can offset commitments on MA and NT
 - Big interest to services providers, some capacity issues for developing countries
- Developing countries
 - Concern for domestic political reaction to foreign penetration and establishment in local services markets
 - also contributes to the demands for safeguard mechanisms

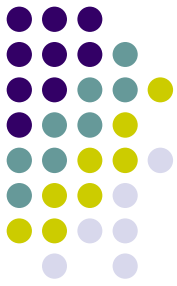
**A consequence has been greater interest in FTAs:
to capture profits, to manage risks**

Method of our paper

- Compile information
- Compare and score
 - Scale of zero to 1
 - Higher score is more open



Items



- Form and content
- Domestic regulation
- Market access/national treatment
- Rules of origin
- Bilateral vs multiple member

Form #1



- Negative vs positive list
 - North America (-), Europe (+), Asia (case by case)
 - No significant differences in extent of commitments
 - Negative list agreements may have better text on future liberalisation
 - Sectoral classification schemes vary!

Form #2



- Sectoral exclusions (Table 3)
 - At high rates!
 - But generally better than the GATS (Table 4)
 - Source of the country variation within an agreement
 - Sectoral coverage could vary between agreements due to 'sensitivities' which vary in bilateral settings
 - compare to GATS... exclusions but without discrimination
- Interaction
 - horizontal commitments (Table 5a)
 - reservations (Table 5b)

Form #3



- Investment
 - Sometimes treated in 2 places
 - And in Japan-Singapore, -ve list in the investment chapter, +ve list in services

Domestic regulation

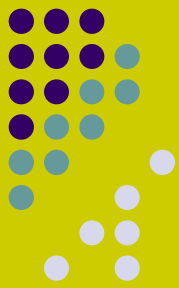


- Not much beyond the GATS
 - Mutual recognition
 - Transfer payments
 - Transparency
 - Subsidies
 - Business practices

Roy, Marchetti and Lim



- Evidence of new ‘bindings’ in PTAs, compared to GATS
- Negative list agreements tended to bind existing policy
- Depth of commitment varies by countries/sectors
 - More extensive in agreements with the US



RML - qualifications

- Limited commitments if US not involved
- Larger countries make fewer additional commitments
- Protection remains in large developed countries
- Largest countries don't have PTAs amongst themselves
- **Implications of commitments are discriminatory [tend to be NT measures?]**



MA vs NT

- The distinction between market access and national treatment
 - Maybe some advantage in the negative list approach
 - ...which adopts MA and NT as general commitments
- Significant impediments to MA remain
 - Welfare gains from MA reform
 - Risk of bias in trade negotiations towards NT



Bilateral vs Multiple

- Not much difference
- Maybe bilaterals are more likely to include domestic regulation
 - But restrictions remain
- Membership
 - Levels of liberalisation
 - Relatively low when both are developing countries
 - Higher if one member is a developed country



Rules of origin

- If a separate section generally either
 - Location of business operations
 - Ownership



Overall assessment



- Overall indicators
 - CER is consistently more liberal than other agreements but results vary by modes of supply.
- Comparison between options for calculation of summary statistics



To conclude..

- Extension of benefits
 - Difficult given different architectures
- Beyond the GATS
 - Better sectoral coverage
 - but still low and with limitations

Implication



- **A country belonging to more than one agreement: now more common.....**
 - * **Market response?**
 - **Choose the low-cost entry route, “Investment deflection”**
 - **Creates an advantage to the hub country, leads to more pressure on origin rules**
 - * **Host country concerns about sequencing**
 - **First mover advantages for early negotiators**
 - **But are those firms efficient suppliers of intermediate or final services?**
- **Risk management gains for investors and hosts from a multilateral approach**