

## THE ROLE OF WTO AND INTERNATIONAL COOPERATION ON SERVICES TRADE POLICY

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***Abstract:** In the last decades most of the countries of the world have been adopting reforms regarding the increase of competition in their service markets motivated by the benefits regarding both the standard of living and overall economic competitiveness. Meanwhile, services have started to have an increasing share of GDP, demand for international services has increased and new demand is emerging. Governments cooperate regarding services trade policy because the landscape of services trade has evolved and transformed, present demand for internationally supplied services has increased, services economy has evolved from a model in which governments were solely and uniquely responsible for the supply of many infrastructural and social services to one where these services are provided also, or predominantly, by private actors in competition with each other, and because “going it alone” doesn’t allow all potential benefits to be reaped.*

*The aim of this paper is to clarify why governments cooperate on services trade policy and why regulatory cooperation matters for business, to present how countries collaborate in the services sphere, to present the potential of trade in services for developing countries and to identify prospects for future cooperation.*

**Keywords:** Trade policy, Cooperation, Services, Competitiveness, Performance.

**JEL Classification Codes:** F13, F51, F53.

### 1. INTRODUCTION

Trade services expanded rapidly, much faster than trade in goods, becoming the most dynamic part of international trade. Currently, services hold 75% of GDP in developed countries, compared with 40% in 1950, which justifies the assertion that many economies become service based.

The development of technology has an important contribution in this process, making it easier to trade services, without requiring the physical presence of producers and consumers.

The internationalization of services offers enormous potential and the exploitation of this opportunity requires the discovery of new ways of developing international cooperation in the field of services.

In the last 3-4 decades many countries have been involved in the adoption of reforms that will lead to increased competition in their service markets in order to increase wellbeing of people and competitiveness. Thus, services began to have an increasing share of GDP, first in developed countries and then in developing countries.

These changes became the engine of development of international cooperation in the field of services, which led to the adoption of GATS in 1995.



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## 2. THE ROLE OF WTO AND GATS IN TRADE SERVICES

The General Agreement on Trade in Services IS known mainly as GATS. In fact, GATS represents the service dimension of the new World Trade Organization and at the same time one of the basic pillars of the international trading system. GATS has already begun to exert liberalization effects on service markets since its establishment on January 1, 1995, both nationally and internationally. And in recent years, in addition to the initial provisions of the original Agreement, GATS has enriched itself with new multilateral agreements aimed at opening up the world market for telecommunications and financial services.

GATS is the first global, universal agreement called to promote the expansion of international trade in services and, consequently, the economic growth and development of the member countries in the context of the increasing globalization of the world economy. The main instrument for achieving this goal is the progressive liberalization of the trade in services, supported by a set of specific principles, rules and disciplines meant to control the activities of the participants in this trade.

The agreement establishes a set of basic rules for conducting international trade in services, a set of clear obligations for each member country and a legal structure to ensure compliance with these obligations.

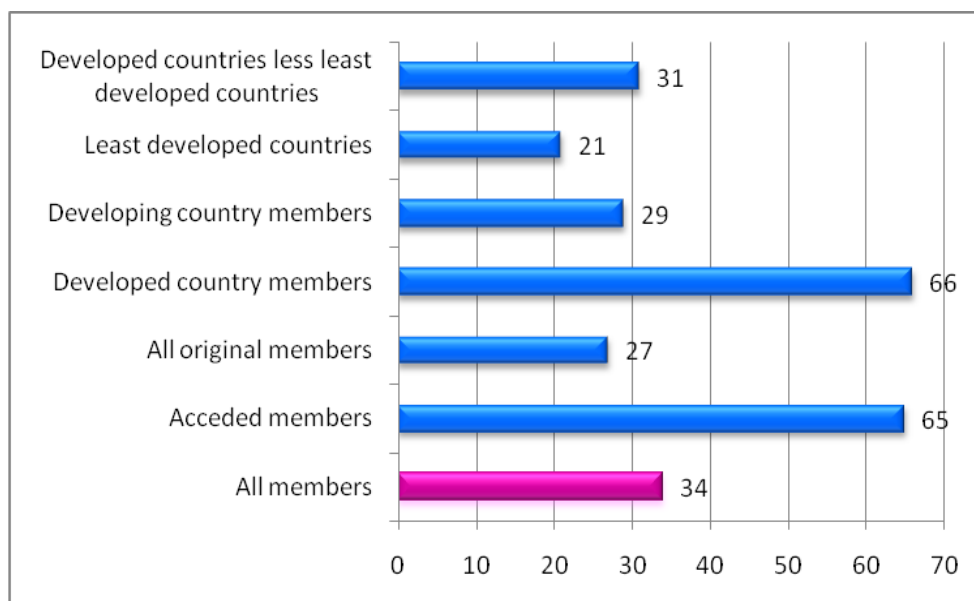
Although it is an intergovernmental agreement, GATS is of direct relevance to companies, as it reflects the confidence of member countries in the virtues of an open economy, in fair market rules and in consumer protection. By stipulating the set of international principles and rules within which companies can operate on a global scale, GATS offers a clear and precise framework for conducting international trade in services - either of cross-border or intermediary transactions through foreign direct investment (FDI), ensuring thus giving companies a greater degree of certainty regarding their rights vis-à-vis other participants in this trade. By rendering more freedoms for companies to provide their services and by stimulating international competition, GATS is meant to encourage innovation, competitiveness based on price and quality performance.

GATS is detached from all existing international legal instruments in the sphere of services by virtue of its universal and global vocation, which means that it covers (Ghibuțiu, 2019, p. 185):

- ✓ almost all service markets;
- ✓ the vast majority of service activities;
- ✓ all the practical ways in which external customer services can be delivered;
- ✓ a number of issues related to the establishment of commercial operations on foreign markets, including through FDI mediation.

The scope of GATS in terms of member countries is very wide, encompassing over 140 countries accounting for over 90% of international trade in services. Many other important countries have officially asked to become members of GATS, including Russia, the countries of the former USSR, China and Taiwan. Thus, it can be appreciated that, following the accession of these countries, the international trade in services will take place 100% between the GATS member countries.

The GATs commitment differs across different group of members. The situation can be seen in the next figure (figure 1).



**Figure 1 Average proportion of services sub-sector service to specific commitments under the GATs by different group of members**

Source: realised by the author based on data from [www.wto.org](http://www.wto.org)

We can see that most of the WTO members don't have commitments in the most services sectors, but in just over one-third of all services sub-sectors. It is important to mention that the countries which were in the process of accession to the WTO have undertaken more commitments than original members.

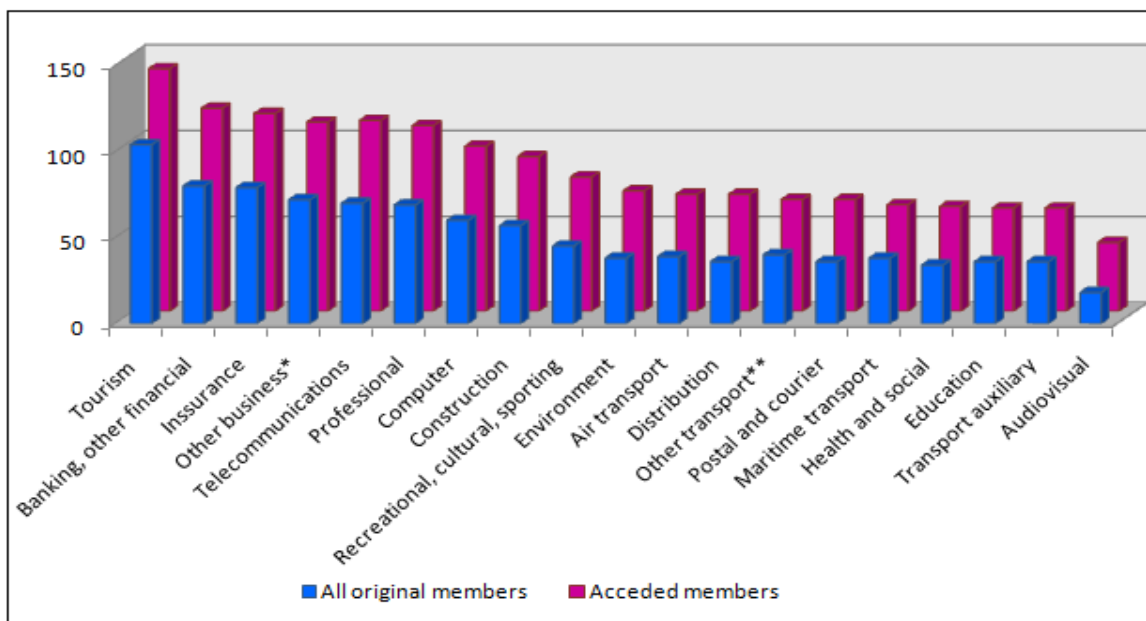
The agreement and its general rules cover, in principle, all the services that can be marketed, from cleaning services to securities transactions and from consulting services to road transport services, although some services fall under specific annexes, which limits the coverage of GATS. Under the *specific commitments* system, Member States have the opportunity to specify precisely the services for which these commitments guarantee free access to the market in favor of foreign service providers, as well as the restrictions they wish to maintain in relation to those sectors.

GATS covers all the ways in which the service providers serve their customers, respectively all the ways of providing the services.

This means that member countries must specify in their lists of specific commitments whether or not they allow:

- ✓ foreign companies to provide services on their national market through cross-border transactions (respectively delivery of services abroad);
- ✓ their citizens move to the country of the supplier to buy a service;
- ✓ foreign service providers to establish a commercial presence on the national market;
- ✓ foreign natural persons providing services are temporarily present on the national market for the purpose of providing services.

Analyzing GATS's activity we can observe that some services sectors like tourism, financial, and telecommunication have been more attractive than others and have attracted more commitments than others. We can see the situation in the figure 2.



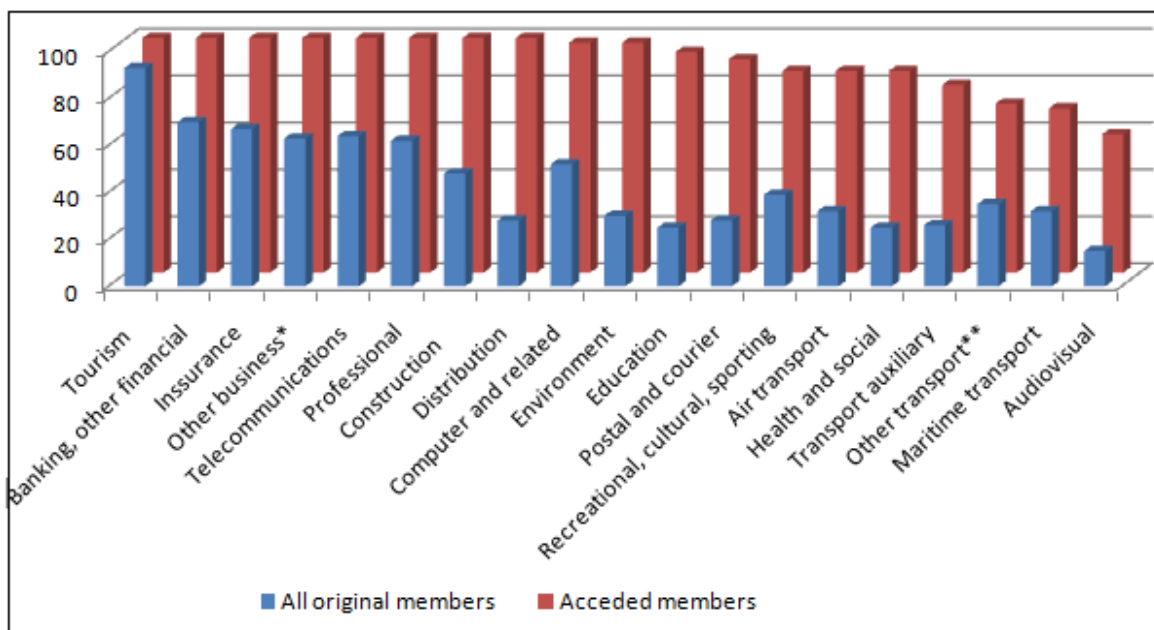
**Figure 2 Number of members with specific commitments, acceded members and other members by sector**

Source: realised by the author' based on data from [www.wto.org](http://www.wto.org)

\* Business services other than professional and computer and related services.

\*\* Transport other than maritime, air, and auxiliary services to all modes of transport.

Also, we can mention that acceded members have committed more sectors than the other members, while for the original members the tourism, financial, telecommunications business services represents the sole fields for which the most countries have certain specific commitments.



**Figure 3 Percentage of acceded and other members with commitments, by sector**

Source: realised by the author based on data from [www.wto.org](http://www.wto.org)

\* Business services other than professional and computer and related services.

\*\* Transport other than maritime, air, and auxiliary services to all modes of transport.

In this way, the service providers are able to know exactly their position in the foreign market and in relation to the foreign customers, and if in their activity they face barriers raised by any of the four modes, they can quickly check if the member country they have assumed obligations and, as such, can determine whether that country is in breach of their commitments. If there is a suspicion that a member country is in breach of its obligations, any other member state may invoke the GATS provisions to resort to dispute settlement procedures.

The stipulation of the basic principles and rules for carrying out the international order with services, the set of clear obligations for each member country and the legal structure to ensure compliance with these obligations allows companies to identify which markets are open for foreign service providers and to ensure that the same the market will remain open in the future. If the respective market proves not to correspond to the degree of liberalization agreed by GATS, the agreement stipulates for each country the possibility to obtain for its national service providers the treatment to which they are entitled.

In terms of access to service markets, companies can rely on GATS to ensure that they receive the same treatment as any other foreign company, by virtue of the treatment of the most favored nation (NCMF), as a fundamental principle of GATS. This principle means that each GATS member country has the obligation to treat companies from all other member countries in an identical, non-discriminatory manner. At the same time, the agreement also contains rules aimed at eliminating the discrimination between foreign and national service providers, based on the application of national treatment. If, in the context of market regulation, there is an element of discrimination which places the foreign service provider in a less favorable position than the domestic provider, it is for the respective Member State to openly declare the discriminatory element within list of specific commitments so that this item becomes visible to everyone.

### 3. THE ROLE OF COOPERATION IN SERVICES TRADE POLICY

There are several reasons why governments cooperate in the field of services trade policy, the most important being:

❖ *Evolution and change of the environment of services trade*

Due to the development of technology and other factors, the trade of services has transformed, the demand for service at international level registering a significant growth. The biggest increase was recorded by ITC services and related services. Contrary to expectations, these developments have been recorded in both developed and developing countries. Thus, developing countries are increasingly integrating themselves into global supply chains and thus contributing more to added value.

Technology also allows services and service providers to cross traditional industry boundaries. Telecommunications companies, for example, now supply payment and money transmission services (e.g. Vodafone through M-PESA and OrangeMoney), as well as more traditional banking products such as savings accounts and loans (OrangeBank). Uber acts as an intermediary not only for passenger transport services but also food delivery. Alibaba has evolved from being an online distributor to also providing financial services (WTO, 2019, p. 155).

These changes require the internal coordination of the activity of the various regulatory institutions. However, there are many public authorities whose tasks overlap.

❖ *“Market failures” and private interests determine the intervention of governments in the field of services.*

The services economy has evolved significantly over the past 3-4 decades, moving from a model in which governments were solely responsible for providing social and infrastructure services to one in which various private institutions provide most of these services. In the 1980s and 1990s many countries disappointed by the market restrictions results and low performance services implemented internal reforms to increase their efficiency.

Starting with the 1980s member countries of the International Monetary Fund, World Bank and Organization for Economic Cooperation and Development have implemented structural reform programs. The two main forces that guided the government regulatory interventions in services markets were the private and the public interest factors. These factors explain the decision of the governments to open some sectors and others not. Thus, liberalization, or lack thereof, can be explained as a result of the interaction of these 2 factors.

❖ *“Going it alone” doesn’t permit the repeating of all potential benefits*

Most of the services trade reforms introduced over recent decades have emanated to only a limited extent from bilateral or multilateral trade negotiations. Governments have undertaken the vast majority of transformations, particularly with regard to trade via commercial presence, largely unilaterally, driven by expected economic and development gains (WTO, 2019, p. 159).

The benefits of opening services markets are high and diffused across the entire economy, from welfare gains, to the increasing the variety of services supply and to the development of the more productive services firms.

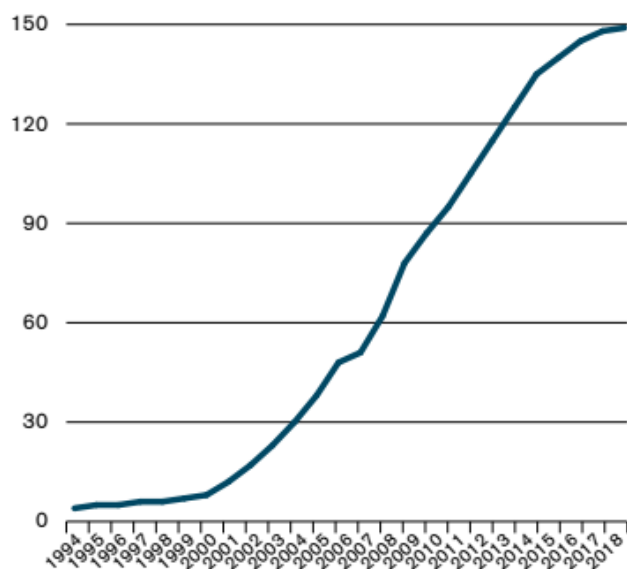
Moreover, the liberalization of trade services offers other benefits, like access to health and education, social services so important for capital development. Also, the performance of these services is very important for the competitiveness of all firms. Still, there are several services sectors (like transport and professional services) which are heavily restricted in some economies.

Another disadvantage of countries setting domestic regulation completely independently of one another is that any negative externalities on foreign suppliers are not typically considered in national regulatory processes, resulting in an increased likelihood of regulatory heterogeneity (Hoekman et al., 2007).

Regarding this disadvantages, international cooperation on services trade policy has an obviously high role to play.

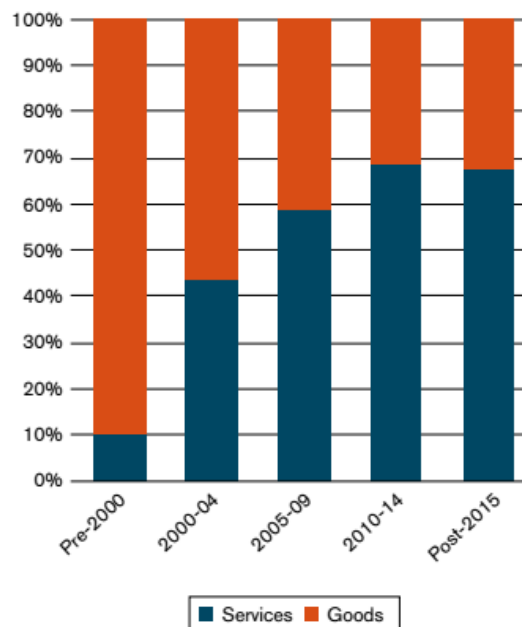
❖ *Services bindings are valuable and independent on domestic regulation*

Because of the fact that the majority of GATs commitments date from 1995, the policy bindings in RTAs are much higher. Beside the 1995-1997 extended negotiations in the sectors of telecommunications and financial services, and except the process of countries adhering to WTO, no other negotiations on the sector of services were concluded in the WTO since then. Instead the number of RATs signed in the area of trade services has increased considerably as we can see in the next figure.



**Figure 4. The number of services RTAs notified to the WTO, by year of entry into force**

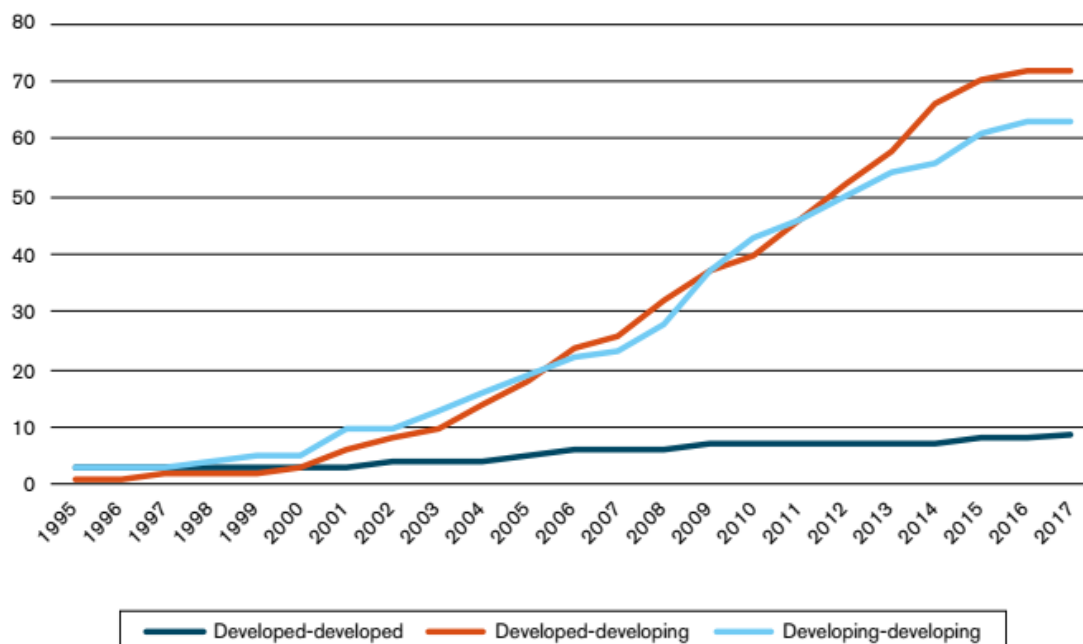
Source: WTO Secretariat, December 2019



**Figure 5. The proportion of RTAs notified to the WTO that cover trade services**

Source: WTO Secretariat, December 2019

The developing countries increasing parties to the RATs can be seen in the figure below.



**Figure 6 Number of services RTAs by level of development of parties**

Source: WTO Secretariat, December 2019.

#### 4. CONCLUSIONS

The international trade system promoted by the WTO has the following principles:

- ✓ combating discrimination - applying the treatment of the most favored nation and the national treatment;
- ✓ freedom of trade - gradually obtained through negotiations;
- ✓ predictability - the obligatory nature of the agreements and procedures for WTO members, as well as ensuring transparency;
- ✓ promoting fair competition;
- ✓ encouraging economic development and reform, targeting, in particular, less developed and developing countries.

In the WTO's view, this system brings a number of benefits, the most important being represented: constructive dispute resolution, reduction of living costs, increased incomes and increased choice of goods / services and their quality.

In conclusion, we could say that the creation of GATS and the WTO is an indisputable victory of trade multilateralism, and the liberalization and ordering of international trade in services as a result of the implementation of the results of these agreements are likely to stimulate global economic expansion.

Globalization and liberalization have led to the transformation of international trade in services into a powerful engine of growth and into an important mechanism for integrating countries into the global economy. At the same time, it is unanimously acknowledged that the full integration and participation of them and other developing countries and in transition to the global economy would substantially contribute to the expansion of world trade in services.

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