February 15, 1997, will be remembered as a landmark date in the history of the multilateral trade system. On that day, sixty-nine governments formalized commitments to liberalize their basic telecommunications services under the General Agreement on Trade in Services (GATS). These commitments were annexed to the Fourth Protocol of the GATS and they have both symbolic and practical meaning. The final act of the Uruguay Round in Marrakech in 1994, giving birth to the World Trade Organization (WTO), was described by many as the beginning of a new era in international trade rules. The agreement on basic telecommunications can be characterized as the first major accomplishment of this new era. Moreover, it will foster the liberalization of telecommunications, bringing significant benefits for industrial and developing countries alike.

This Note reviews the evolution of the services and telecommunications negotiations, the scope of the new set of multilateral disciplines, and the implications of the agreement for WTO members, particularly developing countries. The basic message is that the agreement is a major accomplishment, but implementing the commitments it contains will pose a significant challenge for many of the developing country WTO members. But the potential benefits of following through with these commitments are not trivial, and policymakers should maintain the focus on the liberalization agenda, building on the commitments already made.

A clash of worlds

In the early 1980s, when the trade community, under the leadership of the United States, began to discuss the inclusion of services in the multilateral trade regime, there was no consensus on the best way to proceed. Developing countries, for example, opposed the negotiations either because they believed that they did not enjoy comparative advantage in the relevant industries, or because they feared that these negotiations would intrude into other areas, such as foreign direct investment policies and national regulatory regimes. Needless to say, other topics—for example, agriculture and textiles—were much more prominent on the negotiating agenda of developing countries. For telecommunications, resistance to trade negotiations also came from major players in the industry. After all, state-owned enterprises were the suppliers of telecommunications services in all but a handful of countries, and international telephony was conducted like a cartel, with transactions closely regulated under rules negotiated under the International Telecommunication Union (ITU). Against this background, the idea of using trade negotiations to promote the liberalization of telecommunications was an alien concept to most of this community. It was also perceived as a threat to national regulators, and in some countries, it was even portrayed as a threat to national sovereignty.

Despite the opposition, the services negotiations progressed more smoothly than most analysts had predicted at the beginning of the Uruguay Round. The internationalization of services is at the very core of the process of economic globalization. Service industries (for example, telecommunications, transport, financial services) provide critical links among geographically dispersed markets. Efficient, high-quality links are fundamental for transnational corporations—the most dynamic actors in globalization—and this critical need explains
their strong interest in the establishment of multilateral disciplines in services trade. Pushed by these powerful interests and the growing recognition of the potential benefits of liberalizing services, the negotiating agenda evolved gradually, and by 1993, the basic architecture of the GATS had been agreed on.

The GATS in a nutshell

The GATS comprises the framework agreement (with its twenty-nine articles and eight annexes) as well as the schedules of specific commitments and the lists of exemptions to most-favored-nation (MFN) treatment submitted by member countries. It covers four modes of international delivery of services: cross-border supply (for example, international telephony), consumption abroad (tourism), commercial presence (provision of services abroad through a branch, agency, or subsidiary), and the presence of natural persons (entry and temporary stay of foreign individuals in order to supply a service).

It broadly follows the tradition of its counterpart for trade in goods—the General Agreement on Tariffs and Trade (GATT)—emphasizing nondiscrimination and imposing limits on the use of quantitative restrictions on trade. But it introduces innovations, covering transactions associated with commercial presence and introducing a concept of market access that goes beyond border restrictions (for example, in principle, it proscribes restrictions on the type of organization under which foreign providers can establish commercial presence).

Unconditional MFN treatment is a basic obligation of signatories that applies to all services, an obligation that bars a WTO member from treating other members less favorably than any other country. But GATS allows MFN exemptions as long as the member country identifies them explicitly. The list of exemptions is supposed to be time-bound and, in principle, should not last more than ten years. Another basic obligation of members is a commitment to transparency, which requires governments to publish and make available to the public the laws and regulations that affect trade in services.

Market access and national treatment, in turn, are specific obligations under the GATS. They apply only to the service industries and activities specifically listed by a country in its schedule of commitments. These obligations are specified at the level of each of the four modes of supply and subject to the limits made explicit in the offer. The GATS adopts a “positive list” approach with respect to sectoral coverage of service industries—that is, only the industries and activities scheduled in the commitments are subject to the GATS’s specific obligations.

The treatment of telecommunications in the GATS

Telecommunications services are defined in a comprehensive manner for GATS purposes, encompassing both basic services—those that involve simply end-to-end transmission of voice or data—and value added services—those that modify the form or content of the messages relayed through the networks. By the end of the Uruguay Round, forty-eight schedules (representing 59 of the 125 governments participating in the negotiations) contained commitments in the area of telecommunications. But almost all of these commitments covered only value added services, reflecting the resistance still facing this novel approach to telecommunications negotiations. In short, most of the relevant markets for communications continued to operate outside multilateral disciplines.

The Uruguay Round accomplished some important results for the telecommunications sector, however. First, it raised awareness about the potential role of trade negotiations in fostering the liberalization of telecommunications. Second, it helped to diminish the gap in understanding between the trade and telecommunications communities by promoting a dialogue on their distinct approaches to regulation. Third, it established that access to telecommu-
communications services was critical for trade in services and that users were entitled to fair terms of access (Annex on Telecommunications of the GATS).

But the limited progress in effective liberalization of basic telecommunications led WTO members to agree to continue the negotiations beyond the date of the Round’s completion (April 15, 1994). Basic telecommunications joined maritime transport, financial services, and the movement of natural persons as topics for sectoral negotiations. The Negotiating Group on Basic Telecommunications (NGBT) was created in May 1994, with a deadline of April 30, 1996, for completing the talks.

**From the NGBT to the GBT**

Participation in the NGBT was voluntary. Initially, fifty-three WTO members decided to participate in the negotiations, with twenty-four other governments attending the meetings as observers. The attitude of most participating countries about the usefulness of engaging in these negotiations had shifted significantly by then. In part, this simply reflected a better understanding of the potential benefits of liberalizing telecommunications. More fundamentally, however, it reflected the growing recognition that the industry is facing a paradigm shift. Technological progress is rapidly eroding the sustainability of old practices based on monopolistic behavior, state control, and protected markets for local providers. Call-back systems, virtual private networks, the Internet, and the growing promise of modern satellite communications are multiplying the opportunities for bypassing telecommunications monopolies. At the same time, the increasing information intensiveness of transnational corporations and the dramatic reductions in the cost of communications create additional incentives for customers to actively explore bypassing alternatives.

In the NGBT, the focus of the debate rapidly progressed from “why to liberalize” to “how to liberalize.” Important conceptual progress was achieved as participants recognized that for telecommunications, unless a procompetitive regulatory framework was also put in place, the value of the market access commitments would be greatly reduced. A draft reference paper describing regulatory disciplines supportive of market entry was negotiated, and most countries became signatories to this text (partially or in its entirety) in the context of additional commitments made in their offers (expanding on their market access and national treatment commitments). This can be characterized as the first multilateral effort to deal explicitly with substantive aspects of competition policy. Even though limited to telecommunications, it was a major achievement and it paves the way for future multilateral disciplines and international harmonization.

By April 1996, thirty-four offers (encompassing forty-eight governments, with the European Union’s submission counting as one) were on the table. Still, some countries—particularly the United States—were dissatisfied with the quality and coverage of the offers. Moreover, in the final phase of the negotiations, the issue of satellite services—that is, to what extent explicit provision for these services needed to be made in the offers—added “noise” to the negotiations. As a result, no deal was attained by the deadline of April 30, 1996. Given the progress already achieved, however, there was broad support for continuing the negotiations. Seizing this opportunity, Renato Ruggiero, Director-General of the WTO, suggested that countries should be given a chance to improve on their offers, and February 15, 1997, was established as the new deadline for the negotiations. A new body—the Group on Basic Telecommunications (GBT)—was created to carry on with the negotiations, replacing the NGBT, and the rules of participation were changed to make all WTO members full participants.

The negotiations restarted in July 1996, and by the WTO Ministerial Conference in Singapore in December 1996, several countries had already tabled improved offers, signaling support for a successful conclusion of the negotiations. Still, some thorny issues continued to loom on
FIGURE 1 COUNTRIES MAKING BASIC TELECOMMUNICATIONS COMMITMENTS

<table>
<thead>
<tr>
<th>Service Type</th>
<th>Developing countries</th>
<th>High-income countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Voice telephony</td>
<td>31</td>
<td>24</td>
</tr>
<tr>
<td>Local</td>
<td>29</td>
<td>22</td>
</tr>
<tr>
<td>Domestic long distance</td>
<td>30</td>
<td>26</td>
</tr>
<tr>
<td>International</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Resale</td>
<td>19</td>
<td>23</td>
</tr>
<tr>
<td>Data transmission</td>
<td>37</td>
<td>26</td>
</tr>
<tr>
<td>Private leased circuit services</td>
<td>29</td>
<td>26</td>
</tr>
<tr>
<td>Terrestrial mobile</td>
<td>35</td>
<td>25</td>
</tr>
<tr>
<td>Other terrestrial mobile services</td>
<td>34</td>
<td>25</td>
</tr>
<tr>
<td>Mobile satellite services</td>
<td>29</td>
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</tr>
<tr>
<td>Fixed satellite services</td>
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<td>23</td>
</tr>
<tr>
<td>Trunked radio</td>
<td>17</td>
<td>3</td>
</tr>
<tr>
<td>Reference paper (additional commitments)</td>
<td>30</td>
<td>27</td>
</tr>
</tbody>
</table>

Source: World Trade Organization data.

the horizon. In particular, lively discussions continued on international services (for example, countries with more liberal regimes were concerned that an MFN commitment to liberalize international services could give rise to anticompetitive practices by foreign monopolistic carriers), on satellite services, and on what constituted an adequate “critical mass” for a deal. Other controversial issues included how to avoid discriminatory practices in the allocation of spectrum and how to draw the line between telecommunications and audiovisual services given the growing technological convergence in these areas.

Gradually, however, technical and political solutions began to emerge. With respect to international services, the United States unilaterally announced a new policy toward international settlement rates in December 1996, creating a mechanism for addressing the concerns of its own carriers about the distortions of the accounting rates system outside the WTO framework. This helped deflate opposition to the agreement based on concerns that it could foster anticompetitive practices (for example, by one-way accounting rate bypass). Also helping to pave the way to the final agreement were the adoption of a technologically neutral approach to scheduling (that is, unless otherwise noted, the commitments would cover all transmission possibilities including satellite services) and the acceptance of the concepts that frequency and spectrum management should not be used to undermine market access commitments and that the use of MFN exemptions could temporarily address the differences in treatment of audiovisual services.

In a parallel effort, governments, the WTO, and several other multilateral organizations worked to raise awareness of the importance of the negotiations for developing countries and to help these countries prepare their own offers.
The World Bank, for example, through its Information for Development (infoDev) program and in close cooperation with the WTO, sponsored a project to provide technical assistance to more than twenty developing countries in the final stages of the negotiations. By early 1997, it became clear that a “critical mass” of offers would be achieved. On February 15, 1997, the telecommunications talks were successfully concluded.

**The scope of the agreement**

Sixty-nine WTO members tabled commitments by February 15, 1997. These schedules will become formally binding by January 1, 1998. Not only were several new offers added to the ones available in April 1996, but thirty-two of the thirty-four original offers were revised, typically leading to more substantive commitments. Commitments were made in all basic telecommunications services by both high-income and developing countries (figure 1). Moreover, most participants made commitments either to all or to parts of the reference paper, subscribing to procompetitive regulatory principles (for example, the establishment of independent regulators, the adoption of competitive safeguards, measures to ensure interconnection, transparent and nondiscriminatory practices with respect to licensing, and universal service obligations).

The exact implications of the agreement for a particular country can only be assessed by a careful analysis of its schedule of commitments, including phasing considerations, list of qualifications by activity and mode of delivery, and eventual recourse to MFN exemptions (nine governments claimed such exemptions for certain activities). It is fair to say, however, that in contrast with the GATS’s results in 1994, when most schedules were characterized by status quo commitments (that is, governments basically bound themselves not to adopt more

![Figure 2: Distribution of World Telecommunications Revenues Between Participating and Nonparticipating Countries](image-url)
restrictive policies), the outcome of the basic telecommunications negotiations will foster significant additional liberalization. In this sense, the agreement proved wrong those analysts who were skeptical of the role of sectoral negotiations in fostering liberalization at the multilateral level.

The markets affected by the agreement represent more than 90 percent of the world market...
for telecommunications (figure 2). Developing countries account for less than 20 percent of the global revenues from telecommunications services, but they are the fastest-growing markets for these services. Their participation in the WTO process is thus important not only for developmental reasons, but also because these markets are bound to increase their relative importance in global terms. The areas with the weakest telecommunications infrastructure (such as Sub-Saharan Africa) were those that had participated less actively in the WTO negotiations (figure 3). Assistance to help bring these countries into the system should be a priority for the donor community.

The road ahead

Analyses of the importance of the basic telecommunications agreement tend to cluster around two extreme positions. Most analysts have been extremely enthusiastic and present the agreement as delivering swift liberalization of participating markets. Others are more skeptical, pointing out that the multilateral regime and the regulatory authorities are being overtaken by the velocity of technological change in the industry. For the latter, the agreement plays at best a secondary role in this process of change.

Reality is somewhere in between. It is true that fast technological change has been the main driver of the paradigm shift described above, and it explains to a large extent the changing attitude in the industry on the desirability (inevitability) of competition. But credible rules relating to market access, constraints on discrimination, and a procompetitive regulatory environment play an important part in shaping the outcome of this “revolution,” particularly in influencing the distribution of its benefits.

Private capital is expected to take the lead in funding investments in telecommunications in the developing world. In the early 1990s, 65 percent of the funds used to finance basic wireline telecommunications in the develop-

But private investors will be willing to invest in modernizing the telecommunications infrastructure of developing countries only if they can count on fair and stable rules of the game. Accordingly, developing countries able to signal their commitment to liberalization and to adopt a procompetitive regulatory environment will be in a better position to attract the capital flows required for these investments. WTO commitments can play an important part in this.

Benefits for developing countries are not limited to attracting foreign direct investment. Liberalization will also improve local firms’ access to efficient telecommunications service providers. This will increase their competitiveness—and thus their ability to explore the dynamism of international trade in information-intensive, products and services. Last but not least, competition will improve the price-quality mix of the telecommunications services available to consumers. The critical remaining issue is the quality of the implementation of the commitments. Many developing countries are entering uncharted territory, particularly with respect to procompetitive regulatory disciplines. Those able to face these challenges successfully will be much better positioned to benefit from the “information age.”

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1 This section relies on Primo Braga (1996). For further details on the rationale for liberalizing services and on the architecture of the GATS, see UNCTAD and World Bank (1994) and Hoekman (1996).
2 Basic services cover voice telephony, telex, telegraph, facsimile, data transmission, private leased circuit services, fixed and mobile satellite systems and services, cellular telephony, mobile data services, paging, and personal communication services. Value added services include email, voice mail, on-line data processing, on-line database storage and retrieval, and electronic data interchange.
For further details on this project, which was executed by the International Institute of Communications, visit the infoDev website at http://www.worldbank.org/html/infodev/infodev.html.

Antigua and Barbuda, Argentina, Australia, Bangladesh, Belize, Bolivia, Brazil, Brunei Darussalam, Bulgaria, Canada, Chile, Colombia, Côte d’Ivoire, Czech Republic, Dominica, Dominican Republic, Ecuador, El Salvador, European Communities and its Member States, Ghana, Grenada, Guatemala, Hong Kong, Hungary, Iceland, India, Indonesia, Israel, Jamaica, Japan, the Republic of Korea, Malaysia, Mauritius, Mexico, Morocco, New Zealand, Norway, Pakistan, Papua New Guinea, Peru, Philippines, Poland, Romania, Senegal, Singapore, Sri Lanka, Switzerland, Slovak Republic, South Africa, Thailand, Trinidad and Tobago, Tunisia, Turkey, United States, and Venezuela.

For a discussion of the results of the GATS in promoting services liberalization, see Hoekman and Primo Braga (1996).

References


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