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Commentary

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The original rationale for services negotiations in the World Trade Organization (WTO) was provided by trade policy experts who saw services as a way to rejuvenate the General Agreement on Tariffs and Trade (GATT) and address a proliferating variety of non-tariff measures in the form of government regulations that limited access for consumers to modern services and limited cross-border expansion by service providers. They saw the General Agreement on Trade in Services (GATS) as creating sectoral openness by applying the principles of market access, national treatment of foreign firms, and limited and transparent exemptions (and, of course, most favored nation treatment). In essence, the negotiations were to be about domestic regulatory and institutional reform. The initial framework was not particularly relevant to what was happening to business, however. GATS was little understood and there also was little demand for it. Nevertheless, government commitments to a series of sectoral negotiations were secured and some binding liberalization has occurred, in information technology during 1996 and financial services during 1997.

Examined more closely, it becomes apparent that in these negotiations it was not so much GATS that created sectoral openness, but that liberalization in these sectors had a certain life of its own for other reasons. Telecommunications and financial services are among the fastest-growing and fastest-evolving industrial sectors in the world economy. Their growth and evolution are being driven by the information and communications technology (ICT) revolution and by domestic deregulation as governments scramble to catch up with market forces that drive the rapidly changing transactions, business arrangements and cross-border flows in these services.

The negotiations reflected GATS principles to the extent possible but the outcome, at least in financial services, was largely to bind the status quo on market access and to create agreed procedures for settling disputes—as Table 1 illustrates for financial services. Even this kind of outcome can be seen as a significant start in accepting common rules and procedures. Here it also should be noted that the term "liberalization"—applied to financial services in the WTO—refers to removing restrictions on market access to allow foreign service providers to locate in domestic markets. This process is distinct from capital account liberalization, which is the responsibility of the International Monetary Fund (IMF), which regulates capital inflows and outflows of varying terms of maturity. In the Asian crisis, short term capital flows—particularly inter-bank loans—were a particularly volatile form of capital flow. A country may allow foreign firms into its market yet restrict capital inflows and outflows from abroad.

Some of the challenges GATS faces are referred to by Hoekman. Services are a heterogeneous group of products, with the common thread that most of them are subject to government intervention. There is the added complication that financial services are seen by finance ministers to be in their, not the trade negotiators', purview. The other significant problem is that weaknesses in the GATS framework cast doubt on its ability to sustain further market opening. These weaknesses are:

- ***The positive list approach to commitments***. Positive lists identify sectors on which commitments are made rather than those on which they are not. This approach was all that could be agreed at the time the GATS was negotiated. It contrasts with the negative list approach, employed in the North American Free Trade negotiations, in which countries commit to full liberalization unless specific exclusions are negotiated. With the negative list approach, opening and market access are the central objective; in contrast, the positive list tends to reinforce the status quo and makes it very difficult to identify potentially significant sectors that are untouched by liberalization. Further, it implies that as new sectors emerge, they stand outside the market-opening framework until explicitly brought into it.

- ***Problems with reciprocity***. There are two problems: division of the WTO negotiations along sectoral lines, and asymmetry in the

Table 1

World Trade Organization Financial Services Agreement:

Market Access in Selected Emerging Markets in 1997

	Banking	Insurance	Securities
Status Quo Plus	Malaysia Mexico	Brazil Indonesia Japan South Korea Philippines Mexico	Brazil Indonesia South Korea Malaysia Philippines
Status Quo	Argentina Brazil Chile India Indonesia Japan South Korea Thailand	Chile India Thailand	Argentina Thailand
Less Than Status Quo	Philippines	Malaysia*	Chile India

*This entry compares existing practice during 1998 with Malaysia's commitment in December 1997.

SOURCE: Dobson and Jacquet, 1998, p.93.

interests of Organization for Economic Cooperation and Development (OECD) and developing countries in services negotiations. Separating services from goods and individual services from each other in the WTO makes reciprocity less credible and less effective. Reserving financial services negotiations for finance ministers makes such linkages even more difficult. The asymmetry of interests was evident in the Financial Services Agreement (FSA) where developing countries felt they made most of the market opening and other concessions. This is because it was OECD producers who sought access to their markets, not the converse. With relatively immature financial sectors, pressures from domestic firms seeking to penetrate OECD markets are almost nonexistent. Thus, the threat of reduced access to markets in the United States or the European Union (EU) is not particularly meaningful. Nevertheless, the fact that the Information Technology Agreement (ITA) and FSA were completed shows that the approach can deliver something.

There is an additional dimension to the reciprocity issue as well. It weakens the case for reform: that opening is in the self interest of all countries. Hoekman asserts precommitments made by some countries were part of the reason they delivered concessions in the FSA. This may be, but there were several other significant factors as well, especially with respect to the East Asian economies. One was that U.S. and EU governments, instead of being adversaries, were united in their determination to make the agreement. The second was that U.S. and EU businesses gave a big push to the negotiations. The third was the Asian crisis itself. The severity of the crisis and its extensiveness by late 1997 made it clear that weak financial systems were one of a combination of significant causal factors in the crisis economies. Thus, although they saw little to gain from reciprocal access to the OECD economies, they were anxious to signal their commitment to reform as a way to restore tattered credibility.

This brings up the related point that, unlike earlier progress in the GATT, advances in market access—at least in financial services—might not come primarily from multilateral negotiations. Advances in market access are more likely to stem from other sources, such as gradual unilateral opening as part of sectoral reforms, or as regional opening that is eventually bound in the multilateral framework. Hence, while it is worthwhile to ask how the current WTO process can be improved, experience with the FSA suggests that progress may come from a combination of sources. For example, countries on IMF programs in the Asian crisis have agreed to faster and more extensive domestic reform and foreign entry than was negotiated in the FSA. A commitment by Asia-Pacific Economic Cooperation (APEC) leaders at their 1996 summit in the Philippines gave a push to the ITA agreement. Japan and Singapore have unilaterally accelerated the modernization of their financial sectors by allowing further foreign entry because they fear being bypassed for other international financial centers. The combination of non-WTO processes and market forces, plus the WTO providing

the binding mechanism and dispute settlement can jointly contribute to an effective international trade regime. This is the *status quo*. It can be improved upon further. For example, financial services reforms, agreed as part of IMF programs to strengthen national financial systems and increase resilience to future crises, should be bound into the WTO. This does not mean the IMF and WTO should gang up on a country; rather it means the country should be willing to bind the reforms that serve its long-term interests. Of course, it also should receive credit for such changes for use in future multilateral negotiations.

Where should we go from here? What should be the goals for Seattle? Hoekman has made a very useful beginning with his work on aggregating the existing information on parameters of services production and trade. His tables illustrate the fragmented nature of the available data and the difficulties implied in proceeding beyond the positive list approach. To put more pressure on countries for broader commitments, it is necessary to be able to evaluate and compare barriers to entry and cross border flows in a wider variety of services sectors. This suggests that more should be made of the negative list approach as an alternative framework. While likely difficult to accomplish, the negative list approach has the potential of increasing transparency and the momentum for wider coverage and market opening. Alternatively, countries might consider adapting the valuable experience with tariffication in agriculture.

Hoekman's suggestions for broader coverage largely are incremental and probably more realistic. Since few countries have made sweeping commitments to market access and national treatment, he would like to see a formula whereby countries commit that all service sectors would be subject to national treatment and market access disciplines, with target dates and transition periods. This is a sound suggestion. Incredible as it may seem, aiming to bind the status quo for only a specified share of all commitments is a moderately ambitious starting point. Complementing this with efforts on rules, to increase the impact of multilateral disciplines for certain modes of supply, particularly national treatment for foreign direct investment (FDI), also is a timely suggestion.

Before concluding, it is useful to stand back and look at the long-term strategic fundamentals of trade in services. The GATS framework suffers from architectural limitations, which cast doubts on its ability to create a liberalization-enhancing regime for trade in services, that is, one that exerts continuous pressure for opening. Market access in services is a basic issue in the management of globalization that involves trade instruments and practices as well as policies directed at FDI and competition policy. The latter are crucial dimensions in a globalizing economy with mobile factors of production. FDI remains key to providing retail services, even though the ICT revolution may facilitate cross-border trade. In addition, oligopolistic market structures and the potential for cross-border mergers increase the need for a multilateral approach to competition policy. This is another reason for extending the domain of multilateral negotiations to include liberalization of direct investment regimes and better coordination of competition policy. Through the definition of broad principles in these areas that would apply to all goods and services, such an agenda would help to circumvent the limitations of the GATS and increase the liberalization thrust of the multilateral trade regime.

REFERENCES

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