Alexander Daniltsev

Higher School of Economics (HSE),
National Research University,
Russian Federation

✉ trade.policy@yandex.ru

Olga Biryukova

Higher School of Economics (HSE),
National Research University,
Russian Federation

✉ olga.birjukova@mail.ru

Beyond the GATS:
Implicit Engines in Services RTAs

Summary: In the last 15 years the reciprocity of regional trade agreements on services has become a global phenomenon. Whereas main provisions regulating access to the services market are fixed by specific obligations under the General Agreement on Trade in Services, RTAs have been considered a flexible means for liberalization and an expedient to protect national service providers. This article explores the role of the GATS and other agreements, both under and not under the mandate of the World Trade Organization, in trade blocs. The econometric model developed by the authors shows that the removal of restrictions for foreign suppliers under domestic regulation (consumer protection, regulation of labor market) and the elimination of discriminatory measures on foreign investments that affect trade in goods are likely to be more important for the expansion of services trade on a preferential basis than the GATS-type liberalization.

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

JEL: F13, F14, F15.

Provisions on services have taken a central place in bilateral and regional trade agreements (RTAs). In the meantime, a rather contradictory situation takes place in practice. On the one hand, the mechanism of the General Agreement on Trade in Services (GATS) is used faintly; on the other hand, substantial liberalization does not occur within trade agreements on services. There are several reasons for this situation. Firstly, under conditions of lack of real progress in the negotiations on access to the services market within the Doha Round, RTAs are considered as means of trade liberalization on more flexible conditions. Secondly, 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. Thirdly, other mechanisms different from the GATS emerge in the RTA system that can substantially influence the dynamics of mutual trade between participating countries.

In this paper using the gravity model we investigate what provisions stimulate the export of services to the greatest extent within the practice of existing preferential agreements. This article is based on an analysis of 35 RTAs on trade in services (excluding the EC Treaty and subsequent EC Enlargement) and retraces the internal dynamics of trade in services from 2000 to 2008.

The paper is organized as follows: Section 1 includes literature review. Section 2 examines the difference in the depth of services liberalization under the GATS

with its most favored nation (MFN) status on the one hand and under services RTAs on the other. Econometric research is given in Sections 3 and 4. Section 3 identifies the determinants of the trade-enhancing effect in services RTAs by applying a gravity model. Section 4 comprises discussion and explanations of the results obtained in the previous section.

1. Literature Review

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 nontradable 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. The works by Peter T. Hill (1977), Jagdish N. Bhagwati (1984), Robert M. Stern and Bernard M. Hoekman (1987), Walt W. Rostow (1990), and Joseph F. Francois and Hoekman (2010) should be mentioned among the most important "milestones" in research on services.

Second, since the 1980s, trade in services has been studied on the basis of comparative advantages theory. The basic works in this concept are those by Brian Hindley and Alasdair Smith (1984), Alan V. Deardorff (1985), and James R. Melvin (1989). The latter indicated that application of the theory of comparative advantages to trade in services should differ from the approaches used for trade in goods analysis, in particular, a country with a negative balance of trade in goods should have comparative advantages in the services sector. Later, Anirudh Shingal and Pierre Sauvé (2011) noted that in marked contrast to goods trade, the bulk of services trade involves both trade and factors flows.

Third, another approach to the explanation of trade was developed by Michael E. Porter (1990) in his theory of competitiveness of nations.

Fourth, since the middle of the 1990s, many researchers of trade in services focus on the one but very important direction - namely, the studies of services trade liberalization and stimulation at the multilateral level and within the framework of regional trade agreements. The current research is conducted in this direction also.

Among the works considering trade in services, the works of Hoekman (1996), Sauvé (2005), Juan A. Marchetti and Martin Roy (2008), and Aaditya Mattoo and Sauvé (2011), should be mentioned. These authors investigated different approaches to the creation of regional services markets. The nature of liberalization in these agreements and motivation for them was assessed by Sebastián Sáez (2005), Mario Marconini (2006), Roy, Marchetti, and Hoe Lim (2007), Sébastien Miroudot, Jehan Sauvage, and Marie Sudreau (2010), Shingal and Sauvé (2011), Rudolf Adlung et al. (2013), and others investigated the negotiating experience of different countries. Carsten Fink and Martín Molinuevo (2008a, b), on the ground of research into integration agreements in Asia, came to the conclusion that there are great differences in the coverage of sectors between the agreements herewith, and that more progress in eliminating barriers is made in the same sectors in which barriers were eliminated under the GATS. In sensitive sectors such as healthcare, transport, and financial services, and in the delivery of services by mode 4 of the GATS, liberaliza-

tion is the least. In the sectors that the GATS almost does not deal with, RTAs either make little progress or RTAs try to tackle them and contain a great number of approaches.

One of the most important issues in the theoretical research on the liberalization of trade in services is the evaluation of the economic effect of RTAs in this sphere.

Scott L. Baier and Jeffrey H. Bergstrand (2001) present one of the serious attempts at estimation for countries participating in the trade areas in services. Their model is based on the assumption that services differ from goods by higher or prohibitive transport costs. This assumption is spread only on the services that are transferred from one continent to another while transport costs are equal to zero. At the same time, this assumption substantially restricts the value of the results obtained. In the Baier-Bergstrand model, the conclusion is made that continental free-trade areas in services increase welfare. Jeffrey A. Frankel, Ernesto Stein, and Shang-Jin Wei (1995) came to the same conclusion studying trade in goods.

Shingal (2014) calculated a trade effect of 15% from accords in services; he estimated an impact of "goods only" PTAs to be 7.6%. Mattoo and Sauvé (2004), based on a study of many countries, found that the gross domestic product (GDP) of the countries that completely liberalized the financial sector and telecommunications grew 1.5% more quickly than the GDP of other countries. Jože P. Damijan, Matija Rojec, and Maja Ferjančič (2011) use gravity model to estimate the contribution of the improvement of a country's market access to its export growth in the Central European states. They prove that such factors as FDI, increased levels of productivity, and institutional changes lead to a larger growth of exports.

The research of American scholars Drusilla K. Brown and Stern (2001) is of special interest. They used the model of general equilibrium to analyze the mutual influence of cross-border services supply and FDI. Their research examines data on 18 large developed and developing countries. The main content of their work is the estimation of the influence of liberalization of trade in services on the movement of trade, production, factor prices, public welfare, and economies of scale. According to the model under competition for drawing foreign investments, the countries that try to liberalize services win at the expense of those that try to preserve barriers. One of the main conclusions from the model is that opening the services sector in countries that lose from international liberalization can help cut down the size of the loss.

The most important conclusions stated on the basis of empirical analysis in the works of modern researchers mentioned above are the following. First, liberalization of trade in services on the basis of preferences results only in an increase in welfare. Second, liberalization of trade in services on the basis of the MFN-regime as a rule results in a larger welfare increase when compared with liberalization on the basis of preferences. Third, in the services sector, to a larger extent than in other sectors, it is likely that the companies that were the first to enter the market can receive long-term benefits as a result of forming of consumer preferences, lower expenses on the creation of a network of affiliates, etc.

The fact that it is easier to conduct negotiations on the liberalization of trade in services with the participation of a limited number of countries speaks for the region-

al integration, as in this case it is easier to estimate gains and losses from liberalization. For many countries in recent years, RTAs have been a way of deepening and fixing liberalization reached at the national level, as they make it possible to obtain advantages, including improvement in the investment climate, which occurs as a result of integration.

Our contribution to the study of the nature of services trade liberalization is that using the gravity model, we examine the specific practical question: what are the RTAs' provisions that create trade in services growth, and what provisions lead to trade deduction - the answer to this question should clarify how services RTAs should be shaped to create trade.

2. GATS and Issues of Preferential Trade

2.1 Modes of Services Supply

One of the key issues in analyzing regulation at all levels, including regional integration, is the classification of services trade by the four modes of supply used by the GATS. These modes are as follows:

- Mode 1: cross-border supply (delivery from the territory of one country to the territory of another);
- Mode 2: consumption abroad (delivery in the territory of one country to the consumer from another country);
- Mode 3: commercial presence (delivery by the service supplier from one country in the territory of another country through the commercial presence of the supplier);
- Mode 4: presence of a natural person (delivery by the service supplier from one country through the presence of natural persons in the territory of another country).

In the services trade the main modes of entry into foreign markets are mode 3, which is carried out by means of foreign direct investments, and mode 1, in which cross-border supply is only second in importance. Thus, in the external trade in services, unlike trade in goods, liberalization and discrimination are usually fulfilled not through price barriers but through regulation of the movement of labor and foreign investments. Understanding how barriers that restrict the movement of investments influence the international trade in services (although outside the theory of international trade in services these are different categories, investments being a factor of production and services an object of trade) is one of the basic points for the analysis of barriers and their liberalization in international and regional trade in services.

2.2 Regional Integration: How Much Favorable Is MFN under GATS?

The GATS is based on the same basic principles as other agreements inside the World Trade Organization (WTO): non-discrimination, market efficiency, and predictable, open, and safe mutual market access. In trade in goods, renunciation from discrimination means the demand for granting MFN treatment and national treatment. According to the GATS provisions, MFN relates to a set of common commit-

ments that apply to all WTO members. However, this commitment has a special nature as in the WTO compilation, and presenting a list of exceptions from MFN treatment makes this commitment specific, depending on the will of a specific country with regard to a concrete sector (subsector) of services and mode of supply of services.

Commitments on market access in the GATS are analogous to tariff appeasements in the GATT and, like the latter, are subject to negotiations. Meanwhile, national treatment is compulsorily granted only in those service sectors that are included into the list of corresponding obligations of a given WTO member.

Paragraph 1 of Article II of the GATS formulates MFN commitment in the following way: *"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 favorable than that it accords to like services and service suppliers of any other country"*.

Article V of the GATS provides exemption from MFN treatment in relation to the economic integration agreement and enables granting each other preferential treatment in trade in services without extending it to other members of the WTO.

Unlike trade in goods, access to the services market is restricted not by duties but by impediments of non-tariff, mostly administrative in nature, that are mostly aimed at defending the right of national suppliers to provide services (for example, restriction of investments, special approach to the registration of foreign entities, prohibitions or restrictions of the use of foreign services by national consumers, restrictions of the entry rights of foreign suppliers of services). That is why basic GATS principles, which are by large analogous to the GATT standards, have a specificity of their own.

The practice of GATS use shows that testimonial provisions of the agreement enable the countries to feel more flexible in fulfilling the plans of integration that did not receive approval on a multilateral level.

2.3 Is the Liberalization in Services RTAs Deeper?

Despite the wide variety of RTAs, most of them regulate issues on trade in services and investment in services analogously to the GATS. These issues include transparency, national treatment, MFN treatment, dispute settlement provisions, provisions on capital transfer and monopolies, and individual sectors regulated by the agreement (with variations depending on clauses on air transport and government procurement). Some RTAs may contain provisions on labor resources movement.

The practice of RTAs on services shows that issues that are intractable on the regional level are the same on the multilateral level in the GATS. This relates to two basic directions: firstly, access to the services market in such industries as air and maritime transport, audiovisual services, education, and healthcare, and freedom of movement of labor resources; secondly, provisions on regulation of such spheres as national treatment, emergency safeguards, government procurement, and subsidies.

An important issue for RTAs on services is the necessity to avert invisible barriers. For example, in the service sectors with asymmetric information (financial sector, business and professional services), governments often use measures that guaran-

tee the quality of supplied services. Such measures usually take the form of licensing, certification, and/or demands for qualification (Anthony Kleitz and Charles Tsai 2004). The Organization for Economic Co-operation and Development (OECD) Secretariat, based on a study on mutual recognition agreements on trade in services registered by the WTO, issued a report according to which, in spite of such, RTAs are as a rule signed either by neighboring countries or by countries with a comparable level of development or by countries that traditionally cooperate closely with each other such that liberalization of many barriers, like demands for the qualification of staff, is negligible (Julia Nielson 2003). The first conclusion is that the largest progress has been achieved in the elimination of barriers in concrete, narrow spheres, for example on the bilateral or sectoral level or by granting market access to the representatives of professionals such as architects, engineers, and accountants. On the one hand, it shows that lack of progress in the elimination of barriers in trade in services on a regional and bilateral level may mean that the perspectives for barrier elimination on the multilateral level are all the more rather faint. On the other hand, when there are concrete economic interests then opportunities to eradicate the barriers can be found. The second conclusion is that the GATS mechanism is relatively faintly used on the regional level. Besides, substantial liberalization of trade in services does not occur within regional trade agreements. This fact all the more confirms topicality of our research - it is necessary to find out what provisions should be included in RTAs to increase mutual trade in services.

Thus, the slower liberalization based on the GATS mechanism can be due to the following reasons. Firstly, under conditions typical of many countries' tendencies, such as liberalization of FDI, privatization of service suppliers that are owned or controlled by the state, and opening of key sectors such as transport or telecommunications to foreign companies, the necessity for negotiations on multilateral liberalization falls away - the countries fulfill liberalization independently. As Ivana Prica and Jelica Petrović Vujačić (2010) describe, the regulatory regime in those countries may be more liberal than their GATS commitment (autonomous liberalization). However, in spite of these independent actions, service sectors are not fully opened and barriers are more substantial than in trade in goods. Secondly, there can be limited opportunities for use of the reciprocity principle for promotion of national export, as the weakness of national regulators and asymmetricity of allocation of benefits and losses from the reformation of sectors occur.

It should be mentioned that the last decade has seen the spread of agreements in which the commitments of RTA members fall short of the commitments of these very countries under the GATS. From the authors' point of view, such "GATS minus" RTAs deserve attention for various reasons. First, those RTAs that do not include MFN clauses are cut off from a multilateral system of regulation. Such RTAs not only almost eliminate the opportunity to carry out multilateral liberalization, but their existence also casts doubt on the legal status of corresponding agreements under the GATS and might have serious consequences for the trade system in general. Second, taking into consideration broad inclusion of definitions used by the GATS, including commercial presence, such liabilities can impact the rights of investors from third countries in the countries participating in RTAs.

3. Services Trade Performance in RTAs: Determinants

In the works mentioned in Sections 1 and 2 emphasis was given to the estimate of obligations under the GATS within the limits of integration agreements. The authors do not move forward in their reasoning why in some RTAs trade in services develops at a quicker pace whereas in others, in spite of the absolute use of standards and rules of the GATS, a substantial increase in the volume of trade in services does not take place.

Thereon we state the task of finding out, within the limits of existing preferential agreements, other adjacent spheres of agreements that stimulate the development of service exports to the largest extent.

An approach based on the gravity models was used to analyze how RTAs on services influence the volume of trade of their participants.

The author built a model based on 1100 observations describing bilateral trade in services of countries participating in RTAs on services. The database of International Trade Centre (ITC) (2013)[1] for 2008 was chosen as the source of information.

Because of the underdevelopment and imperfection of the system of statistical accounting of trade in services, some Arab, African, and Island states were not considered.

Table 1   Obligations that Are Outside the Current Mandate of the WTO

Obligations	Designation	Description
Anti-corruption clauses	Ancr	Regulation against crimes in trade and investment.
Anti-money laundering	MnLn	Harmonization of standards, technical assistance and administrative aid.
Protection of consumer rights	Cnsm	Harmonization of laws related to the protection of consumer rights, information exchange, teaching.
Research and technology	R&T	Conjoint research projects, scholars' exchange, private-public partnership.
Taxation	Tax	Assistance in reforming tax systems.
Competition policy	Cmpt	Harmonization of laws on competition, creation of an independent body on competition, ensuring measures of corruption preclusion.
Political dialogue	PD	Convergence of members' positions on international relations.
Granting visas and asylum	VisA	Information exchange, legislation development, teaching.
Regional cooperation	RC	Promotion of regional cooperation, technical assistance to programs.
Labor market regulation	Lbr	National labor market regulation, approval of liabilities under the International Labor Organization, observance of law and order.
Agreement on cooperation in culture	Cult	Support of mutual initiatives and local culture.
Financial assistance	FnAs	Institution of rules regulating assignment and management of financial assistance.

Source: WTO (2013)[2]; dataset on the content of PTAs, updated.

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[1] **International Trade Centre (ITC).** 2013. Trade in Services Statistics. http://www.intracen.org/itc/market-info-tools/trade-statistics/ (accessed September 10, 2013).
[2] **WTO.** 2013. http://www.wto.org/english/res_e/booksp_e/anrep_e/wtr11-anatomy_ptas_e.xls (accessed September 10, 2013).

Areas of service regulation that fall within RTAs were introduced as dummies. If a country has any commitments in a certain regulation area, a dummy variable received a value of 1, otherwise 0.

Commitments of two types were considered. The first type includes provisions falling under the WTO: GATS, Trade Related Aspects of Intellectual Property Rights (TRIPs), Agreement on Trade Related Investment Measures (TRIMs), and government procurement. The second type covers obligations that are outside the competence of the WTO. In other words these are provisions nontraditional to the WTO and can be treated as a kind of "WTO plus" agreements. The source of the data for dummy variables were the resources of WTO Regional Trade Agreements Database (2013)[3].

Different specifications of the linear regression model based on the following formula were calculated:

$$lnY = ln\beta_0 + \beta_1 lnGDPimp + \beta_2 lnGDPexp + \beta_3 lnDist + \beta_4 BTRIMS + \beta_5 BTRIPS$$
$$+ \beta_6 BPD + \beta_7 FnAs + \beta_8 Cult + \beta_9 Tax + \beta_{10}PP + \beta_{11}RC + \beta_{12}MnLn + \beta_{13}VisA + \quad (1)$$
$$\beta_{14}Lbr + \beta_{15}Cmpt + \beta_{16}R\&T + \beta_{17}Cnsm + \beta_{18}Ancr + \beta_{19}GATS + \varepsilon,$$

where Y is the dependent variable expressing the volume of bilateral trade, X (*GDPimp*, *GDPexp*, *Dist*, etc.) represents factors affecting trade, β is the vector of estimated coefficients, and ε is the random error. All the data, except dummy variables, were taken in logs.

"*Dist*" represents the distance between countries r and r', which is calculated as:

$$D_{rr'} = \sum_{c\in b(r)} \sum_{c'inb(r')} \theta_{cr}\,\theta_{c'r'}d_{cc'}, \quad (2)$$

where: $b(r)$ is the set of cities in country r; Θ_{cr} is the fraction of total city population in region r, which resides in city c; $d_{cc'}$ is the great circle distance between cities c and c_0, calculated on the basis of a great circle approximation. The calculation of these distances begins by conversion of latitude and longitude information to (x, y, z) coordinates on a unit sphere:

$$x_c = \cos(l\ onc)\cos(l\ atc)$$
$$y_c = \sin(l\ onc)\cos(l\ atc) \quad (3)$$
$$z_c = \sin(l\ atc).$$

These data are then used to compute the length of a line segment (through the sphere) that connects cities c and c',

$$s_{cc'} = \sqrt{(x_c - x_c')^2 + (y_c - y_c')^2 + (z_c - z_c')^2}. \quad (4)$$

Finally, the length of this line segment determines the great-circle distance:

$$d_{cc'} = 2\tan^{-1}\left(\frac{Scc'/2}{\sqrt{1-(Scc'/2)^2}}\right) \times 3959, \quad (5)$$

in which 3959 is the radius of the earth in miles.

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[3] **World Trade Organisation (WTO).** 2013. Regional Trade Agreements Database. http://rtais.wto.org (accessed September 10, 2013).

The research is based on data about distances from the GeoNames (2013) geographical database[4].

Table 2   The Dependence of the Volume of Mutual Trade in Services between Country-Participants of the Agreement on the Size of Economies, Distance, Spheres of Agreements

	Model 1		Model 2		Model 3		Model 4	
Predictors	β	p-level	β	p-level	β	p-level	β	p-level
Constant	8.705***	0	8.803***	0	8.993***	0	9.278***	0
Log of importer GDP	1.008***	0	1.004***	0	1.031***	0	1.026***	0
Log of exporter GDP	.977***	0	.973***	0	1.006***	0	1.005***	0
Log of bilateral distance	-1.258***	0	-1.269***	0	-1.292***	0	-1.327***	0
TRIMS	2.978***	0	2.864***	0	4.042***	0	1.604***	0
TRIPS	-2.490***	.006	-2.926***	.001	-3.381***	0	-.709***	.003
Political dialogue	1.906***	.001	2.073***	.001	4.884***	0	2.97***	0
Financial assistance	-2.110***	0	-2.036***	0	-3.474***	0	-.895**	.039
Cultural cooperation	.482	.115	.472	.121	.455	.13	.44	.147
Taxation	-.989***	.008	-.526*	.074	-1.252**	.035		
State aid	2.080**	.015	2.084**	.015	2.634***	.004		
Regional cooperation	.967*	.077	1.164**	.032	1.903**	.013		
Money laundering	-.272	.314	-.764	.058	-2.757***	0	-1.996***	0
GATS					-1.965***	0		
Visa and asylum					.755	.158	0.608*	.098
Anti-corruption					-2.894***	.008		
Labor market regulation					2.239**	.011		
Competition policy					.755*	.099	.739*	.052
Consumer protection							.912***	.009
Research and technology							.46	.276
F	76.012		81.480		62.939		81.04556	
Prob	0		0		<.00001		0	
R-squared	.733		.733		.744		.746	
Observations	431		431		431		431	

Notes: *** factors significant at the level of 1%; ** factors significantat the level of 5%; * factors significantat the level of 10%.

Source: Calculations by the authors.

The Durbin-Watson test and graphic analysis showed no autocorrelation. Absence of heteroscedasticity was tested by Breusch-Pagan, Goldfeld-Quandt and White tests.

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[4] **GeoNames.** 2013. http://download.geonames.org/export/dump/ (accessed September 20, 2013).

For the purity of the study, it should be mentioned that the gravity models, which use bilateral trade data, have the following characteristics: they do not allow one to estimate the effect of mode 3 on trade in services (*Y*), because mode 3 relates more to trade policy and investments rather than to trade (it is even not reflected in the current account of the balance of payments). However, tracing mode 3 through FDI would also be not quite correct, as it would be more correct to consider investment performance, namely, sales of foreign affiliates (both local sales and exports), but they are not reflected in the statistics of bilateral trade. Francois, Olga Pindyuk, and Julia M. Woerz (2009) did include FDI data in services sectors as a proxy for mode 3 trade. However, their data on FDI are mostly disclosed as a sum of FDI with all trading partners and thus does not match up for a bilateral basis. Ingo Borchert, Batshur Gootiiz, and Mattoo (2014) show that the Services Trade Restrictiveness Index is correlated with FDI outcomes using a cross-border database of mergers and acquisitions.

Table 3 Results of the Analysis: Influence of Different Obligations Inclusion on Trade in Services in PTAs

Group of factors	Factors	Significance level	Potential of trade increase (+) or decrease (-)
Obligations falling under the mandate of the WTO	State aid	Not significant	
	Public procurement	5%	+
	Agreement on trade-related investment measures	1%	+
	General Agreement on Trade in Services	1%	-
	Agreement on trade-related aspects of intellectual property rights	1%	-
Obligations that are outside the current WTO mandate	Anti-corruption	1%	-
	Competition policy	Significant only at the level of 10%	+
	Labor market regulation	5%	+
	Consumer protection	1%	+
	Cultural cooperation	Not significant	
	Financial assistance	1%	-
	Money laundering	Not significant	
	Political dialogue	1%	+
	Regional cooperation	Significant only at the level of 10%	+
	Research and technology	Not significant	
	Taxation	Significant only at the level of 10%	-
	Visa and asylum	Not significant	
Control variables	Distance between countries	< 0,1%	-
	GDP of exporting country	< 0,1%	+
	GDP of importing country	< 0,1%	+

Source: Calculation by the authors.

4. Discussion

Some important conclusions can be drawn from the results of the gravity model. A larger effect of trade creation in preferential trade agreements on services is observed

for countries with larger economies. This conclusion is valid for both exporter and importer. Transaction costs related to distance affect trade in services in the same significant degree as in the case of merchandise trade. However, the nature of this interrelation differs, because in services trade the factor of "local information" is crucial. Actually the effect of this factor is that in the absence of artificial barriers in a country, individuals tend to deal with people in their familiar environment. Local banks may have a competitive advantage in that they know the bona fide borrowers; thus, to a large extent, this offsets the problem of interrelated risks. Therefore, there is reason to believe that, in spite of the dynamic development of the service sector in the world economy, the potential gains from reducing of trade barriers may be more limited.

The largest positive influence on mutual trade in services is achieved by inclusion of the following provisions into preferential agreements (or cooperation in the following spheres):

- Participation of a country in the TRIMS Agreement (inclusion of related provisions referred to investment regulation);
- Political dialogue between the countries;
- Provisions on government procurement;
- Consumer rights protection;
- Labor market regulation.

The TRIMS Agreement is directed at the liberalization of foreign investments. To a larger extent, however, it meets the interests of transnational corporations rather than local small and medium-sized enterprises (SMEs). Article I of the Agreement states that it is applied to trade in goods only. Empirical analysis shows, however, that the inclusion of such provisions has a very significant impact on the growth of mutual trade in services. It could be explained as follows. The growth of mutual trade in goods enhances the role of the services used as inputs of production. Synergetic and multiplication effects take place, as investments and trade in goods lead to an increase in the demand for services that "serve" these spheres.

The Agreement on Government Procurement, which is under the mandate of the WTO, is a lever promoting integration and proper governance because:

(i) Investments in public infrastructure development serve as a basis for economic development in the post-crisis period;

(ii) Spending for these purposes in accordance with the principles of fair and open competition is fundamentally important in the interests of maximizing the economic effect for taxpayers.

According to the analysis, provisions related to visa and asylum as well as to Labor Market Regulation are also able to increase the trade creation effect in regional trade agreements. These provisions go beyond the scope of the WTO and touch upon the temporary movement of persons classified as mode 4, which was liberalized least of all at the multilateral level.

The model shows a windfall when the results on TRIPS influence on mutual trade in services are seen at first glance: in many cases joining TRIPS is undesirable from the point of view of trade. However, a more detailed analysis reveals that there is no contradiction here, because in practice a large share of the most important inno-

vation activity does not fall under intellectual property regulation. There is no direct evidence that better protection of intellectual property rights facilitates an increase of commercialization of the creative activity results and stimulates trade in services.

Finally, we should recognize that material remuneration does not play a crucial role in the creation of the main share of intellectual activities (with the reservation that the intellectual activities would not have been obtained without economic reward at all). There is no direct evidence that stronger protection of intellectual property creates greater flows of fundamental ideas.

The negative impact of TRIPS provisions on mutual trade was also confirmed in the work of Joseph E. Stiglitz and Andrew Charlton (2005). The authors emphasize the exigency to form a new intellectual property regime in the framework of the WTO that would be able to more carefully balance the interests of knowledge consumers and knowledge producers by taking designated steps to overcome "a gap of knowledge" between the North and the South.

Agreements on financial assistance that contain general provisions on its granting and managing have a negative impact on mutual trade in services. It should be noted that the benefits of liberalization in financial services have ambiguous consequences. The theoretical argument for financial liberalization is that intermediation in rendering more efficient services leads to a reduction of the costs of doing business, and thus spurs economic growth. In practice, however, a mixed picture is formed at least in some developing countries: the acquisition of local banks by foreign ones has reduced credit flows to domestic SMEs and has thus hampered economic growth.

The GATS is an insignificant factor for the growth of invisible trade between members to an RTA. In the context of preferential trade agreements, negotiations on individual terms that are more advantageous for countries are easier to conduct than those on multilateral terms in the framework of the GATS. The "autonomous liberalization" presents an important drawback for the GATS, which in its successive negotiation rounds still proves to be unable to capture this liberalization level. The conclusion of our gravity model corresponds to the results of the empirical analysis of Roy, Marchetti, and Lim (2007).

To clarify the results of the gravity model we used model 2003-2008, where two periods (2003 and 2008) were combined and dummy variables were assigned for the corresponding years. The model confirmed all the results about "positive" and "negative" agreements on preferential trade in services, described earlier. The Durbin-Watson test and the White test showed no autocorrelation and heteroscedasticity.

We then calculated model 2003 as well, which affirmed the insignificance of the GATS, the positive effect of TRIMS, and the negative effect of TRIPS and granting visas and political asylum on bilateral trade in services within RTAs. At the same time, some RTA provisions, such as labor market regulation and consumer protection, have a negative impact on bilateral trade. These partial differences of provision effects are typical for agreements with WTO commitments (known as WTO-X) and are partly caused by the dynamism of their content, the adoption of more flexible conditions, and the emergence of new players among developing countries that, because of the lack of statistical data, are much worse represented in the 2003 sample,

but for which it is more convenient and more profitable to enter RTAs on individual conditions.

Table 4   The Dependence of Bilateral Trade in Services in RTAs on Provisions in Regional Trade Agreements: Timeframe Comparative Analysis

	Model 2003-2008		Model 2003	
Predictors	β	*p*-level	β	*p*-level
Constant	8,470***	0	6,345***	0
Log of importer GDP	1,125***	0	1,036***	0
Log of exporter GDP	0,989***	0	1,174***	0
Log of bilateral distance	-1,151***	0	-1,137***	0
TRIMS	3,140***	0	4,184***	0
TRIPS	-0,707***	0	-0,865***	0,001
Political dialogue				
Financial assistance	-2,083***	0,008	1,290***	0
Cultural cooperation				
Taxation				
State aid				
Regional cooperation	4,181***	0		
Money laundering	-4,498***	0		
GATS	-2,801***	0	-0,38	0,336
Visa and asylum			4,311***	0,001
Anti-corruption				
Labor market regulation			-2,832***	0,006
Competition policy				
Consumer protection			-4,788***	0
Research and technology	4,129***	0		
F	160,01			
Prob	0		0	
R^2	0,766		0,734	

Notes: * significant at 10%; ** significant at 5%; *** significant at 1%.

Source: Calculations by the authors.

5. Conclusions

A significant increase in services-related RTAs is an important tendency of international trade that requires for both the extension of the theory of services trade and the development of the theory of economic integration.

The complexity of the study of factors affecting the growth of bilateral trade in services arises not only from the lack of objective statistics. The great challenge is also in the fact that many of the measures, which have substantial influence on services trade performance, are only indirectly related to trade policy instruments. In this case, not only legal rules regulating the corresponding sphere of activities should be taken into account but also their implementation at national and regional levels.

The gains from preferential agreements with services provisions in comparison with the *status quo* (regulation at the national level) are likely to be significant in areas where there is scope for more fully reaping economies of scale, as in financial

services or transportation, or where there is a substantial increase in competition, as in the business services sector.

Similar gains can be achieved as a result of multilateral services liberalization on an MFN basis, but it may require significant changes in the national regulation and higher costs of transformation than in RTAs of countries that, as a rule, have deeper convergence of regulatory regimes and higher levels of interaction between institutions. Therefore, liberalization of services at the multilateral level is often much less possible than regional liberalization.

Different specifications of the gravity model were considered in the research; they demonstrate the following results:

(a) The growth of preferential services trade in the framework of RTAs is likely to be higher when countries include TRIMS provisions, commitments on government procurement, and labor market regulation, and have common political positions on international relations. Commitments on state aid provided by one participating country to another and commitments on regional cooperation and on consumer rights protection also have high potential for stimulation of services trade. This effect can be achieved by the development of the WTO commitments in the area of trade-related investment measures and measures of a country's regulatory regime, which are much deeper than WTO-X.

(b) According to obtained empirical results, implementation of GATS-type commitments in regional agreements does not lead to a significant growth of trade in services between participants. Thus, an increase in mutual trade in services between RTA members is not as much the consequence of further mutual liberalization of market access conditions, which are regulated under the GATS, as it is, to a larger extent, the result of eliminating barriers in the sphere of national regulation and obstacles to foreign investments regulation, which restrain trade in goods.

(c) 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.

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Appendix

Table 5   Sample of Regional Trade Agreements for the Gravity Model

Australia-New Zealand (ANZCERTA)	Japan-ASEAN
Australia-Singapore	Japan-Indonesia
Australia-Thailand	Japan-Malaysia
CEZ	Japan-Mexico
Chile-Canada	Japan-Philippines
China-Pakistan	Japan-Singapore
CIS	Japan-Thailand
EAEC	NAFTA
EC-Albania	Pakistan-Malaysia
EC-Chile	Pakistan-Sri Lanka
EC-Croatia	Russian Federation-Ukraina
EC-Mexico	SAFTA
EC-Morocco	Turkey-Croatia
EC-Norway	Ukraine-Belarus
EC-South Africa	Ukraine-Kazakhstan
EC-Tunisia	US-Australia
EC-Turkey	US-Singapore
India-Singapore	

Source: Authors.

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