GATS, China’s Commitments & Implications for the Economy

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Examples of Trade in Services

- Sale of Information Services to a Consumer in another country through the Internet
- Purchases of Services by Tourists while traveling in another country
- Services Provided by Local Branch of Foreign Bank
- Training Course Taught by Foreign Instructors
Examples of Restrictions on Trade in Services

- Regulations that Restrict
  - Purchases of Advertising Services from an Advertising Agency in another country
  - Purchases of an air ticket from a foreign airline while traveling in another country
  - Establishment of a Foreign Insurance Company
  - Local Currency Loans by Foreign Banks
  - Visas for Foreign Consultants
How Does the WTO Limit Restrictions on Services Trade?

- Laws & Regulations Have to be Transparent and Administered on an Objective Basis
- All Foreign Services and Foreign Service Providers Have to be Treated Alike (MFN) & Countries Have a Right to Negotiate access to Mutual Recognition Agreements
- Negotiated Commitments Limit Restrictions on Access by Foreign Services or Service Providers (Market Access Commitments)
- Negotiated Commitments Limit Discrimination Against Foreign Services or Service Providers (National Treatment Commitments)
WTO Rules and Commitments in Services

- Rules Embodied in General Agreement on Trade in Services (GATS)
- National Commitments Contained in National Schedules
Structure of GATS

- Part I - Scope and Definition
- Part II - General Obligations & Disciplines
- Part III - Specific Commitments
- Part IV - Progressive Liberalization
- Part V - Institutional Provisions
- Part VI - Final Provisions
- Annexes
Part I : Scope and Definition:

- Services is defined as
  - any service in any sector except services supplied in the exercise of governmental authority
- Trade is Defined as:
  - cross border movement
  - consumption abroad
  - local establishment
  - temporary entry
Transparency (Article III)

- Requires publication of relevant measures of general application and of international agreements that affects operation of GATS
- Requires members to respond to requests for specific information on any of the above
Most Favored Nation Treatment (Article II)

- Services and service suppliers from any country have to be treated no less favorably than services and service suppliers from any other country.

- Measures listed in an annex at the time a country adopts the GATS are exempted from this requirement.
Economic Integration (Article V)

Countries can liberalize trade in services on a preferential basis if they negotiate a free trade in services agreement, which
– has substantial sectoral coverage
– eliminates substantially all discrimination
Mutual Recognition Agreements (Article VII)

- Countries are allowed to negotiate agreements with specific countries for the mutual recognition of education, experience, licensing or certification requirements of service providers.

- Third countries have a right to accede to these or similar agreements.
In Sectors where a Country has made a Specific Commitment

*Measures that Limit Market Access & Exceptions from National Treatment of Foreign Services and Service Providers* have to be listed in National Schedules (Articles XVI & XVII)
In Sectors where a Country has made a Specific Commitment

- Regulations
  - Have to be administered in a “Reasonable, Objective and Impartial Manner”
  - Have to be based on objective & transparent criteria
  - Can not be more burdensome than necessary
  - Can not constitute a restriction on supply
Negotiation of Market Access

- Commitment on Market Access Are Negotiated on Product by Product, and Mode by Mode Basis.
- Commitments can also be made on a horizontal basis for particular laws or regulations.
- All commitments are included in the national schedule.
Article XVI on Market Access covers all measures which limit

- service suppliers
- total value of transactions
- services operations
- employment
- channels of distribution
- foreign capital participation or shareholding
Negotiation of National Treatment

- Commitments on National Treatment Are Negotiated on Product by Product, and Mode by Mode Basis.
- Commitments can also be made on a horizontal basis for particular laws or regulations
- All commitments are included in the national schedule
Telecommunications

- Telecom Annex
  - Transparency
  - Rights for Access to & Use of Network
  - Obligations of Monopolies

- GBT
  - Provided for competition in various telecom services by signatory countries
  - Established Regulatory Guidelines
  - Led to withdrawal of MFN exceptions in telecom
National Schedules

- National Schedules contain each country’s commitments on market access and national treatment, for each service and mode of supply.
- Some commitments are in the form of other horizontal commitments.
- Commitments for individual services or sectors are entered as
  - Unbound (no commitment)
  - None (no restriction)
  - Conditions or limitations on market access or national treatment
China’s National Schedule –

*Market Access Across the Border*

- Few Restrictions on cross border sales of Professional, Data Processing, Information & Shipping services
- Only a limited number of cross border sales of Financial & Telecommunications Services are allowed
- Air Transport Services are excluded by all WTO members
China’s National Schedule –

Purchases of Services While Traveling in Other Countries

- No Significant Restrictions on purchases of services while traveling in other countries
China’s National Schedule -

Entry by Individuals to Supply Services

- Entry by Foreigners to Provide Services is limited to temporary entry by
  - Managers, Executives & Senior Specialists employed by foreign corporations or foreign invested enterprises in China (up to 3 years)
  - Services Sales Persons (up to 90 days)
China’s National Schedule – *Establishment of Foreign Enterprises in Services*

- Establishment of Foreign Enterprises is generally limited by restrictions on:
  - Share of Foreign Ownership
  - Geographic Location
  - Minimum Assets
  - Form of Establishment

- Most of these Limitations will be phased down over a six year period for most sectors,

- Restrictions will remain in place in some sectors, including telecommunications, life insurance
China’s National Schedule

National Treatment

- China has committed itself to provide *National Treatment* for most services and service providers covered by *Market Access Commitments*.
- China has made no national treatment commitment for individuals granted temporary entry to provide services under mode 4.
- National treatment is limited by regulatory requirements in a few sectors such as medical and educational services, construction, insurance, travel agencies, aircraft repair.
Economic Implications for China
Efficiency of Markets

- The Economic Efficiency of market competition will improve as a result of commitments to transparency, objective regulation, & administrative procedures.
Economic Implications for China
Market Competition

- As limitations on the establishment of foreign enterprises in services are phased down, market competition and transfer of foreign technology and management practices will increase.
- Increased competition and technology transfer will improve quality and variety of services, and reduce prices.
An Improvement in the quality of many services will sharply increase the demand for these services.
Economic Implications for China
Productivity and Innovation

- Since Business Services account for an increasing percentage of the cost of production, reduced prices for business services will boost productivity.
- Since Business Services are also key to the production of new and higher value goods and services, improvements in quality and variety will boost innovation in the economy.
Economic Implications for China
Labor Market Adjustment

- Initially, the introduction of more efficient methods of producing services will reduce demand for some workers, particularly low skilled workers.

- As the demand for the new higher quality services increases, there will be a substantial increase in the demand for workers, particularly demand for skilled workers paid higher wages.
Trade Liberalization will enable foreign firms to increase their share of the Chinese market.

As Domestic firms emulate the best business practices of foreign firms, and as employees of foreign firms migrate to domestic firms, domestic firms will win back some of the market share lost to foreign firms.
Economic Implications for China Regulation

- The WTO will not constrain the ability of government to regulate and set standards, though it will constrain regulatory controls on the number of service providers and the volume of services transactions.
- Increased market competition will require better regulation in a number of areas, particularly prudential requirements in financial services.
Economic Implications for China
Domestic Economic Reforms

- It will be difficult for China to implement its WTO commitments in Financial Services if it does not
  - Strengthen domestic banks by ending subsidies for State Enterprises and consolidating non-performing loans
  - Facilitate adjustment in the labor market through policies that expand investment in domestic enterprises and strengthen new social welfare programs
Economic Implications for China
External & Internal Integration

- The commitments made by China under all 4 modes will boost the integration of China with the world economy.
- The limitations placed on geographic expansion of foreign enterprises in China and on investment in telecommunications and transportation will increase the economic gap between the coast and interior provinces.