

**Council for Trade in Services  
Special Session**

**ASSESSMENT OF SERVICES LIBERALIZATION: POTENTIALLY RELEVANT  
CONSIDERATIONS AND CRITERIA**

Note by the Secretariat

**I. INTRODUCTION**

1. This Note responds to a request from the Council for Trade in Services, meeting in Special Session on 5 October 2001. It proposes various factors that government may want to consider in their assessment of the economic effects of services liberalization. In keeping with the Council's request, the Note focuses on changes affecting individual services markets and the potential impacts on relevant policy objectives (prices, quality, equity, etc.).

2. From an analytical perspective, the assessment of sector-specific reforms may imply awkward trade-offs. On the one hand, a partial approach with a strong sector focus may appear attractive from various angles. In particular, it tends to be commensurate with the institutional separation of responsibilities between individual Ministries and agencies (trade, finance, health, education, environment, transport, communication, etc.), and may facilitate policy implementation at a later stage. On the other hand, such a partial approach risks ignoring various linkages and synergies that may exist between policy areas. These include, first, economic and institutional interdependencies between individual goods and services markets; in order to bear fruit, reforms in one sector (medical services, hotel services, etc.) may need to be complemented by changes in related sectors (health insurance, transport and communication services, etc.).<sup>1</sup> Second, non-trade policies - in areas such as money, finance or competition - may have significant trade implications that need to be considered. For example, if prices in a particular sector (interest rates in banking) remain regulated or if production (bank lending) remains subject to rationing, it is difficult to see how improved access conditions would translate into significant user benefits.<sup>2</sup> The assessment criteria proposed in Tables 1 and 2 are flexible enough to accommodate inter-sectoral linkages; the challenge remains, however, to fill these criteria with content.

3. No particular attention is paid in the following discussion to the initial impetus for reform, which may stem predominantly from domestic policy considerations or external requests. From an economic perspective, if the focus is on the effects of a policy change, the underlying rationale does not seem to be particularly relevant. The conceivable advantages of negotiated over autonomous policy changes are predominantly political. With international "burden-sharing", it may prove easier for governments to overcome the resistance of incumbent suppliers than with unilateral moves, and the new policies are better protected from later slippages and reversals. While international coordination could also offer positive "externalities" - mainly in the form of joint market expansion -

---

<sup>1</sup> For more details and additional literature, see Findlay (2001).

<sup>2</sup> With regard to maritime transport, see Fink, et al. (2000).

such effects should be put into perspective. Governments may want to pursue policy reforms whenever deemed necessary, regardless of the external environment, rather than waiting for trading partners to move in parallel.<sup>3</sup>

4. While the GATS may be considered a linchpin for coordinated policy reform in services, its actual impact has remained limited to date.<sup>4</sup> Available information suggests that the general focus of the Uruguay Round was on rule-making and locking-in status quo conditions in a number of sectors, rather than on opening new market opportunities. As stated in previous Notes, recent developments in world services trade may be attributable predominantly to autonomous demand trends; valuation effects in the wake of currency movements, sudden market upheavals (associated, for example, with the Asian financial crises), developments in merchandise trade that have an impact on related producer services (transport, insurance etc.), or longer-term changes in an industry's international competitiveness. One conceivable factor has not possibly played a leading role: specific commitments under the GATS.<sup>5</sup>

## II. A POSSIBLE FRAMEWORK FOR POLICY ASSESSMENT

5. For the purposes of this Note, it may be useful to distinguish two main variants of economic reform: domestic adjustments and changes abroad. In the former case, only domestic policy decisions and the resulting changes matter; the external environment is assumed to have remained stable. In the latter case, measures taken by foreign governments - on an autonomous or on a coordinated/negotiated basis - impinge on a Member's services economy which has not been exposed to any other policy changes. This distinction could appear artificial in practice. However, the intention of this Note is not to describe real policy patterns, but to suggest an analytical framework that might be used by governments for policy assessments.

6. Since the services universe is very diverse - structurally, economically and politically -, it would be naïve to assume that one single, detailed blueprint could be applied for assessment purposes across all sectors and jurisdictions. The factors listed in Tables 1 and 2 can thus be considered only as a rough approximation. Significant adjustments may be needed to accommodate the specificities of different sectors, policy conditions and measures.

(a) A wide range of sectors ...

7. There are many different ways to classify and categorise individual services sectors. It has become customary to distinguish at least two or three broad groups: services destined for final consumption, commercially organized producer or infrastructural services and, thirdly, social services whose provision is governed mainly by non-economic considerations. Typical consumer services - tourism, recreational and entertainment services, etc. - are provided mainly by private suppliers for private individuals. Anticipation of short-term demand factors, changes in consumer preferences and taste, are an important determinant of business success. By contrast, producer or infrastructural services - including many business, financial, telecommunications and transport services - are destined predominantly for industrial users. Many such services have traditionally been provided by public monopolies; however, their role has shrunk significantly over time. Commercially independent providers now compete in many markets, benefitting from technical developments, in

---

<sup>3</sup> Adlung (2000).

<sup>4</sup> Documents Job 2748/Rev.1, 7 June 1999, S/C/W/94, 9 February 1999, as well as WTO Secretariat (2001). See also Sauvé (1995); Hoekman (1996); Snape (1998); Dobson and Jacquet (1998); Mattoo (2000); Cowhey and Klimenko (2001).

The picture may be different for some participants in the extended negotiations on basic telecommunications and financial services and, possibly even more so, for countries recently acceding to the WTO.

<sup>5</sup> Document S/C/W/27/Add.1, 30 October 2000.

particular new communication technologies; liberalization policies in many markets; as well as an increasing tendency of large companies to outsource core services inputs rather than providing them in-house. Finally, there are services, such as health and education, whose *raison d'être* strongly rests on non-commercial motives, often related to social and distributional justice, regardless of profitability. Such motives continue to prompt governments to intervene - as producers, financiers, regulators and/or supervisors - in the markets concerned.

8. Non-economic concerns may also affect, in addition to technical factors, the treatment of individual modes under a country's services regime. For safety, social and similar policy reasons, including consumer protection, governments may prefer certain services to be provided domestically rather than cross-border ("regulatory precaution").<sup>6</sup> In the absence of such preferences and constraints, however, a basic policy principle applies: uniformity of access conditions, including uniformity across modes, helps to avoid the efficiency losses associated with trade diversion into more open, but less economically efficient conduits.

9. The diversity of sectors, technologies and policy intentions explains why the criteria proposed in Tables 1 and 2 are "timeless". Eventually, it is for the individual government to decide on the appropriate timeframe for its assessment of the results of a particular sector policy. A variety of factors may prove relevant in this context, including sectoral peculiarities (capital-intensive industries with intensive linkages may be considered differently from labour-intensive industries with shallow links) as well as political preferences. They would need to be considered case-by-case. The longer the period under consideration, the more likely that (temporary) adjustment costs are outweighed by economic and other benefits associated with a reform project.

(b) ... and of conceivable policy changes

10. With a view to ensuring flexibility, the following assessment criteria are also neutral with regard to the measures - abolition of quota-type restrictions, foreign equity ceilings, discriminatory subsidies, etc. - that may be taken. Nevertheless, governments may need to carefully examine the implications as well as the appropriate combination and sequencing of individual moves (for instance, liberalization of equity participation versus liberalization of market entry) and, possibly, the cause for parallel changes in institutional conditions (deregulation of prices, interest rates, credit allocation, etc.).<sup>7</sup>

11. The role of domestic regulation may introduce an additional element of uncertainty. The GATS makes a clear distinction between two types of government measures: those falling under market access and national treatment provisions, and those maintained or introduced for domestic regulatory purposes. In order to assess the impact of a liberalization programme on non-trade objectives, such as quality, equity, safety etc., it is thus not sufficient to consider only details of the programme concerned. The final verdict is likely to depend on the existence of an appropriate regulatory framework. New regulations may be needed to ensure continued compliance, in a more open environment, with non-trade objectives. For example, the implications of privatized health or transport services for core quality and equity objectives can be assessed only in the light of universal service and other regulatory obligations that might be introduced and enforced in parallel.<sup>8</sup> In turn, this suggests that an assessment of individual trade policy reforms can not be conducted in the abstract, but only with due consideration being given to domestic policy adjustments that might be needed to ensure continued (or enhanced) compliance with basic health, safety, environmental and social policy objectives.

---

<sup>6</sup> Sauv   (2000).

<sup>7</sup> Mattoo (2000).

<sup>8</sup> See, for example, Adlung and Carzaniga (2001).

**Table 1**  
**Assessment Criteria - Domestic ("self-generated") Liberalization<sup>a</sup>**

<b>Liberalized mode(s)</b>	<b>Potential effects on domestic economy</b>	
	<u>Direct Economic Impact</u>	
2 1,3,4	(a)	Price effects <ul style="list-style-type: none"> <li>- Benefits for mobile users (→ "consumption abroad")</li> <li>- Domestic price reductions</li> </ul>
	(b)	Supply effects <ul style="list-style-type: none"> <li>(i) Increased quantities (domestic market)</li> <li>(ii) Improved quality/choice <ul style="list-style-type: none"> <li>- Benefits for mobile users ( "consumption abroad")</li> <li>- Domestic effects</li> </ul> </li> <li>(iii) Stability/reliability of supplies on the domestic market <ul style="list-style-type: none"> <li>- Status-quo regulations</li> <li>- With regulatory adjustments (→ prudential rules, competition law, etc.)</li> </ul> </li> </ul>
1-4	(c)	Adjustment cost (associated with idle capacity/temporary unemployment) <ul style="list-style-type: none"> <li>- Under status-quo conditions</li> <li>- With flexibility-enhancing policies and pro-competitive regulation (→ mobility/investment grants, retraining initiatives, etc. )</li> </ul>
	<u>Indirect Economic Impact</u>	
1,3,4	(a)	Performance of user industries (profitability, production, employment, trade, etc.)
3,4	(b)	Industrial diversification
3,4	(c)	Impacts on domestic factor endowment (skills, technology, etc.)
1-4	(d)	Other macroeconomic effects (cyclical resilience, etc.)
	<u>Non-Economic Considerations</u>	
	(a)	Distributional objectives ("equity")
1,3,4	(i)	Impact on low-income consumers/consumer groups <ul style="list-style-type: none"> <li>- Under status-quo conditions</li> <li>- With policy adjustments (→ universal service obligations, taxes/subsidies, etc.)</li> </ul>
1,3,4	(ii)	Impact on disadvantaged regions <ul style="list-style-type: none"> <li>- Under status-quo conditions</li> <li>- With policy adjustments (→ see (i) above)</li> </ul>
1-4	(b)	General environmental/health implications <ul style="list-style-type: none"> <li>- Under status-quo conditions</li> <li>- With regulatory adjustments (→ standards, certification requirements, etc.)</li> </ul>
1-4	(c)	Safety, security and other public-policy concerns <ul style="list-style-type: none"> <li>- Under status-quo conditions</li> <li>- With regulatory adjustments (→ measures against money laundering, corruption, fraud, etc.)</li> </ul>

<sup>a</sup> Underlying question: What are the economic effects in a country that liberalizes its own services regime in a stable external environment (no liberalization abroad)?

**Table 2**  
**Assessment Criteria - Liberalization by Trading Partners<sup>a</sup>**

<b>Mode(s) liberalized abroad</b>	<b>Potential effects on the WTO Member(s) concerned</b>	
	<u>Direct Economic Impact on Related Sectors/Markets</u>	
	Supply-side effects	
1,2 2,4	(i) Expansion of trade/production/employment (ii) Temporary(?) shortage of domestically available supplies - Under status-quo regulation - With policy adjustments (→mobility/investment grants, retraining initiatives, price deregulation etc.)	
	<u>Indirect Economic Impact</u>	
1,2,3(?)	(a) Increased demand for related producer services (→ profitability, production, employment, etc.) and, possibly, complementary manufactures	
3(?),4	(b) Impacts on domestic factor endowment ("brain drain"(?), etc.) - Under status-quo conditions - With policy adjustments (→ public service obligations, taxes/subsidies, etc.)	
1,2,3(?),4	(c) Foreign exchange earnings, positive exchange-rate effects (→ welfare gains)	
1,2,3(?),4	(d) Broader developmental implications (→ increasing private savings/investments, taxes/government spending)	
1,3,4	(e) Gradual loss of competitiveness in economically related markets as competing foreign suppliers gain access to cheaper and/or higher quality inputs(?)	
	<u>Non-Economic Considerations</u>	
2,4	(a) Distributional objectives ("equity") Quality/availability of supplies for disadvantaged groups - Under status-quo conditions - With policy adjustments (→ public service obligations, taxes/subsidies, etc.)	
2,4(?)	(b) General environmental/health implications - Under status-quo conditions - With regulatory adjustments (→ stringent standards, certification requirements, etc.)	

<sup>a</sup> Underlying question: What are the economic effects in a country that perpetuates its traditional service regime while trading partners liberalize?

Source: WTO Secretariat (Tables 1 and 2).

### III. ADDITIONAL CONSIDERATIONS

12. Any economic assessment of policy changes is necessarily subject to methodological risks and uncertainties. These are particularly high if the intended effects are economy-wide in nature, while implementation is sector-specific. A case in point are infrastructural services such as telecommunications, finance and transport, where reform policies are aimed mainly at providing a wide range of downstream industries with enhanced inputs and, thus, advancing overall economic performance. As indicated in previous Secretariat documents, it is next to impossible to trace such effects in individual sector indicators.<sup>9</sup>

13. To give a concrete example of the role of services in a country's economic fabrics: it has been estimated that 16 per cent of the value of Bangladesh's industrial output is accounted for by services inputs (1986/87). According to a more detailed analysis for the ready-made garment (RMG) industry, which is Bangladesh's largest foreign-exchange earner, the services contribution in this industry is as high as 25 per cent (1986/86, including company-internal supplies).<sup>10</sup> Assuming that inter-industry supply links have not changed dramatically over time, this would imply that Bangladesh's indirect services exports, via RMG, are significantly higher at present than its direct supplies. The country's RMG shipments of some US\$3.8 billion in 1997/98 would have incorporated services of up to US\$1.0 billion, while its (direct) services receipts reached some US\$700 million.<sup>11</sup>

14. Against this background, it is not surprising if the manufacturing sector is considered to be one of the main beneficiaries of services reform. This is also one of the basic messages of a research paper, submitted to the Council for Trade in Services, discussing the main effects associated with liberalization of infrastructural (producer) services in low-income developing countries and the ensuing productivity gains. The liberalization process is expected to promote production and exports of labour-intensive goods and, by the same token, accelerate the migration of mature manufacturing industries from developed towards developing economies.<sup>12</sup> Again, in the present framework (Tables 1 and 2), it would be very difficult to establish such a link.

15. Finally, it needs to be noted that reform-oriented countries tend to move on a variety of fronts, and that policy changes are not implemented under laboratory conditions, but in a dynamically evolving external environment. Economic agents may be confronted with product and process innovation, the emergence of new competitors, exchange rate movements, price changes for universally needed inputs (energy, raw materials, etc.), fluctuations in complementary product markets, policy-induced instability, and so forth. Any such effects would need to be taken into account in the assessment of policy reforms.

---

<sup>9</sup> Document S/C/W/26/Add.1, 29 May 1998.

<sup>10</sup> Azad (1999). The services definition used in this context is not necessarily congruent with the sector classification developed for scheduling purposes under GATS (MTN.GNS/W/120).

<sup>11</sup> The country's net services payments amounted to US\$509 million in the same year. See WTO Secretariat (2000).

<sup>12</sup> Hodge and Nordås (1999).

## LIST OF REFERENCES

### BOOKS AND ARTICLES

Adlung, R. (2000), "Services Trade Liberalization from Developed and Developing Country Perspectives". In P. Sauvé and R.M. Stern (eds.), *GATS 2000 – New Directions in Services Trade Liberalization*, Washington D.C.

Adlung R. and A. Carzaniga (2001), "Health services under the General Agreement on Trade in Services". *Bulletin of the World Health Organization*, Vol. 79, No.4.

Azad, A.K. (1999), *Inter-industry Linkages of Services in the Bangladesh Economy (With a Case-study of the Ready-made Garments Industry) and Potential Service Trade*. Paper prepared for the WTO 2000 South Asia Workshop in New Delhi, December.

Cowhey, P. and M. M. Klimenko (2001), *The WTO Agreement and Telecommunications Policy Reform*. World Bank Working Paper, No. 2601, April.

Dobson, W. and P. Jacquet (1998), *Financial Services Liberalization in the WTO*. Institute for International Economics. Washington D.C.

Hodge, J. and H. K. Nordås (1999), *Liberalization of Trade in Producer Services*. Paper submitted to the Council for Trade in Services by the delegations of Norway and South Africa in October.

Hoekman, B. (1996), "Assessing the General Agreement on Trade in Services". In W. Martin and L. A. Winters (eds.), *The Uruguay Round and the developing countries*, Cambridge.

Fink, C., A. Mattoo and I.C. Neagu (2000), *Trade in international maritime services: how much does policy matter?* World Bank, Development Research Group, Washington D.C.

Findlay, C. (2001), *Services Sector Reform and Development Strategies: Issues and Research Priorities*. UNCTAD: Policy Issues in International Trade and Commodities, Study Series No. 8, New York and Geneva.

Mattoo, A. (2000), "Financial Services and the WTO: Liberalisation Commitments of the Developing and Transition Economies". *The World Economy*, 23 (No.3).

Sauvé, P. (1995), "Assessing the General Agreement on Trade in Services – Half-Full or Half-Empty?" *Journal of World Trade*, 29 (No.4).

Sauvé, P. (2000), "Developing Countries and the GATS 2000 Round". *Journal of World Trade*, 34 (No.2).

Snape, R. (1998), "Reaching Effective Agreements Covering Services". In A. O. Krueger (ed.), *The WTO as an International Organization*, Chicago.

WTO Secretariat (2000), *Trade Policy Review – Bangladesh*. Geneva.

WTO Secretariat (2001), *Market Access: Unfinished Business*. Special Studies No. 6, Geneva.

WTO DOCUMENTS

S/C/W/26/Add.1, 29 May 1998 ("*Economic Effects of Services Liberalization: Overview of Empirical Studies*").

S/C/W/27/Add.1, 30 October 2000 ("*A Review of Statistics on Trade Flows in Services*").

S/C/W/94, 9 February 1999 ("*Recent Developments in Services Trade: Overview and Assessment*").

Job 2748/Rev.1, 7 June 1999 ("*The Developmental Impact of Trade Liberalization under GATS*").

---