PROGRESS IN SECURING OPENNESS OF CROSS-BORDER TRADE IN SERVICES

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ABSTRACT

In recent decades' trade in services has taken flight and is now a major source of global economic growth. The General Agreement on Trade in Services (GATS) came to existence through the Uruguay Round results in 1995 to play the foremost role in the multilateral trading system by securing openness of cross-border trade in services. The benefits of service liberalization (providing market access and national treatment to Foreign Service providers with similar treatment as accorded to domestic service suppliers) have been well documented. Since then however, an unproductive negotiation process lacking transparency and clarity of scope has impeded World Trade Organization (WTO) Member participation in service liberalization negotiations. The lack of progress at the multilateral level has instead inspired a number of regional trade agreements which have helped to keep liberalization moving forward. At the same time, the onset of the global financial crisis has brought about fears of rising protectionism. Though protectionist policies have not been implemented to the extent first feared, it is clear that the current policies and framework in place are not enough. More needs to be done to lock in current openness as well as enhance the possibilities of further liberalization.

Keywords: WTO, Trade in Services, Liberalization, GATS.

INTRODUCTION

Demonstrated by its rapid pace of growth and domination within the global economy, trade in services has come a long way since the formation of the General Agreement on Trade in Services (GATS) in 1995. The benefits of services trade are well documented, but even more important is the advantages of liberalization of trade in services. Despite the substantial benefits however, progress in securing openness of cross-border trade seems to have stalled and the threat of protectionist policies have emerged and could take hold in the global economy. This paper will explore the progress that has been made in securing open markets in the services trade. It will examine in detail how developed and developing countries can (continue to) benefit from liberalization of service markets. It will then address the initiatives, constraints and opportunities of GATS and its level of progress in multilateral trade negotiations. Finally, the paper will look at regulation restrictions, the resilience of services trade throughout the recent events of the global financial crisis, and whether steps were taken backwards in light of increasing risks of rising protectionism. The paper will conclude with observations on progress towards services liberalization and possible suggestions to move forward.

The first section begins with an overview of the services sector, barriers that exist, and the impacts of liberalization. The second section examines GATS as it stands today, its constraints and its opportunities. The last part of this section also looks at what is becoming an alternative to multilateral commitments, regional (or preferential) trade agreements. The third section briefly summarizes how current or lack of regulation can be standing in the way of service liberalization and what can be done to achieve better results. The fourth section takes a closer look at protectionist policies that may have emerged, alongside the global financial crisis, and how international institutions can help pre-empt it. The concluding section summarizes overall thoughts on the progress of securing openness as well as future prospects for services trade liberalization.

An Overview of Trade in Services

The role of services

The world's modern economies are increasingly dominated by services, with nearly two-thirds of all economic activity in the G-20 made up of trade in services (Miroudot, Sauvage and Shepherd, 2013). A combination of policy liberalization and technological innovation has expanded trade in services rapidly, making it a key determinant in world growth. And while trade in services continues to grow, the nature of trade in services is ever-changing. Cross-border, "*disembodied*" trade in services is increasing with recent advances in information and communication technology. What used to be an international exchange of products has now become trade in tasks (Francois and Hoekman, 2010).

Within international trade, cross-border trade in services is among the fastest growing areas. Mattoo and Wunsch (2004) describe three factors responsible for this. First, advances in technology have made trade in a number of services possible that were previously only tradable through movement of service providers. Second, substantial investments by developing countries in education have created a wealth of skilled labour while the lack of employment opportunities has ensured wage rates have remained relatively low. And finally, innovations in business practice have led to service activities being off shored to international operational units or outsourced to foreign third-party service suppliers.

Because services tend to be demanding in skilled labour, human capital is critical and therefore can provide a comparative advantage. It is not surprising then that developing countries are investing in infrastructure and equipping themselves with the skills and institutions to reap the gains that come with enhanced international division of labour. In fact, developing countries are among the most dynamic exporters; since the mid-90s the business service exports of twenty developing countries have grown by over 15 percent per annum (Mattoo, 2005). Relative to trade in goods, Borchert and Mattoo (2010) explain that services trade is more robust for three reasons: less cyclical demand, less dependence on external finance, and few explicitly protectionist measures taken so far.

Modes of Supply

Unlike merchandise trade, services can be described as intangible; they cannot be stored, are invisible and normally require utilization at the time of production, implying the need for close proximity between the consumer and the producer. Trade in services has been described as including four modes of supply:

Mode 1: Cross-border supply; for example, a consumer in one country purchases a good from a producer in another country

Mode 2: Consumption abroad; an example of this would be a consumer who travels to Cuba to obtain medical treatment.

Mode 3: Commercial presence; for example, a Canadian bank establishes a branch in Peru, requiring foreign direct investment.

Mode 4: Movement of natural person; occurs when independent service professionals or employees move to another country temporarily to provide services. Each mode brings with it its own limitations, challenges and barriers. For example, while world trade in services is dominated by Modes 1-4 have the highest barriers, yet are the ones growing most rapidly (Hufbauer and Stephenson, 2007). Academic literature places a lot of attention on Mode 4 as it brings to light a number of political and social issues surrounding immigration. An old dictum holds that "*nothing is more permanent than a temporary worker*" (Hufbauer and Stephenson, 2007). Liberalization of Mode 4 is a contentious issue which revolves around a number of dimensions including skill thresholds, duration and the ability to fulfil contracts instead of entering into permanent employment. Francois and Hoekman (2010) argue that "*the temporary movement of service suppliers through mode 4 offers a partial solution to the dilemma of how international migration is best managed, given the substantial political resistance that exists against it in many high-income countries. It could address some of the concerns of opponents to migration in host countries, while also attenuating the brain drain costs for poor source countries that can be associated with permanent migration*". Each of the service modes will be explored further in the following sections.

Barriers & costs

The service industry has been characterized by a mix of network externalities, heavy regulation, and both natural and policy barriers to entry (Francois and Hoekman, 2010). And in today's global economy, there exist many different barriers that constrain trade in services, often taking the form of overtly or covertly discriminatory regulations which affect Foreign Service providers. Mattoo and Wunsch (2004) list the majority of cross-border service trade barriers as nationality, residency, commercial presence, authorization, licensing and local authentication requirements. Barriers can be further distinguished between discriminatory barriers and non-discriminatory barriers. Discriminatory barriers would include limits on foreign equity ownership shares or direct prohibition of entry by multinational enterprises. Non-discriminatory barriers would include a limit on the number of firms or providers in a market, regardless of nationality.

The most rigid barriers to service trade are found in mode 4, with the mobility of Foreign Service providers. Entry of foreigners can be restricted by licensing and registration requirements, discouraged through the lack of recognition of professional requirements and ultimately proven unfair by discriminatory standards. Yet it was found that if industrial countries were to allow temporary access to foreign service providers equal to just three per cent of their labour force, the global gains would be over $150 billion, with gains being equally shared by industrial and developing countries (Mattoo, 2005). Not surprisingly, higher restrictions and discrimination tends to exist in developing countries as opposed to OECD countries.

Barriers to trade in services are difficult to quantify due to the sector's characteristics, and in particular, the regulatory nature of service restrictions (Hufbauer and Stephenson, 2007). Overall, trade costs in services are much higher than in good sectors due to regulatory measures which can either create entry barriers or increase cost burdens for firms. Regulations that impact on cost mainly include higher capital requirements and pricing regulations.

Gains from Service Liberalization

A review of the existing literature on openness of cross-border trade in services shows overwhelming support for the conclusion that an efficient service sector leads to improved economic and long run growth performance. More specifically, within the financial, telecommunications, transport, education and health sectors, increased efficiency and healthy regulation can lead to efficient transformation of savings into investment, dissemination and diffusion of knowledge, distribution of goods nationally and globally and increased stock of human capital (Mattoo et al., 2006). Furthermore, the benefits of service liberalization (providing market access and national treatment to Foreign Service providers with similar treatment as accorded to domestic service suppliers) have been well documented.

If we look at international institutions such as the WTO, IMF and World Bank, the question becomes what are key factors that make their organizations effective in delivering further services trade liberalization? Furthermore, are there sector specific actors that are, by their nature, more prone to liberalization in services trade? Mattoo et al., (2006) found that liberalization in the financial and telecom sectors could help explain the contribution to cross-country GNP growth performance; the increased productivity and scale of activity from openness more than compensated for any decrease in the employment of nationally owned factors of production. Specifically, Francois and Hoekman (2010) explained that an average growth rate of 1.5 percentage points above that of other countries, both developed and developing, was attributed to the full liberalization of both the telecommunications and financial services sectors. Another study found that gains from a cut in services sector protection by half would be five times larger than those from comparable goods trade liberalization (Mattoo, 2005). The benefits of service liberalization are numerous, and since restrictions on services are more likely to be cost rising, the potential benefits to service sector liberalization are likely to be large (Francois and Hoekman, 2010).

Liberalization of services and international trade can lead to enhanced competition, both domestic and foreign. With a more efficient allocation of resources, it encourages greater specialization and could create spill over benefits from the inflow of knowledge, innovation, capital and technology from abroad. The economic implications for developing countries, whose bulk of increased service trade involves Information Technology (IT) and Business Process Outsourcing (BPO) services, are vast. The widespread outsourcings by firms in industrialized countries are likely to have intense implications, including high levels of foreign direct investment, human capital formation, demonstration effects and knowledge spillovers (Mattoo and Wunsch, 2004). In explaining why certain members liberalize service trade over others, Roy (2011) argues that "*non-democratic regimes make fewer commitments, because commitments reduce their discretion in granting rents which will ensure the support of small groups. In contrast, for democratic regimes, commitments that lock-in levels of access have lower costs because voters generally do not favour increased protectionism*".

The impact of political regimes in service liberalization will be discussed further in the next section. Hence the overriding message from academic literature is that liberalization of services matters, perhaps much more so than trade in goods. Similarly, concluding that liberalization in services can generate much larger economic benefits than goods liberalization is probably not far off the mark. We must look to a variety of international organizations for further services trade liberalization.

GATS

Liberalization Commitments

The coming together of 120 Members in agreeing to establish a comprehensive set of rules on global trade in services was a major achievement, with the entry into force of the General Agreement on Trade in Services (GATS) in 1995. GATS formed an integral part of the then new World Trade Organization (WTO). It created a basic framework of rules, provided a forum to negotiate trade, and established a mechanism for countries to settle disputes, covering all four modes of supplying services internationally. A Member's degree of exposure to foreign competition is measured by two key points in the Agreement, market access (lack of quotas and prohibitions) and national treatment (no discrimination against Foreign Service providers). Each point is negotiable and applies only to the sectors that each Member includes in its schedule of commitments (known as "*positive listing*"). Members therefore have many options and a wide range of choices in deciding on the degree of their liberalization under GATS. Commitments are legal guarantees of a minimum level of access which are not to be reversed in the future and vary significantly from one Member to another.

The main achievements of GATS lie in its creation of a framework of rules for services at a multilateral level, which marks trade in services with equal importance of trade in goods. In addition, it has heightened the awareness of services internationally, has been successful in resolving trade disputes, and has inspired negotiators at regional levels to improve upon its own rules and liberalization mechanisms (Hufbauer and Stephenson, 2007).

Service negotiations under GATS tend to be more supported by certain parties with varying interests. For one, countries that are abundant in human capital have a comparative advantage in services. The service firms in these countries have more interest in predictable market conditions abroad and will therefore lobby their government, who will favour the undertaking of commitments under GATS (Roy, 2011). Secondly, Roy (2011) also explains that since governments are influenced by their desire to maximize voter support, the overall level of commitments under GATS is dependent on a country's regime type. Under democracies, "*governments depend to a greater extent on popular support given the need for re-election and voters generally prefer openness to protectionism. Democratic regimes have more incentives to undertake commitments in order to signal to voters that they are not granting protectionist rents to special interest groups and that they are engaging in good economic policy-making. The lesser the level of democracy, the more leaders rely on support from certain small groups, these leaders are more interested in maintaining capacity to put in place rent-producing policies*" (Roy, 2011).

As more and more countries move closer to a democracy, the number of participating Members should increase, along with the breadth and depth of commitments to openness in services.

Constraints

The level of negativity surrounding GATS and its structure far exceeds the level of positivity, in academic literature. The existing framework has been described as messy, far from ideal, lacks clear rules and disciplines which acts as impediments to making commitments, and has classification issues, to name a few. The issue that seems to surface the most, is the "*positive-list*" approach used in GATS. This approach allows Members to make commitments to only specified sectors and subsectors; it therefore places a heavy burden on the services classification scheme used. This classification scheme is incomplete as it does not cover all services traded presently and revising it regularly does not make sense in a sector which sees constant changes in technology, business practices and skills, while anticipating the new services that will be traded in the future (Mattoo and Wunsch, 2004). With an obsolete classification scheme, issues of uncertainty, transparency and predictability of legal obligations taken on by governments arises.

Another popular constraint with GATS is the current negotiation process. The complexity of negotiations and the involvement of multiple players can prevent some Members from fully participating in the process. Specifically, for developing countries with resource constraints, these Members may not be able to keep regulatory authorities, services producers and suppliers, and trade diplomats engaged in negotiations at all times, making it difficult to make decisions at a domestic level. Consequently, they may sit on the side-lines waiting for results, thus becoming free riders (Jara and Dominguez, 2006). This is in contrast to larger states that are less able to free ride, as the greater the size of a country, the more other Members may react collectively to ensure consequent commitments are made. Larger states in turn may also use their power to obtain greater concessions from smaller Members.

The negotiation process involves a "*request-and-offer*" approach, requiring Members to barter commitments sector-by-sector, country-by-country which substantially increases the transaction costs of negotiations. These bilateral requests are usually highly ambitious and result in "*negotiating"* drift; members can choose not to make any commitments at all, fully commit, or make partial commitments, varying their decisions by each sector and subsector (Mattoo, 2005). The negotiating process therefore seems unproductive and inadequate and desperately needs to be reformed.

Finally, under the current GATS structure, clarification of scope and implications of its provisions are required. Mattoo (2005) describes three WTO members (Canada, United States and the European Union) who all have extensive resources and experts in trade negotiation, but still found themselves in service disputes and were surprised by the full implications of GATS. Those members, who do not have even close to the amount of resources, as these members particularly developing countries, must find it extremely difficult to interpret and navigate the structure, impeding their participation in service liberalization negotiations. There are clearly a number of issues surrounding the GATS framework which are preventing further liberalization of trade in services.

Progress in securing openness thus far

The predominant theme from academic literature is the lack of progress of service negotiations in the WTO. GATS are no longer at the forefront of rule-making or services trade liberalization, and the policies governing international trade and investment have become outdated. Significant policy barriers remain and progress at the multilateral level has so far been modest. Economists are in agreement; their prevailing view holds that "*modest achievements have been made, as most countries have only made partial commitments for limited sectors and accepted binding at existing levels of openness or even less*" (Hufbauer and Stephenson, 2007).

Progress since the original establishment of GATS in 1995 has been limited, at least, with nominal results. "*The Uruguay Round did not deliver any actual liberalization, though it did* *offer some benefit linked to binding of lock-in of then current market access conditions*" (Francois and Hoekman, 2010). Since the Uruguay Round, any service liberalization that has been undertaken has been predominantly unilateral or under regional trade agreements (discussed further in another section) and GATS has had little to no role in these reforms, nor has it locked in any of the results. Under the current Doha Round, or Doha Development Agenda (DDA), very little progress again has been made. Services play a key role, but bilateral market access offers tabled by Members provide few new business opportunities, foreshadowing no new liberalization as a result of the Round (Jara and Dominguez, 2006).

Members' discontent with progress focus on a number of issues: the absence of any new binding commitments in most sector categories, limited improvements to commitments in mode 4, persistence of Most Favoured Nation (MFN) exemptions, and economic needs test or other limitations in member's schedules, among others (Jara and Dominguez, 2006). The lack of progress under GATS is unfortunate, given the large potential benefits of service liberalization, as discussed earlier. Multilateral service negotiations play an important role for external commitment mechanisms in supporting trade facilitation in services, and can clearly provide a major impetus for reform (Miroudot et al., 2013).

Room for improvement: goals and challenges to secure further liberalization

Given the level of constraints within the structure of GATS as well as the lack of progress in securing openness of trade in services, it seems that there would be great room for improvement, and academics and experts alike have provided a wealth of suggestions. Mattoo (2005) outlines three broad goals for the GATS to achieve: locking-in currently open regimes, eliminating barriers to foreign investment either immediately or in a phased manner where regulatory inadequacies need to be remedied and allowing greater freedom of international movement for individual service providers. These goals are in fact, broad; the expression "*easier said than done"* seems to come to mind after surveying the breadth of opinions expressed by many.

Mattoo (2005) however does suggest a specific change which would make commitments more transparent and predictable: currently in GATS, committed countries must grant a fixed level of access every year in the future regardless of domestic economic conditions. This is in contrast to bilateral agreements in which the current state of the economy is a factor in the level of access a host country allows. According to Mattoo it could be of benefit to consider GATS commitments along these lines as it would allow necessary flexibility in an objectively verifiable manner (Mattoo, 2005).

Multilateral trade rules within GATS also need to be strengthened and protected to encourage more participation in negotiation rounds. A suggested improvement to address this concern is in the use of a generally applicable negotiating formulae or model schedules. The formulae would be collectively agreed upon by Members, and therefore viewed as more equitable and efficient, as well as more likely to produce more favourable outcomes as would be accomplished in bilateral agreements (Mattoo and Wunsch, 2004). The formulae would reduce transaction costs of negotiations, help overcome free-rider problems which arise in negotiations conducted under an MFN-based system, and offer the only credible way of granting credit to unilateral liberalizers (Mattoo and Wunsch, 2004).

As GATS has come to be so negatively portrayed, it will be a challenge to reacquire prominence as the forum for multilateral services trade negotiations. Though there are some additional challenges that if accomplished could help bring GATS back. Hufbauer and Stephenson (2007) suggest that through agreement among WTO Members to adopt the negative-list approach, service sectors under Modes 1 and 2 could be locked in. The negative-list approach would also disclose where existing restrictions are, making negotiations focus on those sectors where efforts are needed most. Mode 4 could be further liberalized through expanded categories under intra-corporate movements, independent professional service providers and a broader range of skilled employees. Finally, dispute settlement could be further developed to give the WTO more *"bite"*, enabling clear criteria and guided arbitration panels in cross-retaliation (Hufbauer and Stephenson, 2007).

One of the other constraints discussed earlier was in the services classification scheme, which presents another opportunity for improvement. The informal coalitions of common governments, or "*friends groups",* interested in specific sectors or modes of supply have worked towards clarifying classification issues and advancing goals for these sectors. If their work continues to move forward, a new classification approach could be adopted, leading to increased commitments as well as more depth within each commitment (Jara and Dominguez, 2006).

A final resounding view in improving GATS is that cooperation is needed multilaterally if further protectionist measures are to be prevented; this can be achieved by concluding the current Doha Round of trade negotiations (Bilas and Franc, 2010). Sally (2009) even goes as far to suggest that the Doha Round should be scrapped, if not concluded. These experts argue that attention should switch from liberalization to rules which "*close loopholes, safeguard the principle of non-discrimination, make trade procedures more transparent and user-friendly, and generally update vital multilateral rules for stable and open international commerce*" (Sally, 2009).

It is clear then that there is immense room for improvement within GATS which is required to expand liberalization in services at the multilateral level. Without improvements, Hufbauer and Stephenson (2007) fear that much of the policy innovations and increased market openness that will occur over the next decade will take place under bilateral and regional free trade agreements, instead of GATS.

Another way of tackling the issue of further liberalization of trade in services is to look at a specific example: international education. Education is seen by many as the baseline for economic development (World Bank, 1980 and 1995). One of the first services to be traded was that of teachers, administrators and others in the fields of primary, secondary and post-secondary education (Heyneman, 1997). These services were often provided through Foreign Aid programs either delivered by private or public institutions (Glewwe, 2002). The success of these programs has been debated since they were introduced in the 1960's. The complexity of measuring the direct impacts of education on the economic development of a country or region has led to public discussions of their continuation (Riddell, 2012). Work by Heyneman and Lee (2016) offers three solutions for international institutions to better deliver further liberalization in this particular services trade. First, they suggest following the recommendations of the Meltzer Commission (2000). Educational projects themselves should be identified, managed and financed through the regional development banks (and the new Asian Infrastructure Investment Bank (AIIB)). To generalize this to all services, the suggestion is to have the regional banks finance such types of off-sourcing enterprises. This regional oversight could offer the organization a way of navigating the common domestic regulations that limit trade in services. Second, Heyneman and Lee (2016) suggest "*Another option would be to place the analytic capacity within the countries themselves. The Asian Development Bank for instance, makes* *grants for the technical assistance that underpins lending*". This puts the onus on the importing country in determining which sectors would best benefit from services. Finally, they recommend diversifying it within the UN system. For the trade in educational services UNESCO might be responsible for the education policies on which World Bank lending could then be established. In general terms, better coordination of international institutions is vital. This final recommendation is likely to be the most contentious and perhaps impossible to implement.

Free trade agreements (FTAS): the other option

A number of negotiations of bilateral free trade agreements started coming to the table around the same time that GATS was being drafted (Jara and Dominguez, 2006). Since then, in the wake of stalled multilateral trade negotiations, both developed and developing countries continue to participate in negotiations, either through bilateral or regional/preferential trade agreements. In fact, with the exception of Mongolia, all Members are party to a Preferential Trade Agreement (PFA) of one form or another and governments in these agreements account for more than 80% of world services trade (Roy et al., 2007).

As compared to GATS, FTAs have a number of distinguishing features, the main one being the use of a negative-list approach and the resulting level of liberalization that is undertaken. This approach allows comprehensive coverage with an objective to remove all limitations on market access and any discrimination connected with national treatments (Hufbauer and Stephenson, 2007). The deeper and more meaningful commitments also help to lock in existing openness and pre-empts protectionism (Roy et al., 2007). The great example of the negative-list approach is NAFTA, North American Free Trade Agreement, which has been the benchmark for the many FTAs that have been negotiated since. These agreements are more "*user-friendly*", as they have greater flexibility and greater transparency. For example, service exporters who need to know the local legal framework can just refer to the clearly set out restrictions being kept in place that discriminate against foreign providers (Francois and Hoekman, 2010).

FTAs in general are more ambitious than GATS, as most parties have tended to liberalize most of their services covered (Jara and Dominguez, 2006). They have also helped, to a small degree, in reducing trade costs for Members as well as non-Members, as they tend to act as building blocks with respect to the unilateral trading system (Miroudot et al., 2013). Limitations to FTAs are rarely highlighted, with the exception of an inability to break through barriers associated with mode 4. It is also important to note that even though larger trading countries have become involved in FTAs, they are not party to FTAs amongst themselves, therefore leaving the multilateral system as the main forum to negotiate (Roy et al., 2007).

The Role of Regulation

Literature examined has placed great emphasis on the importance of regulation as trade in services opens further and competition intensifies. Even in the wake of positive trade reforms, countries may not be able to take full advantage of the potential benefits if strong regulations are not in place. For example, a Member who commits to liberalization by privatizing or introducing foreign ownership without establishing proper regulations might just result in the transfer of monopoly rents from the government to the private monopolist (Mattoo et al., 2006). Furthermore, increased competition through the inclusion of foreign service providers may lead to significant benefits, but a comprehensive reform program supported by an independent regulator would produce the largest gains (Francois and Hoekman, 2010). Particularly developing countries will require significant investment in domestic regulatory institutions in order to realize benefits as they continue to rapidly open their service sectors. Not surprisingly, weak regulatory institutions will find it hard to cope in liberalized markets (Mattoo, 2005).

The concerns that exist over regulation may help explain the limited level of commitments already made. The major concerns expressed by regulators include the potentially excessive intrusiveness, unpredictability in the implications of commitments, and the ability to enact effective regulations as markets continue to open (Roy, 2011). With regards to intrusiveness, Francois and Hoekman (2010) describe the challenge in achieving balance between improving market access for foreign providers while preserving desirable regulatory freedom. Commitments tend to deprive regulators of their freedom to regulate, thus discouraging them from cooperating in negotiations. Furthermore, there are no transparent terms outlined for the regulatory cooperation that is required to achieve successful liberalization (Mattoo, 2005).

Hand in hand with regulation is the need for effective reform programs, as a flawed program could reduce the benefits of liberalization. As an example, Francois and Hoekman (2010) point to the need for safety nets to protect the poorest members of a society during the transition period from a removal of barriers in foreign direct investment. "*Putting in place mechanisms to ensure better access to services post-liberalization is important from an equity perspective, but also important from a political perspective to bolster support for implementing efficiency enhancing policy reforms and sustaining them over time*" (Francois and Hoekman, 2010). Service liberalization therefore requires a careful integration of increased competition with effective regulation and a meaningful reform program.

What currently stands out as a deterrent for Members, specifically resource-lacking countries, is the need for a credible link between policy advice and regulatory assistance, and liberalization commitments (Mattoo, 2005). To that end work by Fiorini and Hoekman (2017) demonstrated that for developing countries the achievement of Sustainable Development Goals (SDGs) is directly linked to greater facilitation of trade and investment in services. They go on suggest that reducing trade barriers can actually improve the effectiveness and efficiency of local services sectors. Beverelli et al. (2017) go even further. Their results demonstrated that an actual reduction in the restrictions on services trade had a positive direct impact on domestic manufacturing. They point to the important role played by local institutions, "*Our analysis shows that the quality of economic governance significantly moderates the impact of services trade policy on manufacturing productivity and that this effect operates through the FDI channel (mode 3) rather than through the cross-border trade channel (mode 1)*" (Beverelli et al., 2017).

Protectionism

For or against?

Protectionism represents a situation in which a country takes measures to restrict trade with a certain country, region, or specific products in the hope of benefitting domestic industries (Bilas and Franc, 2010). There is wide consensus amongst academics, trade experts and economists that protectionism is not welfare-enhancing. In fact, retaliatory protection could prove to be extremely costly if a retreat from openness in services in industrial countries were to occur (Borchert and Mattoo, 2010). On the other hand, there is a breadth of arguments to justify the introduction of protectionism into a market. They include: "*patriotism, protection against* *cheap foreign labour, import and domestic price equalization, increase in the state of budgetary income, redistribution of income, improvement in national welfare, improving terms of trade, national employment and decrease in unemployment, improvement of the trade balance, national security and defence, failure of the domestic market, protection of start-up industries, decrease in unemployment in a specific industry, compensation of foreign export subsidies, compensation of dumping prices (antidumping), tariffs in favour of scarce production factor, tariffs to decrease foreign monopoly profits and protection of the environment, cultural and social values*" (Bilas and Franc, 2010).

In general, protectionist pressures mostly arise from the global division of labour that comes with increased foreign direct investment and domestic establishment of Foreign Service providers. Though this more efficient division of labour brings welfare gains for all countries, it also implies adjustment costs for the importing countries (Mattoo and Wunsch, 2004).

This can already be seen in what industrialized countries have come to know as "*white collar job outflow.*" In the US, Congressional activity has intensified around the subject of job losses through outsourcing, while legislative action has already been initiated to create a trade barrier, setting dangerous precedent. The issue of privacy between the European Union and developing countries is also impacting exports of data processing services (Mattoo and Wunsch, 2004).

It seems that the recent trend has been toward more restrictive policies and that protectionism could be on the rise. A growing political and social aversion to outsourcing and foreign direct investment poses a large threat to trade; introducing "*beggar-thy-neighbour*" policies such as import restrictions, export subsidies, anti-dumping measures, and state aid will also undermine the global trading system (Baccini and Kim, 2012). It is therefore of extreme importance to pre-empt protectionist measures in order for service liberalization to progress. Bilas and Franc (2010) even suggest that though trade protection is a global problem, it is even more pronounced when introduced by the bigger trading countries. These big traders should then take on more responsibility in committing to liberalization, negotiating trade policies and monitoring actions. As it stands the WTO, with its multilateral rules-based framework, transparency and oversight seems to act as the lone institutional barrier to protectionism.

Impact of the financial crisis

Since the establishment of GATS in 1995 there has been significant effort put towards the liberalization of trade in services. The onset of a global financial crisis however, threatens the tremendous progress that has been made and hints of a return to more protectionist policies. As discussed above, protectionist policies get in the way of a global economic recovery by promoting unnecessary spending and escalating trade tariffs which will just increase the duration and depth of the recession. It is clearly not the solution to avert the crisis (Mitchell and Palacio, 2016). But with "*economies around the world still weak, credit tight and international trade shrinking, the prospect of protectionism spreading in many different forms alarms trade-dependent nations in Asia and elsewhere*" (Bilas & Franc, 2010).

Relative to trade in goods, trade in services has held up remarkably well throughout the crisis. Data on cross-border trade in services from the U.S. in 2009 showed that while trade in goods had declined drastically, trade in services suffered less (Borchert and Mattoo, 2010). Ariu's (2017) work showed "*that exports of services did not suffer from the crisis because they are more immune to short-term negative income shocks than goods exports. Borchert and*

Mattoo (2010) suggest that services have been more resilient in the face of the crisis for two main reasons: services trade is less dependent on external finance, and demand for most services is non-discretionary. For example, most business process outsourcing (BPO) services are business functions that are not considered to be discretionary expenses; therefore, firms will continue to demand them throughout the economic cycle. Even with services trade resiliency though, protection has been taking a subtle form, via discrimination through preferential procurement and political/social condemnation of outsourcing. A perfect example of the political condemnation of outsourcing is in recent US legislation which includes 'Buy American' provisions. Pressure to retain jobs domestically has intensified the mood around protectionism which is emerging in countries hit hard by the crisis (Borchert and Mattoo, 2010). Furthermore, the World Bank found that between November 2008 and September 2009, seventeen of the G20 countries had adopted measures that either limited imports or favoured local products" (Bilas and Franc, 2010).

The increase in protectionism is not surprising and did not go without warning. "*Since the beginning of the crisis economists have warned repeatedly of the need to avoid beggar-thy-neighbour trade policies of the kinds seen during the Great Depression*" (Bilas and Franc, 2010). Economists alike know their history and are well aware of the implications of a reverse in liberalization.

A contrasting opinion by the annual "*Overview of Developments in the International Trading Environment*" issued by the WTO in November 2009, found that no Member had moved backwards in implementing trade restrictions or protectionist policies and that overall the global economy was as open as it was at the start of the crisis (Baccini and Kim, 2012). In fact, as developed countries are put under more pressure to reduce costs, exports of IT and BPO services could gain as demand for outsourcing these tasks increase. The emerging consensus as described by Baccini and Kim (2012) is that in the face of the global financial crisis, protectionism has increased, but not as much as expected or feared at the beginning of the crisis. And with the assurance that other Members would not implement their own protectionist policies there is less incentive to defect from current openness.

Role of International Institutions

The role of governance and its place in the global economic environment has come to light with the onset of the financial crisis. International institutions such as the World Trade Organization (WTO) and regional trade agreements (RTAs), which are centred on trade, play a key role in preventing the rise of protectionism and providing functions which help lock in openness of the services trade (Baccini and Kim, 2012). These institutions prevent protectionism by providing transparency of preferences and behaviour of participants. By acting as a mechanism of commitment and socialization and conveying information, it is more difficult for participants to break their obligations without incurring great political costs (Baccini and Kim, 2012). For example, in November 2008, G-20 countries made a public pledge to refrain from raising new barriers to investment or to trade in goods and services, imposing new export restrictions, or implementing WTO-inconsistent measures to stimulate exports (Baccini & Kim, 2012). By publically committing to not resort to these beggar-thy-neighbour policies, participants have reassured other countries that they will not defect, thereby giving them little incentive to defect as well, and perhaps even encourage them to cooperate further in liberalizing trade, even in difficult times. International institutions, by providing mechanisms for resolving disputes, formal channels of communication and consultation, and rules for decision-making, allow for greater communication among participants, enhanced transparency, and contribute greatly to securing current openness (Baccini and Kim, 2012).

CONCLUSION

While much has been done to pave the path towards service liberalization, it seems that the trailblazing has stalled. Consensus on the benefits of liberalization is growing, but the route to get there is not as clear. Multilateral negotiations have not proceeded as intended and in the meantime, Members are pursuing their own regional trade agreements. The most current example of this is the recent announcement of the Canada-EU free Trade Agreement (CETA). Beyond rounds of negotiations, changes must be made at the multilateral level to not only lock in current openness, but also bring about greater liberalization of trade in services; more work needs to be done.

The current global economy faces a key challenge in avoiding protectionism. While Sally (2009) argues that the threat of protectionism is getting much stronger, Baccini and Kim (2012) defend the view that protectionism is not as strong as a threat, and agree with Borchert and Mattoo (2010) on the resilience of the services trade. Still, actions must be taken to secure openness, and as Mattoo (2005) outlines, much of the required change must start with WTO members and negotiations within the GATS. These changes include refining the approach to negotiations, devising sound policies and domestic regulation, and establishing strong links for regulatory assistance to support developing countries and to ensure the poorest areas obtain access to services.

Going forward, the mode of supply which may demand the most attention in trade negotiations is mode 4, movement of natural persons. Academic literature has already identified this mode of services supply as one of the most closed, but fastest growing, garnering much political and social consideration. Demographic trends show that there may soon be serious labour shortages in some advanced countries, including Japan, South Korea and Russia. The International Organization for Migration (OIM) even found that by 2030, Europe on its own will need an additional twenty million workers (Hufbauer and Stephenson, 2007). Increasing efforts to liberalize mode 4 will be demanded, if not already, from these projections. The GATS can use this reform opportunity to play a major role in gaining substantial multilateral liberalization, and to once again re-establish itself as a prominent part of the WTO.

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