

THE GENERAL AGREEMENT ON TRADE IN SERVICES (GATS) AND THE RATIONAL OF THE COOPERATION AND COMMITMENTS : AN EMPIRICAL APPROACH

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Abstract - Regional trade agreements on services have become a global phenomenon. The General Agreement on Trade in Services (GATS) has driven the path to enhance the service sector of the country. This article explores the role of the GATS and the Impact on it in order to enforce Regional Trade Agreements. The research has followed the mixed method. That shows that the enforcing Regional Trade Agreements are not effective for the growth of the service trade. High Level of Human Capital and removal of restrictions for foreign suppliers affect trade in services than the GATS-type liberalization. Further this article will explore which region has the opportunity to get the advantage of committing more service agreements.

Key words - Regional trade agreements, Services trade, WTO, GATS.

I. INTRODUCTION

Regional Trade agreements become much more popular in the global society today. Also, the mechanism of the General Agreement on Trade in Services (GATS) is not strong and substantial liberalization does not occur within trade agreements on services. Lack of real progress in the negotiations on access to the services market within the Doha Round was one of the main reason for this situation. Regional Trade Agreements are considered as means of trade liberalization on more flexible conditions. Also, trade liberalization in services is conducted in an autonomous way because of asymmetric distribution of benefits and losses from the reform of regulation, not all of the countries in a trade agreement can be interested in real liberalization in practice. Another reason was the, other mechanisms different from the GATS emerge in the Regional Trade Agreement system that can substantially influence the dynamics of mutual trade between participating countries.

II. PAPER LAYOUT

This paper investigates what provisions stimulate the export of services to the greatest extent within the practice of existing preferential agreements. This article is based on the evolution of the Regional Trade Agreements from 1948 to 2017 and it will be focusing on the level of the countries which have committed agreements under the service sector. Also this research will be looking at the regional level enforced service trade agreements and the level of integration. It will empirically analyze what are the advantaged countries in the Service trade commitments.

III. PURPOSE OF THE STUDY

Main purpose of this study is to look at the nature of trade policies and complexity of service trades agreements and how they affect the trade in service commitments. The study also tries to identify the factors which determine the integration of service trade in the world. Therefore, the analysis is done by looking at the dynamics of trading services to date through descriptive approaches. Furthermore, the determinants of integration of service trade are analyzed through the trade openness of each country as a basic component in the integration of service trade.

IV. HYPOTHESIS

This article based on three Hypothesis.

- A) Regions better endowed with human capital involved in more services agreements
- B) Developed countries have more advantages in committing more service trade agreements
- C) Trade Openness tends to admit more service commitments

V. LITERATURE REVIEW

The growth of preferential services trade in the framework of Regional Trade Agreements are likely to be higher when countries include TRIMS provisions, commitments on government procurement, and labour market regulation, and have common political positions on international relations. Implementation of GATS-type commitments in regional agreements does not lead to a significant growth of trade in services between participants. The results show that the negative effect on services trade dynamics in services RTAs occurs due to the inclusion of anti-corruption commitments, uniform standards for financial assistance to national companies, anti-money laundering provisions and TRIPS commitments. (Danil'tsev & Biryukova, 2015)

The results of this study indicate that the openness of service trade in Association of Southeast Asian Nations (ASEAN) is influenced by a set of limiting and facilitating policies. In addition, the complexity and depth of commitment play a role in influencing the openness of service trade. In the interim, variables of trade volume, population, real effective exchange rate, service trade facilities, and human capital contribute significantly to the openness of service trade in ASEAN. It can therefore be construed that the openness of service trade is determined by the policy instruments and commitments in the service trade agreements made. (A. Fadhil, 2017) Liberalization of trade in services is only useful when it goes hand in hand with the promotion of sound domestic regulation. It has revealed the clear limits of peripheral experimentation in key areas of rule-making (i.e. rules that are not directly related to market access or liberalization outcomes), with increasing deference of the periphery (i.e. PTAs covering services) towards the centre (i.e. the GATS) with regard to solutions to the bulk of the unfinished rule-making agenda in services trade. (Delimatsis, 2010) Liberalization of trade in services is only useful when it goes hand in hand with the promotion of sound domestic regulation. It has revealed the clear limits of peripheral experimentation in key areas of rule-making (i.e. rules that are not directly related to market access or liberalization outcomes), with increasing deference of the periphery (i.e. PTAs covering services) towards the centre (i.e. the GATS) with regard to solutions to the bulk of the unfinished rule-making agenda in services trade. GATS-minus commitments in PTAs could be deemed largely irrelevant. In particular, they are not applicable to trade with non-parties which, in turn, might relish any newly arising market opportunities.

Otherwise, if subjected to GATS-minus treatment as well, 'outsiders' are given a lever, potentially, to challenge the PTAs status under Article V of the GATS. (Adlung & Morrison, 2010) The progress is long overdue because commitments under the General Agreement on Trade in Services (GATS) have not kept pace with trade opening that has occurred around the world. Several delegations pointed to the large and long-standing gaps between members' commitments and the rules they apply, which are often more open. Some members considered that the focus should be on removing this "water" between formal commitments and current practices (WTO, 2017). Theoretical researches on trade in services are conducted in several directions. First, it should be mentioned that a single theory explaining specialization of countries in trade in services has not been developed yet. Services have been considered non-taxable for long, have not been counted in international trade statistics, and, accordingly, theories on trade in goods have not been paying much attention to services. (Hoekman & Meagher, 2014)

VI. RESEARCH METHODOLOGY

1) Regional Trade Agreements Information System (RTA-IS)

The Regional Trade Agreement Information System (RTA-IS) is a comprehensive database of all RTAs notified to the GATT/WTO. The application allows to search and export available information on any notified RTA, as well as on the consideration process of a particular RTA. The RTA-IS contains information only on those agreements that have been notified, or for which an early announcement has been made, to the WTO. Information on the content of these agreements and the parties thereto reflects information provided by the parties to the WTO. RTA from the list of short RTA titles has been examined.

2) The Global Human Capital Report

The Global Human Capital Report 2017 presents information and data that were compiled and/or collected by the World Economic Forum. The Global Human Capital Index 2017 ranks 130 countries on how well they are developing their human capital on a scale from 0 (worst) to 100 (best) across four thematic dimensions—capacity, deployment, development and know-how—and five distinct age groups or generations—0–14 years; 15–24 years; 25–54 years; 55–64 years; and 65 years and over—to capture the full human capital potential profile of a country.

Four thematic dimensions form the sub-indexes of the Global Human Capital Index - Capacity, Deployment, Development and Know-how. The Index's Capacity subindex quantifies the existing stock of education across generations, the Deployment subindex covers active participation in the workforce across generations, the Development subindex reflects current efforts to educate, skill and upskill the student body and the working age population, and the Know-how subindex captures the growth or depreciation of working-age people's skillsets through opportunities for higher value-add work. It can be used as a tool to assess progress within countries and points to opportunities for cross-country learning and exchange. Therefore, the 2017 index has been reviewed in order to find out the correlation of trade development and the Human Capital.

3) Data and Data Source

The Data used in this study is secondary data or data that has taken from a third party publication. The Data employed comes from various sources of data and publications of International institutions.

4) Service Trade Restriction Index

The World Bank's Services Trade Restrictions Database aims to facilitate dialogue about, and analysis of, services trade policies. The database provides comparable information on services trade policy measures for 103 countries, five sectors (telecommunications, finance, transportation, retail and professional services) and key modes of delivery. Within each subsector-mode assess policy regimes in their entirety and map the bundle of applied policies into five broad categories (with associated scores): Completely open (0); Virtually open but with minor restrictions (25); Major restrictions (50); Virtually closed with limited opportunities to enter and operate (75); Completely closed (100).

All the countries data have been measured and it has been compared with all the regions.

VII. KEY FEATURES OF SERVICES COMMITMENTS UNDER GATS MULTILATERAL AGREEMENT

Modes of Supply Type Of Supply	Interpretation
Mode 01 Cross border supply	service provided directly by overseas service providers to domestic users; for instance, legal considerations given by overseas lawyers through telecommunications devices.
Mode 02 Consumption Aboard	service provided by an overseas service provider to domestic customers after the customers move physically to the service provider country; for example, Sri Lankan students studying in Japan or Indonesia..
Mode 03 Commercial Presence	service provided with the presence of a service provider from abroad to customers in the customers' country; for instance, the establishment of an private University belonging to a Japanese citizen in Sri Lanka
Mode 04 Movement of Natural Persons	provision of direct services in the form of foreign workers who have specific expertise to consumers in the consumers' countries; for example, medical doctors from Sri Lanka practicing in Japan.

The GATS is administered by the World Trade Organization (WTO). The WTO is the only worldwide international body that deals with the rules on commerce among nations. In it agreements are discussed, negotiated and signed by most of the nations involved in trade in the world and ratified by their respective parliaments. Until now there are 144 countries members of OMC. In that number are covered all Latin American countries, including Cuba. The GATS is one of the key agreements, which was negotiated in the Uruguay Round and implemented in 1995.(García-Guadilla, 2002).The entry into force of the GATS in 1995 constituted a major achievement because more than 120 GATT Parties agreed to establish a comprehensive set of rules on global trade in services. The Agreement's first novelty rests in its definition of "trade in services". The Agreement covers all measures affecting four modes of supplying services internationally. The modes cover not only trade in the traditional sense (mode 1: cross-border supply), but also involve movement of labour (mode 4), capital (mode 3) and consumers (mode 2):

According to the Article 01 of the GATS Agreement , trade in services is defined as the supply of a service: (a) from the territory of one Member into the territory of any other Member; (b) in the territory of one Member to the service consumer of any other Member; (c) by a service supplier of one Member, through commercial presence in the territory of any other Member; Page 286 (d) by a service supplier of one Member, through presence of natural persons of a Member in the territory of any other Member.(GATS, 1995)

Table 01 - Supply Mode of GATS

	North America	South America	Central America	Commonwealth of Independent States (CIS)	Africa	Middle East	West Asia	East Asia	Oceania	Europe	Caribbean
Total	31	44	34	11	02	05	07	72	18	38	04
Intra regional)	01	03	05	04	01	00	00	18	01	13	00
Extra regional	30	41	29	07	01	05	07	54	17	25	04

VII. RESULTS AND DISCUSSION

1) Trade Agreements

This Section has covered the mode of service supply under the RTA's from 148 to 2017. Also it will analyze the capacity of the enforcing trade agreements. This section will help to

understand to what type of countries have committed into the more agreements under GATS.

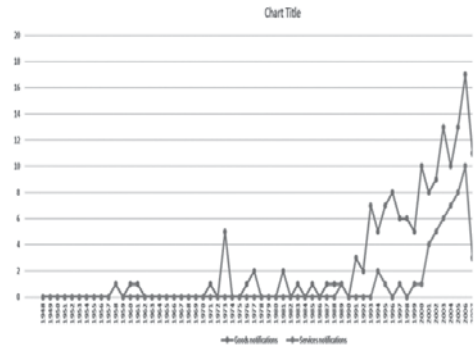


Figure 01 – Evaluation of the regional Trade Agreements 1948- 2017(Data Source of – <http://rtais.wto.org/UI/PublicMaintainRTAHome.aspx>)

According to the figure 01 it is clear until 1990 there was no any significant growth of the service trade. But we can see that the Committing RTA's has significantly has gone up after 2000.GATS has formed in 1995.That means service sector trade commitments has gone up after enforcement of the GATS agreement. By 2014 Service trade commitment has tied up with the Trade in goods sector also. This clearly elaborates that Service sector commitment has become much more important after enforcing GATS agreement.

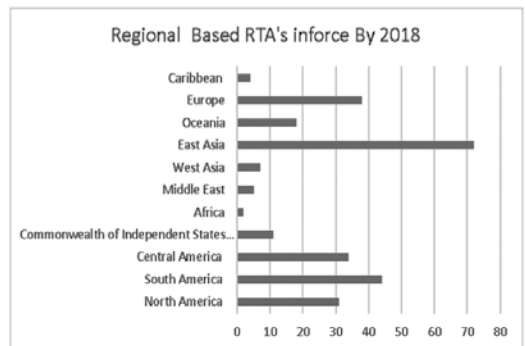


Table 02- Enforced RTA on Service Trade by 2018- 152 (Based on the data source of <http://rtais.wto.org/UI/PublicMaintainRTAHome.aspx>)

Figure 02 Gives an insight on the regional basis regional Trade Agreements on Services. According to this graph East Asian countries has empowered more RTA's than the other regions. Europe and south America also has committed considerable amount of Agreements for this

time period. But West Asia has not that much considerably committed agreements in their region or with the other region.

Figure 02 - (Based on the data source of - <http://rtais.wto.org>)

It is observed that the regional based agreement on service trade has gone up significantly in the East Asia region. Specially ASEAN commitments is the reason for this commitments. But Africa, West Asia and Middle East countries enforcement is relatively low with compared to the other countries. Specially Europe and American countries has enforced considerable amount of RTS's.

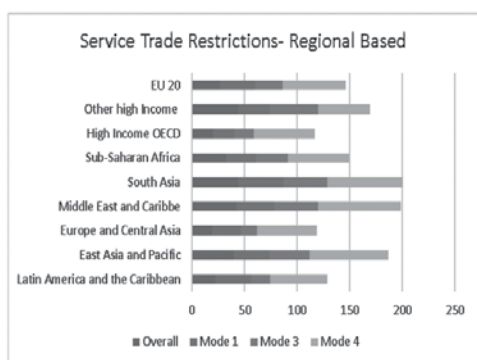


Figure 03 – STRI on the Basis of Region and Author’s Calculation

2) Service Trade Restriction Index

Figure 03 depicts the service trade restriction index for all the regions High Income countries full list of data – Appendix 01). As per the chart, it can be seen that , the overall value of service trade restrictions in all the regions and the Mode 01,Mode 03 and Mode 04 Service trade restrictions also. According to this chart Europe and central Asian countries service trade restrictions is somewhat low compared to other countries. Also the High Income OECD countries restriction level is below than the other regions. But South Asia, Middle East and Caribbean and East Asia and Pacific Countries Score levels are higher than the other regions. Specially, this chat indicates that the mode 04 restriction level is higher in all the regions.

3) The Global Human Capital Index

Figure 2: Gap in human capital development, by region, 2017



Source: Global Human Capital Index 2017.

Source: http://www3.weforum.org/docs/WEF_Global_Human_Capital_Report_2017.pdf

The Global Human Capital Index evaluates countries based on outcomes rather than inputs or means. The size of the current human capital, current investment in building future human capital and current outcomes in the labor market and it will tend to commit more Trade agreements. Between them, the 130 countries featured in this year’s edition of the Report make up 93% of the world’s population and contribute more than 95% of global gross domestic product (GDP).

Yet, like the wider geographic regions in which they are located, these countries exhibit a broad range of overall success in developing their human capital. On average, the world has developed only 62% of its human capital as measured by this Index. Or, conversely, nations are neglecting or wasting, on average, 38% of their talent (Figure 2). At a regional level, the human capital development gap is smallest in North America and Western Europe, and largest in South Asia and Sub-Saharan Africa. However, there are a wide variety of overall human capital outcomes within each region and across different aspects of human capital globally.

The Global Human Capital Index shows that all countries can do more to nurture and fully develop their human capital. Across the Index, there are only 25 nations that have tapped 70% of their people’s human capital or more. In addition to these 25 countries, 50 countries score between 60% and 70%. Further 41 countries score between 50% and 60%, while 14 countries remain below 50%, meaning these nations are currently leveraging less than half of their human capital.(World_Economic_Forum, 2017)

VIII. CONCLUSION

Finally, it is clear that the commitment level cannot be measured by calculating number of Regional Trade Agreements. There are other extra factors also which are highly influencing to the success of trade. Specially countries which have high level of human capital and low level trade restrictions has grown up their trade in services in the world. It is not the number of agreements it is all about the way of the facilitating integration. Borderless investment will boost the facilitation of a country and it will cause to commit more service trade investment opportunities.

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