

# **The Arab World and the New Multilateral Trade Agenda: Trade in Services and Investment Provisions in the WTO**

**Raed Safadi**

## **Abstract**

The current trends in the world economy that are fuelling globalization and generating closer economic cooperation among nations, are intensifying pressure on policy interaction in traditional areas of multilateral cooperation. The most obvious manifestations of this have involved governments in continuing efforts to remove tariff and non-tariff barriers to trade, to extend the coverage of liberalization efforts, and to sharpen trade rules including those relating to matters like safeguards, subsidies and countervailing duties, and antidumping. In addition, closer economic integration among nation states has “internationalized” a wide range of policy domains that previously were either simply neglected, or considered an exclusively national preserve, or else were subjected only to comity-like coordination and consultation arrangements. As a result, major multilateral initiatives have led to negotiations, and in some instances, agreements in new areas such as trade in services, protection of intellectual property rights and investments.

The paper reviews the recent multilateral agreements on services and investment-related issues and analyzes their implications for Arab countries. The paper also identifies areas for increasing the level of obligations accepted by Arab governments without undertaking any adjustment to the structure of the GATS.

## **Introduction**

Trade and investment have become major engines of growth in developed and developing countries alike, including the Arab region. The design of policies aimed at underpinning the trade and investment expansion and ensuring that the gains from liberalization are maximized and that any adverse affects are properly addressed, are of greater importance to countries and workers today than they have been throughout the post-war period. Simply stated, more workers in more firms in more countries derive their livelihood from cross-border trade and investment activity than ever before.

The volume of world merchandise trade is today about 16 times what it was in 1950, a period during which the value of world output increased by a factor of 5.5 (Figure 1). The period since then saw a near doubling, from 8 to 15% of the ratio of world exports to global production. Most remarkable has been the accelerating pace of trade-led integration. During 1985-96, the ratio of trade to world GDP rose three times faster than in the preceding decade, and nearly twice as fast as in the 1960s.

•

---

• Principal Economist, OECD, Paris

### Volume Indices, 1950 = 100

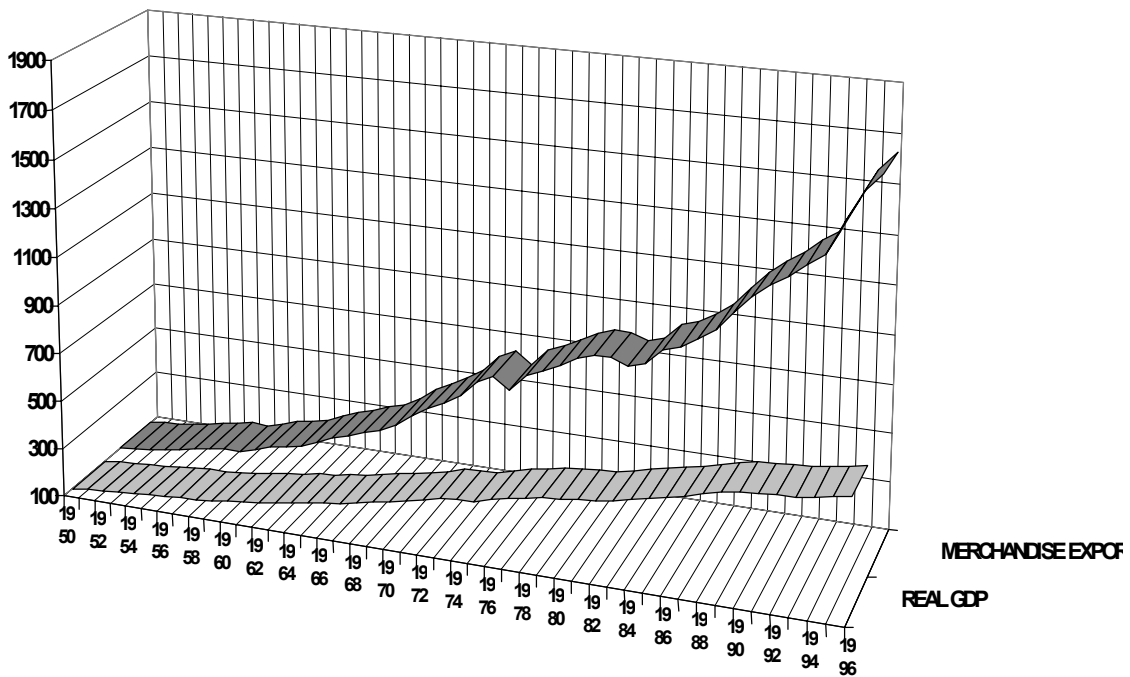


Figure 1. Trends in world merchandise exports and GDP. (Source: WTO 1997)

Although continuing growth in world trade levels is often seen as the most obvious indicator of expanding integration, increased inflows of foreign direct investment (FDI) suggest even more the deepening of such integration. Outflows of FDI experienced a fourteen-fold rise from \$25 billion to \$350 billion during the last quarter century (OECD 1998). With some \$6.5 trillion in global sales in 1996, the value of goods and services produced by the 280,000 foreign affiliates of the world's 44,000 parent firms, international production outweighs exports as the dominant mode of servicing foreign markets. The growth of global sales has exceeded that of exports by a factor of 1.2 to 1.3 since 1987. These trends have combined to make FDI the most powerful integrating force in today's world economy (Figure 2). The impact of FDI-led integration is illustrated by the growing share of global business that takes place on an intra-firm and intra-industry basis, and the increasing importance of trade in intermediate inputs, a rising proportion of which consists of services (OECD 1998).

1981 = 100

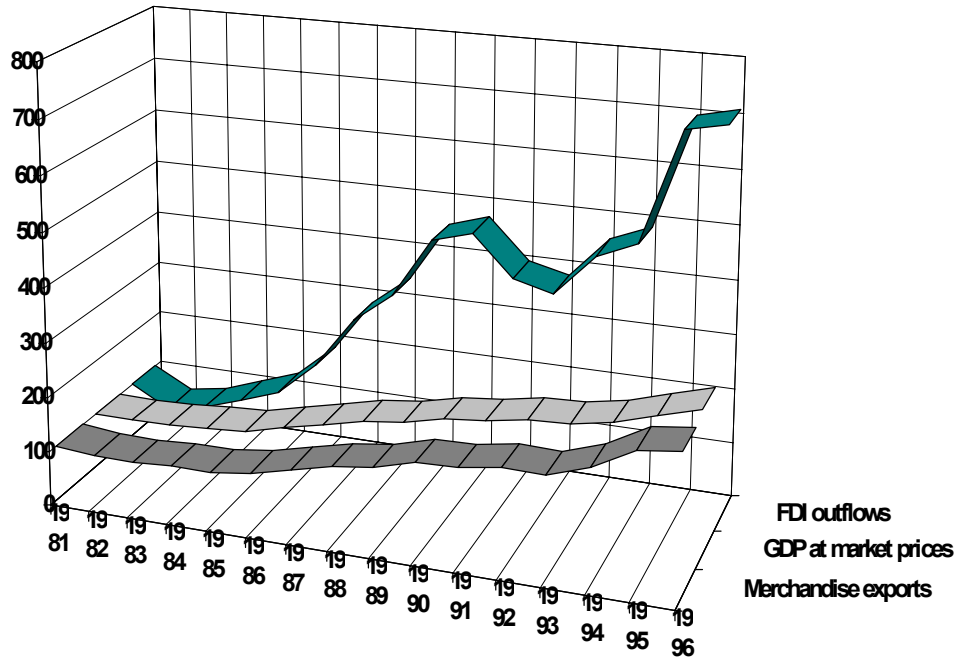


Figure 2. Trends in global trade, output and investment. ( Source: UNCTAD 1997)

Greatly increased flows of information and technology represent the third major force driving market integration. The past two decades not only saw an explosion in the absolute amount of knowledge and technology, both of which are embedded in and diffused through trade and investment flows, but more importantly, in their availability and usefulness to a growing share of the world's population.

### The Information Technology Revolution

Technological innovations, especially in information technology (IT), and their global diffusion have contributed to a decline in transaction costs for firms, allowing the latter to pursue world-wide production and distribution strategies with a consequence of a widening in the range of enterprises for which global operations are commercially viable. Advances in IT have revolutionized international communications, leading to a dramatic decline in their cost, and altered long-standing patterns of productivity and employment.

The application of IT is not reserved to just a few sectors; rather, it transforms all sectors of the economy. To take a few examples, IT can be used to improve the design, manufacture and marketing of a car, the performance of a tractor, as well as the administration of health care. IT also permits more differentiated products and shorter product cycles. In 1955, the types of products sold in the US market for

automobiles, vans, and light trucks numbered 30; by 1995; it had grown to more than 160. Not so long ago, automobiles used to take ten years from the drawing board to the sales room. They now take three.

IT also affects every function within a firm as well as within different stages of production. Thus, advances in IT together with falling transport and communication costs, make it much easier to coordinate production and distribution in distant locations around the globe. For example, integrated microchips are designed and etched in the United States, assembled in Mexico or Costa Rica and re-exported around the world, including to the United States.

Advances in IT along with more innovative approaches to domestic regulation, have also made it possible to supply many commercial services on a competitive basis and greatly increased possibilities for international trade in such services. The revolutionary impact of IT on manufacturing means that a number of service functions that used to be performed in-house such as product design, logistics management, R&D, accounting, or customer service, can now be contracted out. The latter trend has given a strong boost to services trade, whose growth has outstripped that of merchandise trade over the last decade.

1980 = 100

Figure 3. Trends in world merchandise, IT and service exports. (Source: OECD 1998)

Not only does the IT sector assume a central facilitating role in the globalization of the world economy, it is also a commercial powerhouse in its own right. Trade in IT products which stood at \$626 billion in 1996, grew by 13% a year on the average during

1990-96, the fastest growth of all major product categories in merchandise trade. Such trade is expected to reach \$800 billion by the year 2000. IT's 12.2% share of total goods trade places it on par with agriculture, and well ahead of automobile products' 9.2%, or of iron and steel, textiles and clothing exports, the combined share of which amounted to 8.8% of world merchandise trade in 1996 (OECD 1997). The growing commercial and economy-wide importance of the IT sector lies behind the successful completion in December 1996 of the landmark Information Technology Agreement of the World Trade Organization (WTO). The Agreement provides for the elimination of tariffs on a wide range of IT products by the year 2000.

Trade- and investment-induced market integration has led to deeper forms of economic interdependence among nations - deeper, but also more democratic, as a growing number of developing, Arab and former centrally-planned economies become more closely tied into the global economy. While trade and investment linkages between industrial economies remain predominant, the ties that bind developed and developing countries are closer today than ever before. Developed countries now depend on developing countries for a quarter of their export sales, 40% over the level prevailing two decades ago; a fifth of their primary commodity imports; and almost half of their petroleum consumption (World Bank 1997). A third of foreign direct investment flows originating in developed countries now heads for developing country markets, a three-fold increase over trends obtained less than a decade ago.

Developing countries, for their part, rely on developed countries for more than 60% of their trade and 47% of their primary commodity imports (World Bank 1997). Inflows of FDI, the bulk of which originates in OECD countries, represent the single largest source of external funding for developing countries, accounting for some 40% of net long-term flows. Trade and investment ties between developing countries are also on the rise: they sold more than a third of their exports to each other in 1996, compared with less than a quarter a decade ago. Developing countries have also greatly diversified their trade linkages with each other and with OECD countries. During the period 1950-80, the share of manufactured products in developing countries' total exports hovered between 30 and 40%. Beginning in 1981, this hitherto flat trend embarked on a sharply upward journey that has continued unabated to this day, reaching a remarkable 84% in 1996.

Such striking structural transformations in the extent and depth of countries' participation in international trade and investment, reflect a major change in attitudes and policy approaches towards trade and investment, marked by the abandonment of inward-looking policies of protectionism and industrialisation in favor of more outward-oriented policies. While the trend towards market liberalization has proceeded at differing speeds at different times in various settings, its world-wide dimension is unmistakable. Since the launching of the Uruguay Round (UR), over sixty developing nations have unilaterally lowered their barriers to imports, often in the context of a far-reaching reorientation of domestic economic policies. More and more countries, developed and developing, are liberalizing imports, promoting exports, extending welcoming mats to foreign investment and loosening restrictions on capital flows. Such a strategy has provided the bedrock of countries' rising prosperity and propelled a number of developing economies into the front ranks of trading nations and recipients of foreign investments.

Thus, not surprisingly, in the face of widespread changes in international economic relations, the multilateral trading system (MTS), as was originally embodied in the General Agreement on Tariffs and Trade (GATT) and later in 1995 following the establishment of the World Trade Organisation (WTO), responded positively to these developments. MTS embraced under its umbrella new issues encompassing trade-related investment measures, trade in services and trade-related intellectual property rights. Bringing these issues under the purview of the WTO was regarded as necessary to keep the system relevant. Globalization trends in the world economy have made it imperative to search for international rules and regulations to meet the new realities. Their introduction has extended the purview of the trading system beyond goods markets to factor and services markets as well.<sup>1</sup>

On their part, Arab countries were well aware of these developments in the international markets. Thus, more than ever, GATT-member Arab countries engaged actively in the UR of multilateral trade negotiations as their interests in its outcome heightened.<sup>2</sup> Aside from the important issues that the UR seeks to tackle, the heightened interests also reflect these countries' increasing emphasis on openness and market-based policy reform programs (Egypt, Jordan, Morocco and Tunisia), and their increasing involvement in world trade and investment. Since the launching of the UR in 1986, Egypt, Morocco and Tunisia have unilaterally lowered their barriers to imports, mainly in conjunction with a reorientation of domestic policies. Morocco, Tunisia, Bahrain, the UAE and Qatar have since joined the GATT and subsequently the WTO. Algeria, Jordan and Saudi Arabia are now in the process of acceding, while other Arab countries have expressed interest in WTO membership which have so far held observer status in the WTO.

## **Trade in Services**

### **Background**

It took more than four decades after the birth of GATT for the subject of trade in services to find its way onto the multilateral negotiating agenda. By the latter half of the 1970s, the absence of rules and multilateral commitments on trade in services began to be seen as a significant systemic gap. Awareness grew on the importance of services-related activities in the world economy. The process of globalization probably accelerated the pace at which this perception became generalized, on account of the fundamental importance of a number of services sectors in international trade, most notably transport, telecommunications and financial services.

The production of services was increasingly seen as an independent activity, worthy of explicit multilateral attention. Prior to this, international trade had been seen

---

<sup>1</sup> For an in-depth examination of the of the Uruguay Round Agreements and the establishment of the WTO, see Safadi and Laird (1996).

<sup>2</sup> The Arab countries which are members of the GATT are (date of accession in parentheses): Kuwait (May 1963), Egypt (May 1970), Morocco (June 1987), Tunisia (August 1990), Bahrain (December 1993), UAE (March 1994) and Qatar (April 1994). As of the end of 1997, membership in the WTO included 132 countries.

largely through the prism of trade in goods. Services were altogether subsidiary, either in the sense of being embodied in goods, or as secondary activities undertaken in the cause of facilitating the supply and commerce of goods. Also missing from this perception of what was important in the world economy was the role of investment. Investment was treated largely as a matter of domestic policy concern. The notion that investment and trade are merely different means of gaining access to markets to be treated in a complementary fashion rather than as substitutes, is also a rather recent phenomenon.

Technological advances have also played a key role in bringing trade in services to the forefront of policy makers' concerns. Advances in transport and information technologies have contributed to a rapid expansion of services trade. Many international transactions, previously considered prohibitively expensive, have now become commonplace because of the ease with which people can move and communicate electronically across national boundaries. These trends are reflected in the fact that trade in services has grown faster than trade in goods for well over a decade. While services exports accounted for some 17% of world trade in 1980, the share had risen to over 22% in 1993 (Table 1). Annual average growth in services trade was approximately 8% from 1980 to 1993, compared to some 4% for merchandise trade. OECD countries have invariably accounted for as much as 80% of world trade in services, and the share of services trade in OECD's total trade has risen from 19% in 1980 to 23% in 1993.

**Table 1. World Trade in Services, 1980-93.**

	1980	1985	1990	1992	1993
Trade in commercial services (US\$ billion)	358.0	379.6	790.8	936.1	933.7
OECD <sup>a</sup>	283.3	298.5	648.2	764.9	752.0
Rest of the world <sup>b</sup>	74.6	81.1	142.6	171.1	181.8
Share of services in total trade (per cent) <sup>c</sup>	17.0	18.2	20.4	21.9	22.2
OECD	18.8	19.3	21.2	22.7	23.1
Rest of the world	12.7	15.3	17.5	19.0	19.1

*N.B. Only countries reporting to the IMF were considered in preparing this table.*

*(a) Mexico is included in the rest of the world.*

*(b) Figures for the 1990s include estimates for some developing countries for which actual dates are not yet available.*

*(c) Merchandise trade plus commercial services.*

(Source: World Bank 1995)

### **Salient Characteristics of Services**

It is arguable that some of the features of services and the nature of services transactions have contributed to the relative neglect of services in policy discourse. It is

useful to consider briefly a number of the differences between goods and services, as these are at least part of the explanation as to why the General Agreement on Trade in Services (GATS) is different in a number of important aspects from the GATT.

**Invisibility, Measurement and Data.** The intangible or invisible nature of services has made measurement difficult, and resulted in significant lacunae in the existing information base on services transactions at both the national and international levels. For the most part, production and investment data on services are scarce, and it is virtually impossible to make international comparisons, even on a cross-sectional basis. National input-output tables are the most detailed source of production data on services since they help isolate services transactions which otherwise stay hidden as goods production. Few countries maintain recent and significantly disaggregated input-output matrices. Data on investment are frequently not sufficiently disaggregated to enable deriving reliable information on trends in investment. This problem is even more acute at the international level. By contrast, data on international trade in services have been collected on a systematic basis for many years in balance-of-payments statistics. But the statistics are highly aggregated concentrating primarily on transport and travel, thus only providing a limited picture. The IMF, however, has recently introduced more disaggregation in balance-of-payments data.

Another problem in the sphere of data is known as the “disembodiment” or “splintering” question. Increased specialization has resulted in services activities being broken off from goods production. For example, a manufacturer may in the past, maintained all advertising activities in-house with the consequence that the production of advertising services would simply be counted as an input into the production of manufactured goods. If this manufacturer subsequently purchases advertising services from an agency specialized in producing these services, then national statistics will record this same element of production as services production and not goods production.

Thus, disembodiment via specialization may create the impression that services production is increasing relative to goods production, when in effect some of this perceived shift is the result of structural change within the economy. Another factor which may give an exaggerated picture of growth in the relative importance of services is simply that measurement techniques have improved over time. Indeed, whatever data are available could measure a growing component of services activities in total production at least in part because the hardest part of measurement is being done better. Notwithstanding these sources of bias, it is clear that the demand for services does rise relative to the demand for goods as income grows, and that services-related activities are therefore bound to become a greater source of interest from a policy perspective.

**Simultaneity in Production and Consumption and Physical Proximity.** A feature of most services is that they cannot be produced and then stored for later consumption. Production and consumption are simultaneous. This is clearly an additional source of measurement difficulty. It also gives rise to a greater tendency for “customization” or product differentiation, such that it can be misleading to assume that unit prices can be identified for homogenous output. Even the question of what represents a unit of production may be open to debate.



Simultaneity in production and consumption also implies that producers and consumers often need to be in the same location for a transaction to take place. The classic example of haircutting services makes this point clear, given the obvious impossibility of supplying haircutting services at a distance. There are, however, some services transactions that may occur over distance, on account of the possibility that they can be transmitted electronically. Moreover, one class of services, i.e. transport services, is intrinsically about bridging distance, so the question of physical proximity does not arise. The immediate policy implication of the importance of physical proximity in services trade is that liberalization cannot be discussed solely in the traditional terms of cross-border trade. It is also necessary to consider commercial presence or investment. A further point to note is that even if physical presence is not a technical prerequisite of consummating transactions in services, it is in the nature of many service products that suppliers will want to be in close proximity to their customers.

As discussed below, the significance of investment in trade in services is reflected in GATS. This is what makes GATS into an agreement about both cross-border trade and investment. It might also be argued that the prominence of investment issues in trade in services has contributed to a growing awareness of the need to deal with investment questions as an integral part of the international economic policy agenda.

**A Detour: Investment in the GATT Context.** If rules on investment had already existed in GATT, it is possible that investment in both goods and services would have been treated together, and so would trade in goods and services. This was the pattern that emerged in NAFTA (North American Free Trade Agreement), for example, an agreement negotiated from a clean slate. The differential treatment of goods and services within the WTO framework raises questions of coherence that will have to be addressed in due time, not least because of the asymmetries between rules on goods and services that this model has produced.

The issue of investment was taken up in the GATT context in the UR, eventually leading to the Agreement on Trade-Related Investment Measures (TRIMS). But the TRIMS Agreement is very limited in scope. Some industrial countries, most notably the United States, had pressed for a far-reaching mandate to negotiate about investment in the broad sense. Many developing countries were unwilling to engage in such an exercise at that time. They believed that it would challenge a basic tenet of their development policy, which saw the careful management of investment flows as indispensable to appropriate, balanced growth.

Investment policy involving a mix of controls and incentives, has traditionally been used by many countries as a tool for promoting specific objectives such as technology transfer, industrialization, regional development and export expansion. Some of these objectives, like regional development, have also been pursued through investment incentives in industrial countries. The emphasis of the UR TRIMS exercise, however, was mostly on trade-related investment conditionality. The subsidy aspect of investment policy was addressed in the Agreement on Subsidies and Countervailing Measures, where regional subsidies are defined as non-actionable, provided: (a) they are granted in the context of an overall regional development program; (b) are non-specific to

an enterprise or industry; and (c) do not result in serious adverse effects to the industry of another party.

Moreover, the ability to condition and control investment flows has traditionally been considered necessary to avoid monopolistic abuses by transnational corporations. Seen from this perspective, multilateral efforts to liberalize investment threatened to weaken the ability of countries to pursue active development policies. Opposition to a broad-based negotiation on investment in the UR was strong enough, given the disposition of interests and priorities in other areas (especially intellectual property rights and trade in services), for agreement to be reached on a narrow negotiating mandate for TRIMS. The negotiating mandate simply called for an examination of the operation of GATT articles related to the trade restrictive and distorting effects of investment measures, following which “negotiations should elaborate, as appropriate, further provisions that may be necessary to avoid such adverse effects on trade.” The use of the phrase “as appropriate,” along with the conditional tense, left open the possibility that governments might agree to nothing at all.

In the event, the UR TRIMS agreement only reaffirmed existing GATT rules on national treatment (Article III) and on the prohibition of quantitative restrictions (Article XI). An illustrative list of TRIMS identified two measures as being inconsistent with GATT’s national treatment provisions and three as constituting illegal quantitative restrictions. The first category included local content requirements and trade balancing requirements. The TRIMS identified as quantitative restrictions included trade balancing requirements, foreign exchange balancing requirements and domestic sales requirements.<sup>1</sup> The agreement required that WTO-inconsistent TRIMS must be phased out, and that no new WTO-inconsistent TRIMS were to be introduced during the phase-out period.<sup>2</sup> Industrial countries must complete the phase-out within two years, developing countries within five years, and least developed countries within seven years. These transition periods may be extended for developing and least developed countries under certain circumstances. All TRIMS subject to the phase-out requirement had to be notified to the WTO.

---

<sup>1</sup> Other TRIMS identified in the UR discussions but not mentioned in the illustrative list annexed to the TRIMS agreement, include manufacturing requirements, export performance requirements, product mandating requirements, manufacturing limitations, technology transfer requirements, licensing requirements, remittance restrictions, and local equity requirements. The TRIMS agreement would have needed to go further than reiterating the established interpretations of GATT Article III and Article XI in order to cover most of these measures. A notable omission of the TRIMS agreement, however, was its silence on export performance requirements (EPRs). EPRs are analogous to local requirements on the import side, and strongly resemble export subsidies, which are prohibited on manufactured goods under the WTO.

<sup>2</sup> It is provided, however, that existing TRIMS may be imposed on new enterprises during the phase-out period. This is considered necessary in order not to place existing enterprises subject to the same measures at a disadvantage.

## **The Role of Regulation**

Given the invisible character of services, the normal requirement for production and consumption to occur simultaneously, and the general lack of information about services transactions within the economy, it is not surprising that regulation is a prominent feature of services activities. Governments are much more heavily involved in the regulation of services sectors than they typically are in the goods sectors. Two aspects of regulation in services may be usefully distinguished.

First, in contrast to the goods sectors, interventions are more often of a quantitative nature rather than price-based. The preference for administrative interventions of a quantitative character may be understandable in view of the difficulties of identification and measurement that plague the services sector. But from an efficiency perspective, price-based interventions are likely to prove better in many cases. A policy challenge in the services field, therefore, is to find ways of improving the information base so that greater reliance may be placed upon fiscal policy in the future to achieve regulatory objectives. It is noteworthy in this context that the GATS has very little to say about price-related measures, basing almost all its rules dealing with access to markets upon quantity-based interventions.

Second, the impossibility of storing most services, or of distancing production and consumption in a temporal sense, means that much regulation is of an *ex ante* variety. In other words, instead of focusing on output, regulatory interventions need to occur on the input side. This means regulating suppliers rather than products. Regulators can hardly be expected to wait upon the consequences of a surgical intervention, for example, before judging whether the person performing it is capable of doing so.

One implication of the regulatory focus on the supply side is that much regulation, at least in the first instance, is about authorization to enter the market, rather than performance in the market. This automatically translates into a greater preponderance of regulatory interventions, since product regulation does not necessarily involve conformity assessment with respect to every single unit of production, whereas if services need to be regulated, this cannot be achieved on the supply side via sampling. All service suppliers will have to submit to whatever procedures are required. From a policy perspective, this means that progress in liberalization of trade in services is highly dependent on progress in the field of regulatory reform.

## **The General Agreement on Trade in Services (GATS)**

### **Scope and Structure**

Governments exercised caution when they negotiated the GATS, providing themselves with ample scope to condition their multilateral commitments. Two aspects of the GATS that need to be distinguished are the part that establishes a framework of rules governing trade in services, and the part that sets out the specific sectoral commitments undertaken by Members. The latter are inscribed in schedules appended to the Agreement. Some of the provisions of the GATS framework agreement relate to the universe of trade in services as defined under the agreement, while others are restricted to those service activities subject to scheduled sectoral commitments.

Several provisions clearly reflect the pervasiveness of regulations in many service sectors, and the intent to prevent the protectionist abuse of such regulations. The specific schedules indicate which service sectors each signatory has been willing to subject to non-general obligations under GATS. The schedules also provide for qualifications to the national treatment and market access commitments that otherwise apply to sectoral commitments. Finally, a series of annexes and decisions elaborate on commitments and exceptions with respect to different rules and sectors, and also establish a work program, including further sectoral negotiations.

The obligations and disciplines set out in the GATS framework include rules on MFN (most favored nations treatment), transparency, increasing participation of developing countries, economic integration, domestic regulation, recognition, monopolies and exclusive service suppliers, business practices, emergency safeguards, payments and transfers, balance-of-payments restrictions, government procurement, general and security exceptions, and subsidies.

The scope of the Agreement, the definition of trade in services, and sectoral coverage are laid out in Part I of GATS. The Agreement applies to all measures taken by Members that affect trade in services. Trade in services is defined in terms of four modes of supply. The first mode involves the cross-border (arms-length or long-distance) supply of a service from one jurisdiction to another. This mode of delivery is analogous to international trade in goods in that a product crosses a frontier. Many different kinds of electronic information flow occur across national borders. The second mode of supply requires the movement of consumers to the jurisdiction of suppliers.<sup>1</sup> Tourism is a good example of this mode, involving the movement of (mobile) tourists to (immobile) tourist facilities in another country.

The third mode of supply is through the commercial presence of a supplier in the jurisdiction where the consumers are located (abstracting from export sales). This is the investment mode, referred to above. An important point to note about the investment mode is that it involves two distinct components. The first relates to the authorization to invest, or in other words, the setting up of business in another Member's territory. The second deals with post-establishment operations, or in other words with actually doing business. Both these aspects are covered by GATS. The idea of including commercial presence in GATS was initially opposed by many developing countries. They argued that commitments on service transactions under this mode of supply were tantamount to a surrogate obligation on foreign direct investment. They expressed unwillingness to tie in their investment regimes in this manner.

Finally, the fourth mode entails the movement of natural persons from one jurisdiction to another. This is the mode under which the sensitive issue of the movement of labor is addressed. The Agreement makes it clear that provisions on movement of natural persons do not address issues relating to access to the employment market, nor measures regarding citizenship, residence or employment on a permanent basis. The fourth mode relates both to independent service suppliers and to employees of juridical

---

<sup>1</sup> Both a service supplier and a service consumer could, of course, move to a third jurisdiction. Under GATS, this would be treated as two separate transactions from the point of view of the host country.

persons supplying services. Just as with the commercial presence mode, GATS covered both the right to establish a presence and the right to do business under the fourth mode.

The conceptual approach underlying these modes was first developed in academic literature as a heuristic device to explain the nature of international transactions in services. Differentiation by modes of supply later formed the basis on which governments defined market access commitments under GATS, permitting a choice to be made from among alternative modes. The use of modal distinctions is a reflection of the manner in which liberalization is defined under the Agreement, and the possibility of applying different policy regimes to different modes of supply is a potential source of economic distortion. It may also be argued that the absence of symmetry in the policy conditions affecting the different modes, imposes limitations on the reach of liberalization. Despite early reservations about commercial presence, a tendency is discernible for scheduled commitments to be concentrated in the commercial presence mode. In some cases, this may be because countries have attempted to use GATS as an instrument for encouraging foreign direct investment. In others, it reflects the desire to avoid “regulatory competition” between different jurisdictions. Furthermore, where regulatory control is considered important, as in prudential controls in banking, for example, governments find it easier to impose and enforce regulations in their own territories.

A second feature of the definition of services covered by GATS is the exclusion of services supplied in the exercise of governmental authority. The definition of a service supplied in the exercise of governmental authority is “any service which is supplied neither on a commercial basis, nor in competition with one or more service suppliers” (Article 1:3[c]). The intention of this provision is to permit governments to exclude basic infrastructure and social services which are supplied to their populations on an exclusive basis from the purview of the Agreement.

The most important general obligations in GATS are the MFN principle articulated in Article II and the publication and supply of information aspects of the transparency provisions in Article III. The MFN clause states that:

“With respect to any measure covered by this Agreement, each Member shall accord immediately and unconditionally to services and service suppliers of any other Member treatment no less favourable than that it accords to like services and service suppliers of any other country.”

It is to be noted that the MFN principle refers to both services and service suppliers. This reflects the fact that GATS is both an investment and a trade agreement. Article II of GATS also provides the possibility that Members may maintain MFN-inconsistent measures as long as they are scheduled in the Annex on Article II Exemptions. Exemptions from MFN could only be registered prior to the entry into force of the Agreement, and cannot be supplemented. Moreover, they are subject to periodic review and are in principle, meant to be maintained for no longer than ten years.

The MFN exemption provisions reflect the concern of some larger countries that by granting MFN access to their markets, they would be losing the opportunity to exchange their relatively open access for further liberalization in other markets. In other words, these countries argued that “free riding” would occur in the absence of an effective instrument to ensure reciprocity. The issue was raised most explicitly in the telecommunications and financial service negotiations. Some 60 countries took MFN

exemptions affecting most significantly the audio-visual, financial, basic telecommunications, and transport services sectors. The MFN exemption in the financial services sector was suspended pending the outcome of post-UR negotiations. MFN provisions did not apply either to basic telecommunications and maritime services - except where specific scheduled commitments have been undertaken - pending completion of negotiations in these areas. Audio-visual MFN exemptions reflect European concerns about the cultural reach of US entertainment products, and are justified in terms of arguments about defending national heritage. The European Union not only exercised its right to insist on an MFN exclusion, but also failed to make any specific commitments in this sector.

A fundamental feature of GATS is the principle of progressive liberalization. It reflects the reality that governments are neither willing nor able simply to open up their services markets to international competition from one day to the next. Progressive liberalization implies a gradual approach, and the structure of the GATS accommodates such gradualism. Members have already committed themselves to enter into successive rounds of negotiations aimed at achieving higher levels of liberalization. The first such negotiation is to take place at the turn of the century. A question to consider, however, is whether the GATS does indeed offer a vehicle for achieving trade liberalization, or whether its structure is such as to allow governments to support a putatively market-opening instrument while in practice holding off liberalization into the indefinite future. In other words, has a proper balance been struck between gradualism and the gradual attainment of ever higher levels of liberalization?

In considering this question, it is useful to examine certain structural features of GATS which, it may be argued, are important in determining the pace of liberalization. Two of them relate to the discussion so far, and others are dealt with later in relation to scheduled commitments. First, there is the question of the scope of application of the provisions of GATS. Under the existing structure, few obligations in GATS apply unless a sector and the associated modes of delivery have been made subject to specific commitments in the schedule of a Member. As noted above, the MFN principle in Article II and the transparency commitments in Article III are the main general obligations of the agreement. In addition, certain provisions dealing with recognition of qualifications (Article VII), monopolies and exclusive suppliers (Article VIII), and business practices (Article IX) are of general application. The most important gaps in general application, which have the effect of reducing the reach of GATS, are those relating to domestic regulation, market access and national treatment.

The intensity of regulation in services, as well as the fact that GATS deals with both investment and trade, makes the GATS provisions on domestic regulation a crucial element of the Agreement. To the extent that the disciplines on regulations laid out in Article VI do not apply to unscheduled activities and sectors, the disciplinary impact of GATS is correspondingly limited. Moreover, only the bare bones of rules on regulations have so far been established. These are based primarily on the notion of necessity, such that any regulatory interventions relating to qualification requirements and procedures, technical standards and licensing requirements should not constitute unnecessary barriers to trade in services. Regulatory interventions must also be non-discriminatory and based

on objective and transparent criteria. Licensing procedures must not in themselves, create a restriction on the supply of a service.

In the light of the acknowledged inadequacy of these provisions in terms of their generality, paragraph 4 of Article VI calls for a work program to develop further the GATS provisions on domestic regulation. In addition, the Decision on Professional Services calls for recommendations for the elaboration of multilateral disciplines in the accountancy sector. Governments might consider whether regulatory disciplines should cover all sectors and the work program could provide an opportunity for extending regulatory disciplines beyond specific commitments in schedules, to all services covered by GATS.

A second structural issue relates to the difference between a “positive” and a “negative” list approach to scheduling specific commitments under GATS. A positive list approach to sectoral coverage requires that Members list the sectors in which they are willing to undertake commitments, and any sector or activity not so listed in a Member’s schedule is not subject to specific commitments. GATS has adopted a positive list approach to scheduling sectors. A negative list approach, by contrast, requires that Members list those sectors or activities in which they are unwilling to assume commitments, leaving all other sectors covered by implication.

Three arguments are advanced as to why a negative list approach may foster greater liberalization than a positive list approach. First, it is argued that with a negative list, greater transparency is assured since the true coverage of the Agreement would be readily revealed. On the other hand, given that all governments know what services are included in the established sectoral nomenclature under GATS, the validity of the transparency argument would seem to depend on whether adequate transparency provisions *per se* are in place, rather than upon the choice of means to indicate sectoral coverage.

The second argument is that by forcing governments to list sectors in which they are unwilling to accept commitments, a greater pro-liberalization dynamic will be created, as long lists might cause embarrassment. It is not altogether clear, however, why governments should be more embarrassed by long negative lists than by short positive ones. The third argument is probably the most powerful in favor of a negative list approach. It is that with a negative list, new sectors would automatically be covered by GATS disciplines, unless explicit actions are taken to exclude them. As technology moves fast in many service sectors, this is a significant consideration, and may help explain the reluctance of governments to adopt a negative list approach.<sup>1</sup>

### **Schedules of Specific Commitments**

Articles XVI, XVII and XVIII are the core of the Agreement as far as specific commitments are concerned. Article XVI deals with market access which is defined in a very specific manner. Having established that signatories will accord services and service suppliers treatment at least as favorable as that provided for in the schedules, the Article goes on to define six types of market access restrictions that will not be adopted in respect

---

<sup>1</sup> Safadi (1998).

of sectors where market access commitments are undertaken **unless** there is a specification to the contrary in the schedule of specific commitments. In other words, disciplines on market access impediments will apply to scheduled commitments unless a reservation is registered to the contrary. This is a negative list approach nested in the overall positive list approach of the GATS schedules. The six impediments or limitations on access are defined as: (a) limitations on the number of suppliers; (b) limitations on the total value of service transactions or assets; (c) limitations on the total number of service operations or on the total quantity of service output; (d) limitations on the total number of natural persons that may be employed; (e) measures which restrict or require specific types of legal entity or joint venture; and (f) limitations on the participation of foreign capital. Article XVI limitations are exhaustive, in the sense that these are the only limitations on market access that Members are permitted to inscribe in their schedules.

It should be noted that items (a) to (d) of Article XVI are expressed in terms of quantitative market access limitations, i.e. the number of suppliers, the value of transactions or assets, the number of operations or quantity of output, or the number of natural persons that may be employed. In considering the overall GATS objective of progressive liberalization, a question is whether it would be more appropriate to express these limitations in terms of price measures rather than quantitative limitations. Access limitations could be imposed on foreign suppliers through fiscal measures, and perhaps even subjected to periodic negotiations aimed at reducing such limitations. If this approach were adopted, governments may then want to consider whether the framework agreement contained enough provisions for applying quantitative restraints on services trade under particular circumstances. A structural change of this nature would almost certainly imply a greater degree of liberalization than the existing arrangements. It is questionable, however, whether governments would be willing, in the foreseeable future, to move in this direction.

Article XVII contains the national treatment provision of the Agreement. The approach here is very similar to that of market access, with national treatment applicable only to scheduled commitments, and only then if reservations are not made to the contrary. National treatment is defined in the traditional GATT manner, as treatment no less favorable than that accorded to domestic homologues, in this case services and service suppliers. Article XVII recognizes, however, that the attainment of national treatment may involve treatment that is not formally equivalent, and that formally equivalent treatment may not yield a non-discriminatory outcome either. A significant difference between national treatment in GATT and in GATS is that in the former case, national treatment is established as a principle to be applied across the board,<sup>1</sup> whereas in the latter case, national treatment has been given negotiating currency - it is something to be granted, denied or qualified, depending on the sector and signatory concerned.

One reason why governments, including the majority of Arab GATS signatory governments, may have been unwilling to see national treatment play the same role in GATS as in GATT, or the role that MFN plays in GATS as a general principle, is that

---

<sup>1</sup> Exceptions to national treatment under GATT exist in respect of subsidies and government procurement.



under the commercial presence and movement of natural persons modes in GATS (Modes 3 and 4), full national treatment is equivalent to free trade. It would guarantee unlimited investment rights for foreign service suppliers. While governments were willing to guarantee this treatment in some sectors where they made scheduled commitments unencumbered by national treatment limitations, this was clearly not true across the board. In these circumstances, if national treatment had been an inviolate principle not subject to conditioning, it is probable that even less would have been incorporated in the schedules than what is there at present.

An intermediate approach to using the national treatment rule as a more effective instrument of liberalization would be to impose limitations on the nature of permissible departures from national treatment. At present, any kind of departure is permitted, provided the limitation is entered in the schedule against the relevant sectoral commitment. The nature of departures from national treatment could be defined, with an emphasis on price-based measures, and these measures could also be subject to progressive reductions in the context of negotiations aimed at greater liberalization. Once again, it is an open question whether governments would be willing to embark on a structural change of this nature.

Article XVIII offers the possibility for signatories to negotiate additional commitments not dealt with under the market access and national treatment provisions of Article XVI and Article XVII. These commitments could apply to such matters as qualifications, standards and licensing, and would be inscribed in the Members' schedules. Limited use was made of this option in the UR negotiations. The most important aspect of Article XVIII measures is that they must express commitments favoring more open access, and not additional market barriers.

A final point to note from the Agreement is that with respect to developing countries, GATS Articles IV and XIX foresee their participation in the service liberalization to be gradual, and to proceed along the developmental requirements of each Member through negotiated specific commitments. Article IV entreats developed countries to undertake specific commitments beneficial to developing countries so as to strengthen domestic supply capacity, efficiency and competitiveness of developing countries' service supply. Among measures that might be adopted to achieve these objectives are liberalization of market access in sectors and supply modes of interest to developing countries, and better access to technology, distribution channels, and information networks. Developed countries are also called upon to establish contact points with developing countries. This is with the view of facilitating the access of the latter's service suppliers to information on commercial and technical aspects of the supply of services, registration, recognition and obtaining professional qualifications, and the availability of services technology (Low, 1995).

In addition, Article XIX offers "appropriate flexibility for individual developing countries for opening fewer sectors, liberalizing fewer types of transactions, progressively extending market access in line with their developmental situation and, when making access to their markets available to foreign service suppliers, attaching to it conditions aimed at achieving the objectives referred to in Article IV".

## **Future Work Program**

A good place to start would be the post-UR work program, which took up several issues on which agreement proved impossible within the time frame of the negotiations. In some areas dealing with sectoral negotiations, the program was a “rescue” operation, designed to prevent the withdrawal of market access offers or the adoption of a discriminatory approach at the sectoral level. The work program also contains the mandate on domestic regulation referred to earlier, and negotiating mandates for emergency safeguards, government procurement and subsidies, which were all areas where it proved impossible to conclude within the time frame of the UR.

Sectoral negotiations that were left over from the UR involved financial services, movement of natural persons, basic telecommunications and maritime transport. An interim agreement on financial services, securing further market access and national treatment commitments in the areas of banking, securities trading and insurance, was accepted by some 30 countries in mid-1995. This excluded the United States which refused to sign the agreement as it considered commitments by Asian and Latin American countries to be inadequate. The fact that the United States was not part of this agreement is the reason why negotiations were resumed in 1997, in the hope of securing further liberalization, fuller geographical participation and a longer-lasting arrangement. In mid-December 1997, more than 100 WTO members agreed to a global accord that will lower barriers to services trade in banking, insurance, securities and portfolio management. It builds upon new and revised offers going beyond the liberalization commitments made in the 1995 round of talks. The new agreement will enter into force in March 1999. According to the WTO, the accord covers \$10 trillion worth of global assets, \$40 trillion of world banking assets, and \$2 trillion of world insurance premiums.

The negotiations on movement of natural persons were completed in mid-1995. Most countries had made commitments on the movement of natural persons in the UR. However, nearly all of them were narrow, limited to intra-corporate transferees, and then only to personnel at the managerial level. A few schedules, notably those of Canada and the United States, also contained limited commitments in respect to independent professional service suppliers. Movement of labor is a sensitive issue for all governments. It is noteworthy that even those countries pressing for better access for different categories of natural persons, such as India and the Philippines, were unwilling to offer much themselves. The post-UR negotiations on movement of natural persons brought very little by way of improvements in the schedules of offers, again reflecting the unwillingness of governments to forego control over what is universally seen as a sensitive policy area.

As with financial services, the negotiations in basic telecommunications were prolonged beyond the end of the UR. This was against a background of the risk that major participants, on the basis of their dissatisfaction with the overall package on offer, would schedule limited commitments and seek reciprocity-based exchanges of market access on a discriminatory basis. It became clear before the end of the negotiations that significant liberalization was unattainable within the time frame of the Round. While a few countries (such as the United States, the United Kingdom, Australia, New Zealand, Sweden, Chile and Mexico) had already opened up their telecommunications sectors, or

were in the process of doing so, others (most notably the European Union) were still deciding what to do.

A world-wide trend toward liberalization in the telecommunications sector is clearly discernible. Globalization of economic activity has increased the importance of telecommunications as a production input, making firms much more sensitive to competitive disadvantages arising from poor or costly services. This has mobilized powerful private sector constituencies in many countries that are pushing governments to liberalize and to eliminate or dilute telecommunications monopolies. These pressures contributed to a successful completion of the WTO negotiations on basic telecommunications. In February 1997, 69 governments made market access commitments under GATS. Many of these governments also accepted a set of multilaterally negotiated regulatory principles designed to ensure that commitments to market opening cannot be frustrated by dominant incumbent suppliers. The result of these negotiations which are scheduled to enter into force in 1998, have been widely hailed as a significant contribution to reform in the telecommunications sector. Several governments have accelerated their liberalization plans in the context of the GATS negotiations. Others have undertaken legal guarantees to introduce competition into their markets within a specified time frame. Overall, this is the most significant package of results at a sectoral level to have been negotiated under the auspices of GATS.

Despite the efforts of negotiators on maritime transport services, it became obvious towards the end of 1993 that it would be impossible to reach a broad-based agreement on maritime services. A decision was therefore taken to prolong the negotiations. A number of countries have traditionally maintained restrictive shipping regimes. The United States, for example, prohibits foreign participation in cabotage.<sup>1</sup> Cabotage is widely restricted in other countries as well, and indeed, was excluded from the negotiations. Liner conferences have played a prominent role in EU shipping arrangements in various parts of the world. By contrast, the Nordic countries, some EU nations, a number of Asian countries, and others maintain relatively open maritime regimes. When maritime services were initially placed on the negotiating table, the United States opposed the move, seeking the explicit exclusion of the sector from GATS coverage. With the decision taken by the United States not to participate in the maritime negotiations, an agreement was made to carry forward the exercise into the new round of negotiations already scheduled for the year 2000.

Turning to those aspects of the post-UR work program dealing with rules, Article X of GATS consists of a negotiating mandate on emergency safeguard measures. A safeguard provision would allow a signatory to withdraw benefits contingent upon some occurrence or development adversely affecting domestic production. The absence of safeguard measures at the outset would have presented governments with greater difficulty had they not been given scope through other means to avoid the application of

---

<sup>1</sup> The Jones Act requires that US coastal trade should be conducted by US-owned, US-built and US-manned vessels.

GATS disciplines in sensitive areas.<sup>1</sup> On the other hand, some might argue that safeguard provisions are now needed in order to allow governments to extend their specific commitments into new areas. Article X provides three years in which to negotiate appropriate provisions. The mandate indicates that negotiations on emergency safeguard measures will be based on the principle of non-discrimination.

Article XIII deals with government procurement, defined as the purchase of services for governmental purposes and not with a view to commercial resale or use in the supply of services for commercial sale. Procurement is exempted from market access and national treatment provisions (Articles XVI and XVII), as well as from the MFN rule in Article II. This exemption in GATS is similar to what is found in GATT, although in the latter case, the exemption applies to national treatment but not the MFN principle. Article XIII of GATS calls for negotiations on government procurement within two years. The existing government procurement agreement under the WTO first negotiated in the Tokyo Round (1973-79), is one of the few agreements with membership restricted to less than the full complement of WTO signatories.<sup>2</sup> Indeed, only twenty-two (non-Arab) countries have committed themselves to procurement disciplines, in part because of rigidities perceived by governments to exist in the present agreement, but also on account of a natural reluctance by governments to forego this particular source of patronage.<sup>3</sup> The existing agreement covers both goods and services, so the question arises as to how this agreement would relate to any provisions on procurement developed under the GATS. Among factors being considered in the discussions currently taking place are the role of transparency and national treatment in procurement, and the nature of complaints and dispute settlement procedures that might be contemplated in any future agreement.

Article XV deals with subsidies but has no substantive provisions. The Article contains general GATT-like language recognizing that subsidies may distort trade, but also that they may play an important role in development. Negotiations are called for with the view of establishing subsidy disciplines and examining the case for countervailing remedies. It is noteworthy that Members have already accepted subsidy disciplines to the extent that they have made national treatment commitments in their schedules of specific commitments. The undertaking in such a case is not to discriminate against foreign services or service suppliers in granting any subsidy. The inability to discriminate in this way is likely in itself, to impose a significant subsidy discipline. Unlike the negotiations foreseen for safeguards and government procurement, no time frame is set for these negotiations. Pending their outcome, signatories are entitled to request consultations when they consider that adverse effects result from the subsidies of other parties, and such requests are to be accorded sympathetic consideration.

---

<sup>1</sup> Scope for restricting the application of GATS to particular activities or disciplines resides in the choice of whether to accept market access commitments with respect to particular sectors and sub-sectors, or particular modes of supply, and whether to impose limitations on market access or national treatment in respect of scheduled commitments.

<sup>2</sup> This is one of the so-called plurilateral agreements, for which membership is optional and must be separately negotiated. The other plurilateral agreements are the Agreement on Trade in Civil Aircraft, the International Dairy Agreement and the International Bovine Meat Agreement.

<sup>3</sup> The signatories of the Government Procurement Agreement are: Canada, the 15 Member States of the EU, Israel, Japan, Korea, Norway, Switzerland and the United States.

### Implications for Arab Countries

Any analysis of GATS or trade in services more generally suffers from an acute shortage of reliable data. In the case of specific commitments, no statistical base exists from which to estimate the value in trade or welfare terms of what countries have bound. The only alternative is to undertake a frequency count of commitments. Such a procedure ignores the relative importance of different service activities, and takes no account of the implications of market access and national treatment limitations inscribed in the schedules.

On the basis of a frequency count, industrial countries on the average, made commitments on 64% of all service activities, while the comparable figures for transition and developing economies were 52% and 16%, respectively. It is important to note that these averages conceal significant variance among countries within the groupings. This is especially true of the developing countries of which a number made commitments more far-reaching than suggested by the average. For various reasons, commitments were sparser in the audio-visual sector, basic telecommunications and transportation. When these are excluded from the reckoning, the shares increase to 82% for industrial countries, 66% for transition economy countries, and 19% for developing countries. Only five participants made more than 100 commitments out of a population of 149 possible sectoral commitments, based on the highly aggregated sectoral nomenclature developed for the negotiations (Table 2).<sup>1</sup> At the other extreme, 28 countries made less than ten commitments.

**Table 2. Number of Commitments on Services Activities of GATS Participants**

More than 100	Austria, European Union, Japan, Switzerland, United States
Between 81 and 100	Australia, Canada, Czech Republic, Hungary, Iceland, Norway, Slovak Republic, Sweden
Between 71 and 80	Finland, Hong Kong, Republic of Korea, Liechtenstein, New Zealand, South Africa, Thailand, Turkey
Between 61 and 70	Dominican Republic, Malaysia, Mexico
Between 51 and 60	Argentina, Poland, Singapore, Venezuela
Between 41 and 50	Brazil, Colombia, Israel, <b>Kuwait, Morocco</b> , Nicaragua, Philippines, Romania
Between 31 and 40	Chile, Cuba, Pakistan, Ghana, India, Jamaica
Between 21 and 30	Aruba, Brunei Darussalam, <b>Egypt</b> , El Salvador, Kenya, Macau, Netherlands Antilles, Nigeria, Peru, Senegal, Uruguay
Between 11 and 20	Antigua & Barbuda, Benin, Costa Rica, Ivory Coast, Gabon, Guatemala, Guyana, Honduras, Mauritius, Mozambique, Trinidad & Tobago, <b>Tunisia</b> , Zambia, Zimbabwe
Between 1 and 10	<b>Algeria, Bahrain</b> , Bangladesh, Barbados, Belize, Bolivia, Burkina Faso, Cameroon, Congo, Cyprus, Dominica, Fiji, Grenada, Indonesia,

<sup>1</sup> See Hoekman (1995) for a more detailed reporting.

	Madagascar, Mozambique, Malta, Myanmar, Namibia, New Caledonia, Niger, Saint Lucia, Sri Lanka, St. Vincent and the Grenadines, Suriname, Swaziland, Tanzania, Uganda
--	--

(Source: Altinger and Enders 1995)

The above table clearly shows that considerable scope exists for increasing the level of obligations accepted by Arab governments without undertaking the kinds of adjustments to the structure of the Agreement discussed in the previous section. Action could be taken on several fronts.

- Arab governments could reduce and eventually eliminate all exemptions to the MFN principle. As already noted, a presumption exists in GATS that this ought to occur over time.
- Second, Arab governments could include more sectors and activities in their schedules of specific commitments.
- Third, they could reduce and eliminate the market access and national treatment limitations that they have inscribed in their schedules. It has been suggested that the limitations which have been inscribed reflect the *status quo* in terms of policies applying at the time the commitments were made, and that in this sense, the GATS has yielded little so far by way of trade liberalization.
- Fourth, Arab governments could eliminate the gap that is sometimes maintained between the actual policies they apply in practice and the level of commitments they undertake in GATS. By aligning GATS commitments with policies actually in place, Arab governments would be providing greater market security and ultimately a more liberal trading environment, pending the attainment of additional trade liberalization which could be scheduled.

A cursory review of the commitments of Arab signatories of the GATS reveals that, more often than not, Arab governments have at best bound their commitments at the *status quo*, i.e., with few instances that imply an immediate actual change in policy. In some cases, albeit few, Arab governments have pre-committed themselves to liberalize some services activities in the not too distant future. Thus, for example, Egypt pre-committed itself in the insurance sector to relax the economic needs test in the year 2000 for life insurance, and the year 2002 for non-life insurance. Foreign equity limit in the insurance sector will increase from 49% to 51% as of 1 January 2000 for life, and 1 January 2003 for non-life (Mattoo, 1998). Such an approach reveals that Arab governments has to strike a fine balance between, on the one hand, the potential impact on protected national suppliers of an immediate unleashing of competition, and, on the other hand, a commitment to liberalization. In any event, more research is required to evaluate the relative importance of specific commitments, the gaps in specific commitments, and the importance of market access and national treatment limitations where specific commitments have been made.

One of the most important consequences of GATS as far as Arab countries are concerned, is that Arab governments have willingly agreed to be party to the negotiations -and subsequently to the Agreement itself. This has resulted in the creation of a vehicle

for promoting future liberalization, even if, it should be recalled, the negotiations were concerned exclusively with how much foreign competition to invite into the domestic market. This wise decision has served to convey to potential investors and strategic partners the deep commitment of Arab governments to trade and investment liberalization. It also confirms Arab governments' belief that the WTO offers a credible and useful instrument for consolidating and promoting liberalization, as well as setting the course for future liberalization plans.

### **Conclusion**

The General Agreement on Trade in Services (GATS) is considered as a landmark agreement that has contributed to the creation of stable and transparent policy regimes in many countries, including countries in the Arab world. The market access commitments as well as those on non-discrimination should help pave the way for **progressive** liberalization. Arab governments have embraced the Agreement, and by doing so they have sent clear signals to investors and strategic trading partners of where their policy stands lie: toward more, progressive liberalization.

One important message is that the current trends in the world economy fuelling globalization and generating closer economic cooperation among nations, have intensified pressure on policy interaction in traditional areas of multilateral co-operation. The most obvious manifestations of this have involved governments in continuing efforts to remove tariff and non-tariff barriers to trade, to extend the coverage of liberalization efforts, and to sharpen trade rules including those relating to matters like safeguards, subsidies and countervailing duties, and antidumping. In addition, closer economic integration among nation states has "internationalized" a range of policy domains that previously were either simply neglected, or considered an exclusively national preserve, or else were subject only to comity-like coordination and consultation arrangements. As a result, major multilateral initiatives have led to negotiations, and in some instances agreements in new areas such as trade in services, the protection of intellectual property rights, and investment. Other issues such as competition policy, international labor standards, environmental policies, company law, immigration policies, monetary matters including debt and development, political stability and alleviation of poverty, have been proposed by some governments during the Marrakech meeting in April 1995 concluding the UR of multilateral trade negotiations as matters ripe for international negotiation.

In a period of rapid and fundamental change that requires major adjustments in the way economic policy making has been practised, many countries in the Arab world need to adopt a multi-policy, comprehensive approach that will promote the openness of markets to global competition to create truly internationally contestable markets in the region. This can only be achieved by tackling the implications for international competition arising from both **government and private** actions in the different policy fields. The strategy should lead to further market openings and a deepening and

broadening of rules affecting the conditions under which trade and investment will take place in the future. Already, as stated earlier, many governments in the Arab world have conveyed unmistakable messages in respect of their commitments to liberalisation. They need to keep these commitments visible and respond flexibly with domestic institutional arrangements. Flexibility is needed to accommodate the pulls and strains from at times quite different interests, be they domestic forces or international ones. But this represents only the first steps in the quest for creating truly international markets in the region.

The second step, or more correctly, in conjunction with the establishment of flexible domestic institutions that promote liberalization, Arab governments need to advance what Sirageldin terms a process of “internal-oriented sustainable reform” (Sirageldin, 1998). Sirageldin defines this process to include as its fundamental elements “the development of human resources, equality of opportunities, transparency in governance, strong local demand, and sustainable environment.” The author could not agree more on this call for action.

#### References

- Altinger, L. and A. Enders. 1995. The scope and depth of GATS commitments. Mimeo.
- Hoekman, B. 1995. Assessing the General Agreement on Trade in Services. In: *The Uruguay Round and the Developing Economies*. Edited by W. Martin and A. Winters. World Bank Discussion Papers No. 307. Washington, D.C.
- Low, P. 1995. Impact of the Uruguay Round on Asia: Trade in services and trade-related investment measures. Paper presented at the Conference on Emerging Global Trading Environment and Developing Asia, Manila, Philippines, 29-30 May.
- Mattoo, A. 1998. Financial services and the WTO: Liberalisation in the developing and transition economies. WTO, Geneva. Mimeo.
- OECD. 1998. Open Markets Matter: The Benefits of Trade and Investment Liberalisation. Organisation for Economic Co-operation and Development, Paris.
- OECD. 1997. The World in 2020: Towards a New Global Age. Organisation for Economic Co-operation and Development, Paris.
- Safadi, R. 1998. The evolving agenda for trade in a globalising world. In: *Opening Doors to the World: A New Trade Agenda for the Middle East*. Edited by R. Safadi. Cairo: American University of Cairo Press (forthcoming).
- \_\_\_\_\_ and S. Laird. 1996. The Uruguay Round agreements: Impact on developing countries. *World Development*, vol. 24, no. 7: 1223-1242.



Sirageldin, I. 1998. Globalization, regionalization and recent trade agreements: Impact on Arab economies. *Keynote address to the International Conference on The New Economic Development and their Impacts on Arab Economies* organised by The Arab Planning Institute, Tunis, June 3-5 1998.

UNCTAD. 1997. Transnational Corporations, Market Structure and Competition Policy. World Investment Report 1996. , UNCTAD, Geneva.

World Bank. 1997. Global Economic Prospects and Developing Countries. Washington, D.C.

World Bank. 1995. Global Economic Prospects and Developing Countries. Washington, D.C.

WTO. 1997. Annual Report. World Trade Organisation, Geneva.