Which ‘behind-the-border’ policies should be subject to trade agreements?

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Trade agreements as piecemeal reform

- **Two views**
  - ‘Go to zero’ whenever you can
  - Watch for instances where partial reform can make things worse (second best problem), temporarily or permanently

- **In goods trade, we have developed rules of thumb**
  - tops-down (Swiss formula)
  - across-the-board
  - avoid ‘bottoms down’ (eg APEC’s EVSL)

- **Are there equivalent rules in services and investment?**
Two levels of analysis

- Trade agreements versus other modes of liberalisation
  - Embrace trade agreements because they are an opportunity (even if not the best one)?
  - Watch for instances when trade agreements can make things worse?

- Which particular reforms to include in trade agreements
  - Do whatever you can?
  - Worry about what delivers biggest gains?
Assessing trade agreements vs other modes of liberalisation

Four ways to evaluate

- evaluating the rules
- evaluating the commitments made under those rules
- evaluating the extent to which the commitments constrain or change the status quo
- evaluating whether any change to the status quo has economic significance

What is to be gained from reciprocity?
PTAs - evaluating the rules

- A significant proportion of PTAs do not contain disciplines on services and investment
  - a minority of those between developing countries
- PTAs have not expanded many of the ‘rules’
  - GATS-minus on domestic regulation, monopolies, private business practices, safeguards and subsidies
- GATS-plus on core disciplines of market access and national treatment
  - Mainly thanks to negative list approach

References: Dee and Findlay (2007), Marchetti and Roy (2008)
PTAs – evaluating the commitments

- PTAs >> GATS offers > GATS commitments
  - especially among countries that have signed PTAs with the United States
- Mostly through new bindings, rather than through improvements on existing bindings
- New PTA bindings have included some sectors where few GATS offers . . .
  - audiovisual, road, rail, post-courier
- . . . but not others (health)
- PTA commitments also GATS-plus, ‘sometimes even leading to real liberalisation of the market’

Reference: Roy, Marchetti and Lim (2006)
Evaluating extent of real liberalisation

- Barth, Marchetti, Nolle and Sawangngoenyuang (2006) compare GATS commitments with actual practice in banking
  - Commitments < practice in many countries
  - Practice < commitments on foreign entry for 6 WTO members
  - No significant correlation between commitments and actual practice
  - The developed countries are on average less open in practice than their commitments!!!
Evaluating significance of real liberalisation

Assertions:

1. Where real liberalisation occurs, it tends to involve removing discrimination against foreigners
2. In PTAs, this tends to be on a preferential basis, i.e. only for the particular partner country
3. It tends not to involve liberalisation of restrictions that affect domestic and foreign players equally

Reference: Dee (2007)
Anecdotal evidence

- **Trade negotiators**
  - Don’t want to give away negotiating coin
  - Don’t want to negotiate on behalf of other countries
  - Only want to commit to things that their countries were planning to do anyway

- **Trading partners**
  - Want first mover advantage vis a vis third parties
  - Don’t want to unleash more competition from domestic new entrants

- **What about WTO accession processes?**
  - Vietnam’s involved multilateralising their bilateral agreement with the United States
Why does this matter?

Some barriers create rents and some raise costs
Summary – donuts vs holes

- Evaluating the rules
- Evaluating the commitments under those rules
  - People tend to see donuts

- Evaluating the extent of real liberalisation
- Evaluating the economic significance of that liberalisation
  - People tend to see holes
‘Go for zero’ anyway?

- Sequencing matters
- PTAs
  - Safeguard particular competitors, rather than safeguarding competition
  - Risk handing monopoly rents to foreigners
  - Risk giving first mover advantage to wrong provider, who then resists further reform

References: Dee and Findlay (2008), Marchetti and Roy (2008)
‘Go for zero’ anyway? (cont)

- **Multilateral liberalisation**
  - Services highly differentiated ➔ granting national treatment *not* enough discipline domestic suppliers
  - Granting national treatment while maintaining non-discriminatory barriers to entry ➔ risks moving resource allocation in ‘wrong’ direction
    - Bad economics - for both efficiency, adjustment costs, and size of overall gains
    - Bad politics – fails to mobilise an important pro-reform group – potential domestic new entrants
    - Bad politics – if lift non-discriminatory restrictions that raise costs, even the incumbents can gain
Contestibility the key

- Services trade barriers typically protect incumbents
- Losers include
  - potential new entrants - domestic and foreign
  - upstream and downstream industries – domestic and foreign-invested, often other services sectors
  - consumers
  - sometimes even governments
- The politics of organising a pro-reform coalition is largely domestic
- And in services, international reciprocity doesn’t help

Still ‘go for zero’ anyway?!

Trade liberalisation vs domestic regulatory reform

- Other rationales for intervention
  - Natural monopoly – telecoms, network transport industries
  - Spillovers – finance (prudential regulation)
  - Externalities – transport, energy
  - Asymmetric information – the professions, health, education
  - Public safety - transport
In some sectors, instruments for protection differ from instruments for legitimate regulation
  • finance, telecoms (maybe)

Can get on with trade reform without under-cutting domestic objectives (though may want domestic regulation in place first)

In other sectors, instruments for protection same as instruments for legitimate regulation
  • health, education

Need a necessity test
  • to ensure than instrument is ‘no more burdensome than necessary’
Relative size of gains - general principles

- These depend on
  - ‘height’ of barrier
  - whether it creates rents or raises costs
  - whether it affects all players, or just foreigners
  - size of sector
Sectoral priorities

Look for areas where regulatory restrictions add to costs

- **Links in the logistics chain**
  - Customs
  - Transport – road, rail, air, maritime
  - Distribution
  - Telecommunications

- **Electricity**

- **Non-obvious backbone services**
  - legal, accounting

- **Infrastructure provision critical to economic performance, so important to have a good investment climate**

- **Lots of domestic users ➔ potential pro-reform coalition**

Also, big sectors

- Distribution
A last word

Don’t let the tail wag the dog

1. Define domestic reform objectives, and let trade policy initiatives fall naturally out of that
2. Don’t get hung up on negotiating coin
3. Worry about productivity, and trade will look after itself
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