![GO EuroMed - The Political Economy of Euro-Med Governance]

The Political Economy of Governance in the Euro-Mediterranean Partnership

Deliverable No 2
Working Package 1
The Political Economy of Euro-Med Trade

Trade in services: How does it work for MENA countries?

Isabelle Rabaud & Thierry Montalieu

University of Orléans & Laboratoire d'Economie d'Orléans

Date: 31/12/2006

![Sixth Framework Programme logo]

SIXTH FRAMEWORK PROGRAMME

Abstract

This paper aims at identifying the best way for MPCs to rake in the gains from services liberalisation. Theoretically, welfare gains from liberalisation of trade in services arise from falling prices and technology transfers from foreign firms. Empirically, substantial gains are only reached when entry of foreign firms is widened. These results rest upon strong assumptions regarding the breakdown of the initial price-wedge between rent and inefficient technology. This paper argues that, regarding MPCs, reforming institutions is a prerequisite for successful liberalisation of trade in services. Sequencing and gradualism matter. Regional trade agreements between the EU and MPCs should be preferred to WTO agreements insofar as they offer deeper integration. Asking for full liberalisation of trade in services in MPCs seems too demanding. EU countries could authorise temporary 'immigration' of some clearly defined types of workers from MPCs, conditional on both the rate of unemployment and economic outlook in that sector and on the binding commitment of migrants to return home after a pre-defined time period. Mutual recognition of qualification, technical standards and prudential regulation should be preferred to harmonisation in order to widen market access in services.

Résumé

L'objectif de ce papier est d'identifier la meilleure manière pour les PSEM d'engranger les gains de la libéralisation des services. L'amélioration du bien-être et de la croissance provient alors de la baisse des prix et des transferts de technologie. Ces gains restent limités à moins d'assouplir l'entrée de firmes étrangères. Ces résultats reposent sur des hypothèses fortes concernant la décomposition de l'écart de prix initial entre la rente et l'inefficience de la technologie. Pour les PSEM, la réforme des institutions constitue une condition préalable à une libéralisation réussie des échanges de services. La libéralisation doit être progressive et séquentielle. Offrant une intégration plus profonde, les accords commerciaux régionaux entre l'UE et les PSEM devraient être préférés aux accords de l'OMC. Les pays de l'UE pourraient accepter un compromis comprenant l'autorisation d'une « immigration » temporaire pour certaines catégories clairement définies de travailleurs originaires des pays du sud de la Méditerranée conditionnelle à la fois au taux de chômage et aux perspectives économiques de ce secteur et à des engagements contraignants les émigrants à retourner dans leur pays d'origine à l'issue d'une période prédéfinie. La reconnaissance mutuelle des qualifications, les normes techniques et la réglementation prudentielle devraient être préférées à l'harmonisation.

1. Introduction

Insofar as average tariffs on goods have fallen, regional and international negotiations have turned to domestic regulatory policies and trade in services. For instance, FTAA (Free Trade Association Agreements) between the EU15 and MPCs (Mediterranean Partner Country[1]) not only deal with shallow integration: '*actions to eliminate discrimination between foreign and domestic firms – i.e., to apply the principle of national treatment*' (Hoekman, 1998, p. 9), but also with deep integration. The later can be defined as:

> '*explicit actions by governments to reduce the market segmenting effect of differences in national regulatory policies that pertain to products, production processes, producers and natural persons. In practice this will require decisions: (i) that a partner's policies are equivalent (mutual recognition); or (ii) to adopt a common regulatory stance in specific areas (harmonization)*' (Hoekman, 1998, p.9).

In this paper, we will focus on a particular aspect of deep integration: the implication of trade in services for MPCs insofar as this new area has connection with Foreign Direct Investment (FDI) and temporary movement of natural persons.

Services have, since a long time, been defined as getting-together all non extracted, non agricultural and non manufacturing activities. Thus presented as a negative list, services gather heterogeneous industries with few similarities. Nevertheless, services have special characteristics: a service cannot be stocked; property cannot be defined nor transferred for services. Moreover, one cannot actually produce a service without consent, co-operation, and active participation of buyers: services are not entities separable from the units that use or consume them. This property leads to the impossibility to produce some services in a country and to sell them in another, in spite of the progress in the dissociation of tasks allowed by information and communication technologies.

This particularity of services has been taken into account by trade negotiators when defining modes of internationalisation selected in the GATS (General Agreement on Trade in Services) signed in Marrakech in 1994. They held a wide vision of international trade in services, gathering all transactions of knowledge and know-how from a resident of a country to a resident of another country, wherever the operation is located. Thus, many transactions in services are solely made international by a difference in country of residence between the buyer and the seller of the

---

[1] We refer to the Mediterranean region as the EU defines it, i. e.: encompassing those non EU member states countries which border the Mediterranean Sea (Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Syria, Tunisia, Turkey and West Band and Gaza).

service (Lipsey, 2006). The negotiators recognise four modes of internationalisation of services, the so-called "four modes of trade in services":

1 - usual cross-border supply, '*applies when suppliers of services in one country supply services to consumers in another country without either supplier or consumer moving into the territory of the other*' (MSITS, 2002, p. 1). Services are supplied either by means of telecommunication (phone, fax, television, internet), either by sending documents, tapes, or CD-ROM, etc. Transportation, communications services, insurance and financial services, etc are concerned. Cross-border trade in services accounts for a quarter of trade in goods (Lipsey, 2006 and WTO, 2006).

2 – consumption abroad '*describes the process by which a consumer resident in one country moves to another country to obtain a service*' (MSITS, 2002, p. 1). This mode 2 corresponds mainly to tourism, but language trips, studies and care abroad are also concerned. The consumer moves abroad in order to get access to services in another country.

3 – commercial presence is involved when '*enterprises in an economy [...] supply services internationally through the activities of their foreign affiliates abroad*' (MSITS, 2002, p. 1). This mode 3 implies the presence abroad of an affiliate or a subsidiary of a resident unity. Medical services supplied by a hospital hold by foreign owners and financial services proposed by the subsidiary of a foreign bank are some examples.

4 – presence of natural persons '*describes the process by which an individual moves to the country of the consumer in order to provide a service, whether on his or her own behalf or on behalf of his or her employer*' (MSITS, 2002, p. 1). This mode 4 is characterised by the move on a non-permanent basis of individuals from another country towards the country where the service is delivered (MSITS, 2002, p. 2). This mode includes computer and information services, temporary employment of workers in construction[2].

Modes 1 and 2 correspond to the usual definition of international trade in goods. Based on "heroic" assumptions, WTO statisticians have estimated the share of each mode of trade in services at: less than 30 per cent for mode 1, close to 15 per cent for mode 2, over 50 per cent for mode 3 and some 1 or 2 per cent for mode 4 (WTO website, 2006).

Deep integration is at stake in services negotiations since trade in services is closely connected with FDI (mode 3) and temporary movement of workers (mode 4), which is not the case for commodity trade. This paper aims at reviewing the interests in favour/against the liberalisation of trade in services of each participant to negotiations (EU countries, MPCs and international organisations) with a particular focus on mode 4. In the second section of this paper, after

---

[2] Based on MSITS, 2002 and WTO (2006).

presenting the main empirical studies, notably computable general equilibrium (CGE) models, we summarise the different views of each actor on the potential gains from liberalisation of trade in services. The third section is given over to the different ways of freeing temporary movement of natural persons. In the fourth section, benefits and costs of multilateral and bilateral approaches of liberalisation are compared. The fifth section draws lessons for MPCs, in particular in banking services and telecommunications. The sixth section forms the conclusion of our findings.

2. Review of the gains from liberalisation of trade in services perceived by each actor

Free trade in goods focuses mainly on tariffs and quantitative barriers to trade. For services, commercial policy instruments are more numerous and complex as they all concern the regulatory framework ("behind-the-border" laws). Trade barriers take the form of prohibitions, quotas and government regulations. Such instruments are accompanied by non-discriminatory measures applying equally to foreign and domestic providers such as: limitation on the number of firms allowed to contest a market, or on the nature of their operations (and also sometimes administrative red tape). Thus '*a necessary but not sufficient condition for free trade in services is the elimination of discrimination between alternative sources of supply*" (Hoekman, 2006). Therefore, "*assessing the interaction between domestic (non discriminatory) regulation and discriminatory (trade) policies*' also matters (Dee, 2005 and Hoekman, 2006), insofar as domestic policy reforms are needed (Müller-Jentsch, 2003). Identifying and quantifying barriers to service trade raise tremendous difficulties. In imperfect competition domestic markets, when rents are generated in the activity, entry by few foreign firms (partial liberalisation) could result in international transfers from domestic producers to foreign firms (Hoekman, 2006).

Therefore, with regards to the welfare impact of liberalisation of trade in services, assessment of the outcomes of theoretical and empirical studies seems noteworthy (two first sub-sections). Then, the views of international organisations and developed and developing countries on these questions will be presented in the two following sub-sections.

2.1. What do we learn from theory?

The early studies of the 1980s concluded, somehow rapidly, that standard comparative advantage applies to services as well as to goods. But, services differ from goods. First, many services fulfil an intermediation role and create the types of network externalities that goods seldom do

(Hoekman, 2006). Second, heterogeneity of services (financial intermediation, transportation, telecommunication, tourism, consulting …) questions the relevance of analyses considering services as a single product protected by tariff-like instruments. Thus, according to Hoekman (2006): '*given the prevalence of increasing returns and imperfect competition in many services industries, a policy implication is that countries are more likely to gain from liberalization of trade in services as long as it is undertaken on a wide enough basis to offset any potential negative terms of trade effects*'. Liberalising trade in services is likely to encourage greater specialisation, thus helping to realise international economies of scale (i.e.: economies linked to specialisation of several countries in their own absolute advantage segment of the production process, which permit to produce each intermediary product at the lowest cost) (Hoekman, 2006).

2.2. What do empirical studies tell us?

Quantitative studies use CGE models to make counterfactual calculations in which barriers to service trade modes are allowed to change. In a first step, we will highlight the simplistic assumptions and the diverging results of models dealing with a worldwide liberalisation. In a second step, we will focus on studies examining openness of Maghreb service markets to international competition.

2.2.1. Liberalisation of trade in services and global welfare

Dee and Hanslow (2001) analyse the removal of post-Uruguay round barriers, while Brown and Stern (2001) examine the removal of impediments on commercial presence. Walsmey and Winters (2003) study temporary movement of natural persons. Markusen et al. (2006) take into account the intermediate good nature of producer services.

Dee and Hanslow (2001) introduce bilateral FDI stocks for 19 regions in the GTAP (Global Trade Analysis Project), known as FTAP. They assume monopolistic competition (ideal variety type) with firm-level product differentiation in all sectors. The decision tree split into three steps: (1) choice among goods or services from domestic or foreign location (substitution elasticity of 5), (2) choice among particular foreign locations and among ownership categories in a particular location (substitution elasticity of 10), (3) choice among the individual firms of a particular ownership and location (substitution elasticity of 15). The authors choose the two first elasticities twice those of standard GTAP Armington elasticities because only with such elasticities can

GTAP successfully reproduce historical changes in trade pattern. Then, in line with high substitutability among firms, productivity enhancing effect of firm's output expansion is small.

The authors use sectoral estimations of barriers to trade in services jointly calculated by the Autralian National University and the Australian Productivity Commission. The FTAP model is then used to examine the effects of eliminating the post Uruguay Round barriers to trade, after a ten years period of adjustment. With full trade liberalisation (i.e.: agriculture, industry and services), world real income improves of more than $US 260 billions, $US 130 billions of which come from trade in services liberalisation ($US 100 billions in China alone). The contribution of multilateral services trade liberalisation is negative for Canada, the European Union and the United State. For the EU, the projected loss of $US6 billions almost completely outweighs its gain from multilateral liberalisation of agriculture and manufacturing, while the US still gain overall (see appendix, table 1). These equal size effects across goods and services trade liberalisation arise from larger barriers applying to smaller fraction of trade in the service area (Whalley, 2004).

However, Dee and Hanslow (2001)'s results of significant real income improvement from services trade liberalisation follow directly from the very large barrier estimates for China. In fact, this outcome is based on a strong assumption that barriers to all services in China can be represented as tax equivalent valuations for banking and telecommunications from the Australian team. For Whalley (2004), not only is it highly questionable whether barriers in those two sectors reflect impediments generally faced by service providers in the China, but one can also query whether these barrier measures really make sense. For instance, in banking, high rate spreads in state-owned banks financing the large state-owned enterprise sector, which suffer from major non-performing loans and make losses, would also be required by foreign entrants to the market lending under similar conditions (see table 1).

Brown and Stern (2001) study multinational companies (MNCs) producing a differentiated product and allocating production to various host-country locations. The MNCs use capital, labour and intermediate inputs in their production and set prices as an optimal mark-up of price over marginal cost. Free entry lead to zero profits. Consumers allocate their expenditures between goods and services that are produced by firms domestically and varieties imported. Labour is freely mobile across sectors, but not internationally, while capital is mobile across borders. Barriers to FDI are assumed to take the form of an increased cost of locating investment in a host country, which estimate is taken from Hoekman with reference to Hong Kong, the country providing the less restrictive restrictions in services. The removal of services barriers induce sizeable welfare effects in particular in Canada, the EU and the USA, while there are declines in

welfare for a number of developing countries, in particular Chile, Korea, Mexico, Thailand and the Rest of Cairns Group (see appendix, table 1).

These welfare gains seems overestimated insofar as they are based on simplistic estimates of impediments to establishment of foreign firms (mode 3). Hoekman counted as one full commitment to market access, one-half for partial commitment, and zero in absence of commitment. However, as underlined by Deardorff and Stern (2004), the latter does not always indicate the presence of restrictions. Moreover, Hoekman gives equal weight to all restrictions, whatever actually restrictive they are. The size of restrictions to market access are overestimated as well as Brown and Stern's results of gains from services trade, distribution of which contrast with that of Dee and Hanslow (2001), the former being more profitable to developed countries and less to developing economies (for a comparison, see table 1 in appendix).

Walmsley and Winters (2003) propose a CGE model based on the GTAP model to investigate the costs of restrictions on the movement of natural person across regions by examining the effects of an increase in developed countries' quotas on both skilled and unskilled temporary labour equivalent to 3% of their labour forces. Then, after seven years, according to the authors' estimates, based on 66 countries/regions and 57 sectors, world welfare would rise by $US156 billion – about 0.6% of world income and 1.5 times what is expected from the liberalisation of all remaining commodity trade restrictions. Gains are higher for developing countries than for developed ones and from freeing unskilled labour movement than skilled one.

Restricting the increase in the labour supply to the services sectors results in a larger expansion in the services sectors of the developed countries at the expense of the expansion in other sectors. The increase in real income and welfare in the developed economies is slightly reduced. Nevertheless, large importers of services benefit, while producers lose (see appendix, table 2). Developing countries' services sectors decline further and non-services sectors by less than previously, some even expand (e. g. textiles and wearing apparel). Overall the global welfare benefits fall very slightly ($152 billions compared to $156 billions). The model outcomes are robust to a quotas' increase, changes in productivity adjustments or elasticity of substitution and higher remittances (initially assumed to 20% of wages). Nevertheless, the hypothesis that all wage differences reflect a productivity gap lead to an overestimation of productivity differential between countries and consequently of the size of temporary migration and welfare gains.

Finally, Markusen, Rutherford and Tarr (2006) assess quantitatively the impact of liberalisation of restraints on foreign providers of producer services relying on numerical simulation and taking into account producer services' specificities. They propose a model with two final goods X and Y, two immobile factors in fixed supply: skilled labour and a composite factor. Good Y is

Table 1: Quantifying welfare and income increases from liberalisation of trade in services

Authors	Market structure	Nature of service	Mode	Type of barriers removed	Welfare and income gain	Comments
Brown and Stern (2001)	Multinational companies producing differentiated goods and services		Mode 3: commercial presence of foreign multinationals	Impediments to market access as estimated by Hoekman	World GNP raise by $US90 billions; some developing countries loose, while developed countries gain	Based on simplistic and overestimated restrictiveness index of market access
Dee and Hanslow (2000)	Scale economies and large group monopolistic competition in all sectors		Mode 1 (cross-border trade) and 3: (commercial presence, bilateral FDI flows)	Tax equivalents of Post-Uruguay Round barriers to trade and investment	World real income raise by $US130 billions, of which $US 100 billions for China alone	Barriers to all services in China=huge tax equivalent for banking and telecommunications
Markusen., Rutherford and Tarr (2000 and 2006)	Good X uses composite foreign and domestic services inputs. It is produced with international scale economies	Skilled labour and knowledge intensive intermediate goods, increasing returns, differentiated by firms and firm nationality, submitted to high transactions costs	Mode 3 and 4: services combine domestic skilled labour and composite factor plus imported composite factor	Barriers to foreign ownership (mode 3) or movement of business personnel (mode 4)	Loosing of barriers in services lower their price. If services price is divided by 5, welfare of domestic importing country improves of 15%.	All regulations are not necessarily protectionist. Restrictions prices' effects are smaller. High elasticities of substitution overestimate productivity effects
Walmsley and Winter (2003)		Liberalisation of temporary movement of natural person; employed in all sectors, including services	Mode 4: liberalisation of temporary movement of natural person	Increase in developed countries' quotas of both skilled and unskilled temporary labour equivalent of 3% of their labour force.	World welfare raise by $US156 billions, 0.6% of global GDP. Developing countries gain more than developed ones; higher gains from unskilled labour migration.	Productivity differential assimilated to wages differences lead to overestimation of migration and thus welfare gains

(Source: Synthesis of the authors, from quoted papers)

produced under constant return to scale with both factors. Good X incorporates services as an intermediate input and is relatively intensive in direct skilled labour compared to Y. Producer services are skilled labour and knowledge intensive intermediate goods produced with increasing returns, differentiated by firms and by firm nationality and subject to high or prohibitive transactions costs from barriers to foreign ownership, movement of business personnel, etc. More precisely, the available service input is a CES (constant elasticity of substitution) composite function of both domestic and foreign produced services. While domestic services inputs are produced from domestic skilled labour and composite factor, imported services are produced from domestic skilled labour, the composite domestic factor and a composite imported factor (specialised technical expertise, advanced technology, management expertise and marketing expertise). A larger variety of producer services raises the productivity of downstream X industry. In the 'large-group monopolistic competition', where individual firms believe that they are too small to influence the composite price of their group, the degree of product differentiation is closely related to scale economies or to the ratio of fixed costs over marginal costs and thus productivity. Here, a lower elasticity of substitution implies lower externalities to the final good sector.

Lacking goods estimates, the authors assume that the elasticity of substitution across firm type (domestic and multinational) is less than the elasticity of substitution within type (domestic and foreign), respectively set to 3 and 5. Initially in the no-FDI situation, without trade in services, the domestic country exports Y and import X. When barriers to services (mode 4) trade are progressively removed, the price of imported services falls, allowing foreign firm to enter. Given the initial high marginal productivity of FDI, it conveys large productivity boost. The substitution effect away from domestic skilled labour (production of imported service inputs economises on domestic skilled labour) is outweighed by scale effect. Imported services produce a sort of productivity effect that lowers the cost of final output and increases the X-sector's direct demand for skilled labour. The impact is such, that specialisation of domestic developing country can be changed: from an importer of X skilled intensive good to an exporter, while importing both good Y and services inputs (see table 1).

The authors find a welfare gain of 15% when imported producer services' price is divided by five. This study has two weaknesses. First, the assumption of a sharp fall in imported services prices is not based on any study of tariff equivalent of impediments to trade in services. As Deardorff and Stern (2004) put it, not all regulations of services should be viewed as protectionist; '*many regulations serve legitimate purposes, such as protecting health and safety or preventing fraud or other misconduct*'. Thus, relaxation of protectionist regulations only

should lead to lower services' prices than those assumed by Markusen et al. (2006). Second, the value chosen for the elasticities of substitution in the simulation are not justified, no simulation with other values is quoted. This assumption is crucial, because the huge productivity effect is directly linked to the high substitution between domestic and foreign varieties of services.

2.2.2. *Greater openness of service markets in Maghreb*

As illustrated by previous studies, results from CGE models applied to trade in services show contrasting results. It seems that 'one size does not fit all' and that particular characteristics of country have to be taken into account. We will present two studies dealing, respectively, with greater openness of Maghreb and Tunisia service markets to competition.

The first approach, undertaken by the World Bank quantifies the impact of liberalisation of trade in services in Algeria, Morocco and Tunisia. The scenario examines whether policy reforms both liberalising cross-border trade in services and reforming policies and regulations for services would foster growth in the Maghreb. Impediments to trade in services are assumed to come from inefficient regulation and lack of competition (i.e. domestic distortions). They are measured by service reform indicators constructed for Maghreb countries with the methodology developed by the EBRD (European Bank for Reconstruction and Development) for transition countries. Drawing on Eschenbach and Hoekman (2006b), the World Bank explains per capita GDP growth by the ratio of investment to GDP, changes in investment reported to GDP, inflation, crisis occurrence, index of investment climate and reforms in domestic regulations in services. It finds stock of FDI to GDP for the Maghreb to raise, respectively, by 8.8, 9.2 and 8.5 per cent with a unit increase in the infrastructure, financial service sector and investment climate. The panel growth regression shows that a one unit point of increase in infrastructure, financial sector and investment climate is associated with an increase in per capita growth rate of 2 per cent, holding inflation and the change in investment to GDP constant (World Bank, 2006).

The World Bank study presents the advantage to build service reform indicators based on direct information derived from the analysis of each market in each of the three Maghreb countries. Nevertheless, the methodology used is based on the simple index score proposed by Hoekman, shortcomings of which have already been stressed. The results should therefore be interpreted with caution.

The second study analyses the welfare and income impact of services trade liberalisation, among the four mode, in a Southern Mediterranean country. Konan and Maskus (2006) use a CGE model to investigate potential effects of removing barriers to trade in services in Tunisia. They

assume perfect competition and constant returns to scale in the production of goods and services. They argue that increasing competition on service markets will reduce the 'cartel effect' – the mark-up of price over marginal cost that incumbents are able to charge due to restricted entry – and attenuate the 'cost inefficiency effect' – the fact that in an environment with limited competition, marginal costs of incumbents are likely to be higher than if entry was allowed. They conclude that removing policies that increase costs can have much greater positive effects on national welfare and GDP than the removal of merchandise trade barriers. As for mode 3, the less efficient the technology used (compared to international standards), the greatest the welfare gains from liberalisation. When world-class technology is used and price-wedge is solely coming from economic rent, the removal of investment barriers in services entails small welfare gains: a third of one per cent (line 3 table 2). In opposite, with inefficient technology and perfectly competitive market, welfare increases dramatically: 7.7 per cent (line 6). In the baseline scenario, the price-wedge is assumed to be an equal combination of the rent-generating and resource-using distortion; the welfare then improves of 4 per cent (line 4). In the mixed scenario, a third of price-wedge comes from rent in construction, distribution, hotels, restaurants, real estate and repair services while the mark-up is evenly distributed in other service activities. The rise in welfare is then slightly higher: 4.3 per cent (line 5). Keeping the baseline scenario for impediments to investment, liberalising simultaneously mode 1 and 3 yields slightly more than additive (5.3 per cent, line 7). Combining goods and services trade liberalisation offers extra gains from reform (6.7 per cent, line 8), because economic expansion following openness in goods is no longer bound by lagging competitiveness of Tunisian service sector. Most of the gain from services liberalisation (75 per cent) came from liberalisation of FDI.

However, Konan and Maskus' results are very sensitive to the assumptions on the relative share of the wedge-price coming from, respectively, inefficient technology and existing rent. Dee (2005) shows that removing economic rent induces lower welfare gains (consumer and producer surpluses and better allocative efficiency) than reducing over-costs (productivity improvement associated with a downward shift in supply curves). Unfortunately the breakdown between technology inefficiency and rent in wedge-price remains unknown, which questions the robustness of the results for Tunisia. Moreover, the authors mainly build their estimates of the price-wedge on experts' views so that their figures have an important margin of error which weakens their results. Furthermore, due to differing structure and differing regulatory objectives in each service activity, '*sector by sector approach to measuring barriers to services trade is the best way to proceed*' (Dee, 2005). Thus, these findings are imprecise and over-estimated insofar

as these kinds of models are highly sensitive to initial assumptions. In summary, if liberalisation of trade in services generates gains, their magnitude remains unknown.

Table 2: Liberalisation of trade in goods and services, various scenarios

	Welfare, household income	Consumer price index (CPI)	Real returns to labour	Real returns to capital
Goods liberalisation (elimination of tariffs) (1)	1.52	-1.07	18.93	3.46
Border liberalisation (services) (2)	1.22	-1.02	0.57	1.32
<u>Investment liberalisation (services):</u>				
Rent scenario (3)	0.33	-7.09	4.39	6.55
Baseline scenario (4)	4.00	-7.11	3.20	6.99
Mixed scenario (5)	4.31	-7.11	3.24	6.97
Inefficiency scenario (6)	7.68	-7.13	2.04	7.43
Full service liberalisation (mode 1 & 3) (7)	5.30	-8.04	4.23	8.23
Goods and services liberalisation (8)	6.67	-9.07	17.67	13.61

(Source: synthesis of the authors from Konan and Maskus, 2006)

As Fink (2007) puts it: "*nowadays, trust in figures of CGE models is limited. Trade negotiators tend to take them with caution. If the magnitude of the effects might be wrong, their signs (i.e. the expansion or contraction of a given activity) are correctly forecasted.*"[3]

Hoekman (2006) draws the following conclusion from empirical literature: '*domestic regulatory reform needs to be put ahead of removing policies that discriminate against foreign firms in that the former is likely to generate larger welfare payoffs*'. Thus policies should be addressed on a priority basis at the domestic level. Due to network externalities, liberalisation of trade in services is crucial for the competitiveness of firms in a country. Therefore, regulation to ensure contestability of markets needs to focus not only on "traditional" types of entry barriers, but on the ability to connect to the network at reasonable price, apply the relevant technologies, etc.

2.3. What do international organisations tell us?

International organisations think that opening trade in services brings out greater opportunities than liberalising trade in goods. More and more service links are needed to coordinate and organise the core business of a company, as manufacturing production becomes more and more fragmented and geographically dispersed thanks to just-in-time production, organisational innovations in supply-chain management, trade liberalisation and advances in information

---

[3] Carsten Fink (Senior Economist, Trade department, World Bank) in "New developments in international trade in services", workshop co-organised by the CEPII and the OECD, Paris, November 22nd 2007

technology and network activities (Müller-Jentsch, 2003 and Hoekman, 2006). Thus, as services are more and more embodied in the output of traded and non-traded activities[4] and are becoming a key factor of productivity; they raise competitiveness and employment; they foster overall economic growth and development (Hoekman, 2006). By the way, much of recent growth in cross-border trade in services reflects so-called business process outsourcing (BPO) services. Intermediate services (back-office services) are outsourced by companies in low wage countries with satisfactory productivity level (such as India). Thus, international division of labour is now extending to services: each fragment of production process is now produced in the very country where its cost is the lowest, depending on its absolute advantage (Hoekman, 2006). Thus, achieving meaningful trade liberalisation in services may require improving market access to foreign capital or labour (modes 3 and 4), which may not be needed for goods trade liberalisation (WTO, 2005).

So, according to the OECD, the European Commission (EC) and the World Bank (WB), liberalisation of trade in "backbone services" (e. g. telecommunications, transport and distribution services, financial services), by improving their quality and decreasing their price, should provide the infrastructure that is vital to economic development (Müller-Jentsch, 2003, Lehman et al., 2003, Radwan and Reiffers, 2006, Eschenbach and Hoekman, 2006a).

As far as the modes of trade in services are concerned, FDI in services is beneficial to host countries as it helps them to begin to produce and export more advanced products (Hoekman, 2006). Regarding mode 4, host countries are affected through three channels: increase in imports lowering domestic prices of these services; changes in preferences of the host country: temporary workers may wish to import consumption goods from their home country; back in their origin country, they may import goods they have got used to in the host country. Temporary movement of natural persons affects transaction costs: increasing trade in services via mode 4 results in more efficient provision of services (better quality of services) and reduces transaction costs (in telecommunication for instance); migrants build networks during their stay in the host country (information effect); they benefit from a good knowledge of both the home and the host country. All these business opportunities are related to trade. Finally, foreign workers facilitate a stronger enforcement of international contracts (Jansen and Piermartini, 2005 and WTO, 2005).

---

[4] See the description of Bhagwati (1984).

2.4. Different points of view between developing and developed countries

Poor countries view liberalisation as a loosing game because of inefficient and no-competitive domestic service industries (Whalley, 2004). In opposite, most studies expect much less adjustment cost from liberalisation of trade in services than for liberalisation of trade in goods, for four reasons:

- gains to consumers thanks to falling prices (Whalley, 2004),
- benefits to developing countries by rising exports, growth and employment (in particular as far as *offshoring* is concerned, WTO, 2005),
- no losses due to suppression of tariffs income for governments (Matoo, 2005, Radwan and Reiffers, 2005 and 2006),
- insofar as commercial presence is the dominant mode in most service activities, embodied technology transfers and thus upgraded productivity and human capital base are expected in the host country (Müller-Jentsch, 2003, Ghoneim, 2003, Konan and Maskus, 2006).

Thus, for Müller-Jentsch, (2003), developing countries seem to have no reason to fear a domination of service sectors by developed countries exploiting their comparative advantage. What could explain these different attitudes toward service trade liberalisation between North and South? First, access to southern markets would be facilitated but the converse is more unlikely to happen. Present regulatory structure for most service markets will remain unchanged in OECD countries. Second, nature and size of adjustments in domestic economies will impact on national identity and sovereignty because they imply: foreign majority ownership, control of provision in key service sectors, national security and cultural concerns, etc. (Whalley 2004). Some regulation in services is justified by services very nature of "experience goods", whose quality is only perceived after use by the client (Sapir, 1993, Kox and Lejour, 2006). Thus, protective services restrictions should be distinguished from those designed to meet legitimate economic or social policy objectives insofar as, for instance, natural monopoly exists in many network infrastructure, while asymmetry of information prevails in many professional services (Dee, 2005).

Regarding mode 4, developing countries demand more openness for flows of lower skilled workers and increased de-linkage of mode 4 from commercial presence (Braga, 1996). They were therefore disappointed by the lack of commitments in the movement of natural person unrelated to commercial presence abroad in the GATS (Chaudhuri and al., 2004). For Hoekman and Matoo (2006), temporary movement allows dealing with international migration in spite of substantial political resilience of developed countries and fears of brain drain of developing economies. Finally, unless the movement of unskilled and semiskilled workers is given consideration, many

developing countries will be deprived of an opportunity to participate in service provision. In negotiations, the point is to choose a skill threshold that strikes the appropriate balance between economic gains and wider participation on the one hand and political feasibility on the other hand (Chaudhuri and al., 2004).

Host developed countries' difficulties in enforcing temporariness would be alleviated by a pre-commitment mechanism ensuring that the movement will be temporary not permanent. In the short run, correct timing and extent of liberalisation may help limiting impact on job instability and wage erosion. In the longer run, more active redistribution will be required through education and training to ensure that fewer nationals from developed countries are in the sectors competing with foreign workers. Finally, meaningful liberalisation of mode 4 requires that security clearance be quick and reliable (Chaudhuri et al., 2004).

3. Ways of liberalising temporary movement of natural persons

Until recently, most of the attention in the literature was centred on modes 1 and 3. Using the simple index score proposed by Hoekman (1996), Eschenbach and Hoekman (2006a) characterised commitments in GATS. Before Doha, the fewest commitments were made for mode 4 with an average of 3.5 per cent followed by mode 1 with 50.5 per cent, the two modes of greatest interests for developing countries. The level of commitments was the highest and quite similar in mode 2 and 3: in the 60-65 per cent range. The EU offers made in the Doha Round as of 2003-2004 show a substantial improvement. However while proposed level of bindings for modes 2 and 3 is significant, rising to over 80 per cent, mode 4 remains far below the other modes at 4.5 per cent and mode 1 slightly increases at 57.2 per cent[5]. However, as Hoekman (2006) puts it, '*perhaps the greatest potential gains from trade are associated with liberalization of mode 4 [...].*' Therefore, we will focus on the way temporary movement of natural person could be liberalised to benefit to both host developed countries (EU15) and origin developing countries (MPCs).

No reference is made by WTO Member States to any specific national visa scheme related to mode 4 except for the US. Notion of '*non permanent*' (temporary) is not specified in GATS; it ranges from employing period varying between 3 months to 5 years among WTO members. As for the US, they bind their commitments under mode 4 to the US H-1B visa provision covering the temporary employment (3 years) of highly skilled foreign workers (bachelor's degree) in US firms, while the employer must pay at least the prevailing wage. However, no distinction is made

---

[5] Langhammer (2005) dealing with EU commitments for the Doha round finds the same outcome of fewer commitments for mode 4 and mode 1.

whether migration occurs in good or service activities. The H-1B category has actually worked less as a temporary migration scheme than a selective permanent migration scheme (Chaudhuri et al., 2004, Jansen and Piermartini, 2005).

For Jansen and Piermartini (2005), the movement of natural persons to provide a service abroad boosts trade. They augment a standard gravity model explaining bilateral trade flows with an additional explanatory variable: the number of H-1B visas beneficiaries. Imports (exports) of the US from (to) country j depends on US GDP in PPP (purchasing power parity) to capture market size effect, US GDP per capita (quality of institutions and infrastructure), five dummies for: common borders, same language, island or landlocked partners, remoteness to the rest of the world (weighted average distance of each country from the rest of the world where GDP are the weights). Temporary movement of natural persons is estimated by the same model. Mode 4 is negatively related to GDP per capita in the origin country, its distance from the US, being a landlocked country and age dependency ratio and positively related to having English as official language. The results are robust to the introduction of permanent migration.

Most existing commitments under GATS pertain to business travellers and intra-corporate transferees who must be managers, executives or specialists. Generally, there are no quota, no requirement of wage parity, or economic tests, provided that the person has been in the prior employment of the firm for at least one year. Temporary entry, while increasing in several countries, is directed towards highly skilled and educated people. However, several European countries have bilateral agreements, in particular with North African countries, for less skilled, short-term foreign workers, for instance for seasonal workers in agriculture, tourism and hotel trade or project workers in construction. Generally, preferential agreements among countries enjoying geographic proximity and similar level of development have the most liberal approach to labour mobility as compared with multilateral agreements (Chaudhuri et al., 2004).

In negotiations, trade-off between flexibility and sovereignty should be reached by an appropriate balance between the cost of giving up some discretion to design service policies and the benefit of securing market access. Access commitments on labour mobility (mode 4) should be transparently and predictably conditional on the fulfilment of specific conditions by source countries (for instance, screening service providers and fight illegal migration). Liberalising commitments could be limited in three dimensions: applying only above specified skill threshold, to strictly temporary presence of specified duration and only to fulfil contracts and not to enter into employment (Matoo, 2005). However, for Chaudhuri et al. (2004), temporary presence averts some of the social and political costs of permanent migration for host country, while it

leads to increasing "turnover" costs. For origin countries, temporary migration averts brain drain, whereas it deprives migrants of opportunities for cumulative learning and saving.

Chaudhuri et al. (2004) propose a schedule to liberalise mode 4. First, '*the emphasis should be on broad horizontal commitments assuring a basic minimum level of access across all sectors, supplemented by sector specific commitments where deeper liberalization is possible*'. Indeed, horizontal commitments applying across all sectors, for skill levels above a certain skill threshold, would be easier to administer. In practice, most regimes and current offers require professional qualifications or a bachelor degree as a minimum. Second, '*employment-based movement is a less fruitful subject for multilateral negotiations than intra-corporate movement and the presence of natural persons to fulfil service contracts*'. As for intra-corporate transferees, the model schedule advocate temporary entry of up to a year, without any requirement of a period of prior employment, for a wider category of employees who provide assistance, advice or service to a foreign client or receive business training. Third, '*it will be necessary to have additional commitments on transparency and domestic regulation*'. Since domestic regulations are a major impediment to mode 4, the promise of national treatment granted by mutual recognition agreements is crucial. However, to ensure a sufficient degree of regulatory convergence between partner countries, a test of professional competence and/or educational attainment is the least burdensome measure.

Chaudhuri et al. (2004) argue in favour of contract-based employment, more likely to be temporary than employment-based employment and more closely identified with trade in services *per se*. The schedule proposes a maximum stay of a year for this category of employees and coverage of all service sectors, without numerical ceilings and not any requirement of submitting the contract to tendering procedure or advertising.

Radwan and Reiffers (2006) argue that, compared to workers who have never worked in the EU, the 'préference communautaire' could be extended to migrant workers who have already been employed in the EU and have gone back in their home country for a limited period of time. MPCs would thus benefit from the adoption of a common policy of migration from the EU (as proposed to Tunisia). They should therefore remove their barriers to free movement of natural persons. Regarding the considerable future needs of skilled workers, the EU should engage in an ambitious program of training and education to raise skills in the Mediterranean and in particular develop partnerships between Universities.

Hoekman and Matoo (2006) prone a cooperative approach. They draw on experiences of a few relatively successful bilateral and regional trade agreements. In these agreements, origin country obligations include pre-movement screening and selection, accepting and facilitating return of

workers along with commitments to fight illegal migration. Bilateral labour agreements should allow host countries to modify the level of access depending on the state of the economy. This alternative should be preferred to current GATS agreements granting a fixed level of access every year.

4. Complementarities/oppositions between multilateral and regional approaches

There are two arguments in favour of regional integration in the Euro-Mediterranean region. First, the market access explanation stresses that Regional Trade Agreements (RTAs) can assist in the removal of national entry barriers, improve market contestability and internalise spillovers of technology; it emphasizes the terms of trade consequences of policies. Second, from a political economy perspective, regional cooperation in selected services sectors could help define the right policy sequencing and complementary actions needed to increase competition in the selected sectors. Thus, trade agreements can help to overcome domestic resistance to and lock in reforms (Eschenbach and Hoekman, 2006b and World Bank, 2006).

Eschenbach and Hoekman (2006a) look at service policies in transition economies. They show that accessing countries do not use the GATS for credibility purposes because of the availability of an alternative (the prospect of the adhesion). Their actual commitments, measured by the EBRD service reform indicators, is greater than their GATS commitments. This result renews the theoretical rationale for trade agreements. The GATS appears more important in helping governments willing to pursue and lock in reforms, while lacking of the perspective to join the EU.

Since Marrakech agreements limited to partial "locking in" of policies already implemented by members on a unilateral basis, little progress seems to have been made in liberalising trade in services (Chaudhuri et al., 2004 and Hoekman, 2006). Current reciprocity-driven market access negotiations do not deal in sufficient depth with regulatory policies, considering the cumbersome cost incurred by downstream users of inefficient services. Therefore, *'unilateral reform incentives may be larger than for trade in goods […] reciprocity can play less of a role if export interests are weak and non-border protection is dominant'* (Hoekman, 2006). The former implies that developing countries could be reluctant to liberalisation. The latter implies a possible lack of information needed to use the tools of trade negotiations showing that the outcome is welfare improving. Enhancing identification, understanding and designing the needed domestic reform therefore appears crucial (Hoekman, 2006).

For Dee and Nguyen-Hong (2002), the greatest global welfare improvement comes from liberalising market access restrictions rather than national treatment restriction. Furthermore, global economy will be better off if all restrictions on establishment were removed rather than all those on ongoing operations. Insofar as there is always at least one country loosing from partial liberalisation, the authors recommend gradual reductions in all type of restrictions.

In services, often prohibitive and not revenue generating barriers involve weak trade diversion costs. Increasing competition and exploitation of scale economies induce knowledge spill-over favoured by RIAs (Regional Investment Agreements) in services (Matoo, 2005). Nevertheless, '*the length of time it has taken EU members to open intra-EU trade in services, also illustrates that the challenges to services liberalization may not be that much easier to address regionally than multilaterally*' (Hoekman, 2006). By the way, unilateral implementation of service policy reforms prevails. National regulatory regimes continue segmenting EU services markets. For Langhammer (2005), when it comes to services policies, the EU is still not a customs union, not even a free trade area. In view of the EU's offer for the Doha round in February 2003, differences between national trade and investment regimes across services sectors still exist.

Kox and Lejour (2006) argue that the heterogeneity of regulations among EU countries appears to be the most costly impediment to trade. Indeed, when a firm has incurred fixed costs of complying with requirement in one EU country, it is impeded to reap economies of scale by expanding into other EU markets insofar as different regulations apply. For bilateral trade and FDI flows and using gravity model augmented by policy heterogeneity indicators built on OECD dataset, they find a strong negative impact of policy heterogeneity costs on services trade and FDI. The authors project that the original 2004 Services Directive could have increased intra-EU service trade by 30 to 62 per cent and direct investment in services by 18 to 36 per cent. In their central scenario, the increase in cross-border trade of 44 per cent is mainly due to reduced heterogeneity of barriers to competition (36 per cent), while the rise of 26 per cent in FDI inward stocks rely equally on reduced heterogeneity in barriers to competition (13 per cent) and in less FDI restrictions (12 per cent). The revised directive adopted in 2006 is unlikely to have such effects notably given the removal of the proposal of acceptance of home country regulation.

For transition economies, Eschenbach and Hoekman (2006a) find an "inverse relationship" between the depth of GATS commitments and the "quality" of actual service policies as assessed by the private sector. Their results suggest that greater collective investment by WTO members in monitoring and transparency is needed to increase the benefits of WTO membership to small countries. '*A major challenge in negotiating international disciplines on services-related policies is to define meaningful commitments that will be beneficial to the countries that undertake them*

and be of value from a mercantilist negotiating perspective' (Hoekman, 2006). In particular, the poorest countries not only have weak export interest in most services but also confront particularly high barriers in the only mode of export of relevance to them: mode 4. Literature suggests that most of the potential gains will come from domestic reform. Successful liberalisation in the poorest countries will often require strengthening of domestic regulatory institutions and infrastructure.

As for "aid for trade", Hoekman (2006) believes that by adding development assistance to the table, the GATS could become much more relevant as a mechanism to promote not just services liberalisation but, more importantly, to bolster and improve domestic reform in services. Hoekman and Matoo (2006) argue that WTO has a role to play in helping governments to identify these needs and using its '*commitment and monitoring technologies*' to mobilise both liberalisation and assistance. That could be done by raising the policy profile of the service agenda in poor countries, helping governments identifying where development assistance is needed, and monitoring the delivery and effectiveness of such assistance.

'*Non-discriminatory policies matters, they may matter more than discriminatory policies. Services policies are of course a determinant of the investment climate of developing countries*' (Hoekman, 2006). Trade agreements should be made more relevant to the needs of firms and consumers in member countries. As usual with (discriminatory) trade agreements, there is a trade-off between increasing the 'ownership' of (support for) agreements and maximising national welfare. This tension is probably greater for trade in services because of the prevalence of imperfectly competitive markets and thus the potential for rents. One advance in some recent RIAs has been the use of a negative list approach to coverage. '*In services markets, access and regulation are closely intertwined. In many markets the key need is to address regulatory policies that impede contestability*' (Hoekman, 2006).

5. What lessons for MPCs?

The interest of liberalising trade in services for southern Mediterranean countries is examined both with a general perspective and with a focus on two key sectors: banking services and telecommunications.

5.1. General view

The EU emerges as a well-suited partner for regional integration for MENA countries, in particular for the Maghreb, insofar as it has a large internal market (benefits from scale) and it is already their first source of exports, import destination and inflow of FDI. Geographical and cultural proximity has also its role to play. Regional integration among Southern Mediterranean countries would also present the scale and competitive advantages and allow an alternative to the 'hub-and-spoke' phenomenon between the EU and MENA nations (WTO, 2006). Nevertheless, that type of solution seems difficult to implement because of political reasons and uneven progress in policy reform, also in the Maghreb.

As most MPCs are poorly integrated in international supply-chains, a key element of reorganising their economic strategy, in collaboration with Europe, will be reforms enhancing the efficiency of "backbone" services. If MPCs do not accelerate reforms, they could get "stuck in the middle" on the ladder of dynamic comparative advantage. In most MPCs, enabling services remain protected from import competition, '*while state ownership, entrenched incumbents and red tape reduce efficiency*' (Müller-Jentsch, 2003). Many of the reforms needed to liberalise trade in services are similar to those required for structural adjustment. According to Müller-Jentsch (2003), MPCs should liberalise trade in services and implement domestic reforms at the same time in order to address this dual agenda.

Regarding the economic power of the region, '*liberalization of trade in services is still in its infancy stages in Egypt*' (Ghoneim, 2003). Opening trade in services is beneficial through: reduction of high transaction costs of doing business in Egypt, improving promotion of investment hindered by lack of efficient services; the latter gives incitation for FDI in manufacturing and agriculture to flow to other MPCs. The best way to achieve services liberalisation in Egypt would imply to devote more efforts to benefit from splintering and outsourcing of services and to upgrade the regulatory system governing the services sector in Egypt in order to: gain the benefits of domestic reform; facilitate future negotiations on mutual recognition agreements and harmonisation of standards (Ghoneim, 2003).

The closer is a MPC to the core of the system of concentric circles of RTAs with Europe (i. e. to the EU), the more advanced it is along the continuum of economic integration. Domestic reforms combined with unilateral adoption of EU rules appear to be the most straightforward alternative. Amendments to bilateral Association Agreements with the EU would take more time and political determination, but would give external credibility to domestic reforms. A give-and-take

package for both sides would be an idea: trade in agricultural products asked for by MPCs, in return for trade in services desired by the EU (Müller-Jentsch, 2003).

Otherwise, if in ongoing negotiations, such concessions were difficult to obtain, an agreement could be reached by a compromise between developed countries' demand for further liberalisation of market access in developing countries (mode 3) and the demands of developing countries for concessions on the temporary movement of natural persons (mode 4) (Lehman et al., 2003).

Internal market is not an accomplished reality among EU member states: many EU countries still have work to do to transpose directives. Therefore, making fulfilment of "acquis communautaire" a conditional regulatory reference for MPCs may be too demanding. Radwan and Reiffers (2006) recommend that, in a first step, the most likely transposable directives be listed while balancing their impact on economic development with the national 'societal' degree of implication. Then, the process of volunteer normalisation from private sector or agreements of mutual recognition should be preferred to general harmonisation, because the former does not question national sovereignty and identity. However, this process will be time demanding, because normalisation is currently granted by public authorities reflecting a weak private voluntary acceptation of norms. Moreover, the share of international norms is particularly low. In a second step, the degree of compatibility between European directives and the institutions and local habits should be examined.

Building an internal market based on services in MPCs will be difficult in line with shortcomings on movement of natural person, limits on free movement of agricultural products and an important risk on free movement of capital (macroeconomic and banking pre-conditions not satisfied). In particular, movement of natural person requires a considerable and joint investment of MPCs and the EU in education, training and skills recognition. Furthermore, regional coordination and RTAs should be strengthened to ensure consistence within action plans to foster South-South integration and to reduce the "hub and spoke" effect (Radwan and Reiffers, 2006 and Ghoneim, 2003).

For small countries, economies of scale can be realised through regulatory cooperation: harmonisation or mutual recognition of qualifications, technical standards, prudential regulation, etc (Hoekman and Matoo, 2006). More precisely, for MPCs, full harmonisation is not required, "regulatory convergence" has to be preferred. It can be achieved through unilateral reforms: common standards (e. g. regulatory principles, for instance of network access), mutual recognition (professional certification), adoption of joint standards (e. g. international accounting rules) (Müller-Jentsch, 2003). Let's now turn to a sectoral and country analysis.

5.2. A sectoral focus: banking services and telecommunication

The FEMISE, the Euro-Mediterranean network of independent economic institutes in charge of economic analysis of Barcelona process, has funded an analysis of measurement of both impediments to trade and welfare improvement of trade liberalisation in banking, telecommunication and maritime transport in four major MPCs: Egypt, Morocco, Tunisia and Turkey. Drawing on the Australian methodology detailed in Dee (2005), the participating authors calculate restrictiveness indexes derived from a questionnaire listing restrictions in each activity and specially developed for the study. They then deduce a sectoral tariff equivalent. Finally, taking the potential price reduction resulting from the adoption of EU rules and regulation as a starting point, welfare and GDP improvements are calculated for the four MPCs from the Leontieff coefficients of intermediate services use derived from input-output table (FEMISE, 2005).

When applied to the banking sector, this methodology leads to a restrictiveness index significantly higher for Tunisia (55 per cent) and Morocco (35 per cent) than for Egypt (15.2 per cent) and Turkey (5 per cent). According to FEMISE, this outcome is explained by the fact that Egypt and Turkey have liberalised their financial account, while both Maghreb countries continue to impose significant restrictions on foreign exchange and on the ability of residents to hold foreign currency accounts. However, the gap between restrictiveness indexes has still a much smaller impact on GDP than the 2001 financial crisis in Turkey, which is partly linked to openness to foreign capital and the cost of which has been estimated to $53.2 billions, 35.9 per cent of Turkish GDP! The existing barriers to trade in the banking sector in the four MPCs are equivalent to imposing a tariff of roughly 50 per cent for Tunisia, 30 per cent for Morocco, 11.77 per cent for Egypt and 3.73 per cent for Turkey.

Then, being in line with the EU15, the usual benchmark for MPCs, would imply a reduction in banking prices of 50 per cent for Tunisia, 19.3 per cent for Morocco, 6 per cent for Egypt and 26.22 per cent for Turkey. This leads to a consumer welfare improvement of 1 per cent for Tunisia, 1.15 per cent for Morocco, 1.44 per cent for Egypt and 1.38 per cent for Turkey. Finally, GDP would grow of 0.5 per cent point in Tunisia, 0.99 per cent point in Morocco, 1.20 per cent point in Egypt and 1 per cent for Turkey or 2.2 per cent point, when taking into account the non-occurrence of the 2001 financial crisis.

By the way, Omet and Al-Zu'bi (2005) find that interest rate liberalisation has no significant impact on interest margin of the Jordanian banks. They explain their result by limited competition

due to the small number of banks and low per capita income. In Jordan, the share of loans to total assets and of loan loss provisions to total loans appear to be the main determinants of interest spreads.

As for telecommunications, three main activities have been distinguished: fixed lines, mobile phones and internet. The results obtained for restrictiveness indexes and their related tariff equivalents are summarised in table 3. For Egypt, two tariff equivalents are calculated for fixed lines: the former reveals the status of the sector before end of 2005's liberalisation and the latter shows the status of the sector if full liberalisation following GATS commitments takes place. The two Maghreb countries appear to be more restrictive than Egypt and Turkey. Moreover, if fixed lines are the less open activities in the four countries, in Morocco and Tunisia the internet happen to be the second more restrictive activity, whereas it is mobile phone in Egypt and Turkey. The same comments also hold for tariff equivalent (see table 3).

Table 3: Restrictiveness indexes and tariff equivalent in telecommunications for Egypt, Morocco, Tunisia and Turkey (percentages)

	Fixed lines	Mobile phones	Internet services	Weighted average
Egypt *(prior 2005)*				
- restrictiveness index	51.9	35.4	12.4	
- tariff equivalent	11.2	13.0	2.0	
Egypt *(after 2005)*				
- restrictiveness index	13.8	Idem	Idem	
- tariff equivalent	4.0	idem	idem	
Morocco				
- restrictiveness index	34.0	21.0	26.0	27.8
- tariff equivalent	40.5	29.7	23.4	32.0
Tunisia				
- restrictiveness index	60.0	46.0	53.0	53.0
- tariff equivalent	82.6	59.0	70.2	70.0
Turkey				
- restrictiveness index	19.3	16.5	12.0	
- tariff equivalent	2.7	3.43	1.64	2.74

(Source: synthesis of the authors from FEMISE, 2005)

Assuming that the level of protection of the Moroccan telecommunications sector is aligned to the EU requirements, the average reduction in telecommunication service price of 32 per cent would improve consumer welfare of 1.63 per cent and the GDP of 1.4 per cent. In Tunisia, welfare would improve of 0.5 per cent point. Based on the state of the Turkish economy during the latter half of 1990's, before the introduction the EU standards in telecommunications, the implementation of rules and regulations followed by England and Finland, the EU countries

providing the less restrictive regulations, would reduce Turkish telecommunications prices by 35.53 per cent. This new price of telecommunications would increase society welfare by 0.59 per cent, which is equivalent to 0.43 per cent increase in real GDP.

As for banking services, the studies still conclude in small welfare improvements of trade liberalisation in telecommunications services, as Whalley (2004) also stresses. Moreover, they rest upon the hypothesis that it is appropriate to model services trade barriers as a tariff equivalent; this very method is questioned by Dee (2005) due to the importance of non-discriminatory trade barriers in services.

6. Conclusion

Beginning only in early 1980s, analyses of implications of liberalisation of trade in services are still in their infancy. In this paper, we show that, considering MPCs' current situation, reforming institutions, in particular administrative practices, is a prerequisite for successful liberalisation of trade in services. Sequencing matters. In opposite to the plea of international organisations, using commitments to liberalise services as a signal to attract foreign investors will still be difficult if corruption and red tape remain the rule. Due to weak export interest and prevailing non-border protection, reciprocity plays less of a role in services for MPCs. RTA between the EU and MPCs should be preferred to WTO agreements insofar as they offer deeper integration with regard to advances of the Single Market. Asking for full liberalisation of trade in services in MPCs is very demanding because some EU members are still lagging behind in terms of openness to competition of some service markets. Furthermore, straightforward trade liberalisation is not always necessarily the best way. Gradualism matters. Regarding negotiation, developed countries, in particular the EU, could accept a give-and-take package: authorising temporary 'immigration' of some clearly defined types of workers from MPCs, conditional on both the rate of unemployment and economic outlook in that sector and on the binding commitment of migrants to return home after a pre-defined time period. Furthermore, mutual recognition of qualifications, technical standards and prudential regulation should be preferred to harmonisation in order to widen market access in services. The EU should still give priority to MPCs' funding within the Neighbourhood European Policy (NEP), via financial assistance to build institutions.

Further research is needed both to update information about policy regimes across Euro-Mediterranean countries and to assess economic gains of opening services markets. Therefore, broaden collaboration between southern Mediterranean academics due to their knowledge and expertise of local market and EU academics specialised in trade issues would bring out fruitful

results. Insofar as domestic regulations play such a role in services, the interrelations between structural adjustment macroeconomic policies recommended by IMF and BW and WTO or EU commitments to liberalise trade in services deserve more attention.

7. References

1. Bhagwati, J. (1984), "Splintering and Disembodiment of Services and Developing Nations", *The World Economy*, Vol. 7, 133-144.

2. Braga, P. (1996), "The impact of the internationalization of services on developing countries", *Finance & Development*, March, pp. 34-37.

3. Brown D., Stern R.M., 2001. Measurement and modelling of the economic effects of trade and investment barriers in services. *Review of International Economics 9,* 262-286.

4. Chaudhuri, S., Mattoo A. and Self R. (2004), "Moving people to deliver services: how can the WTO help?", *World Bank Policy Research Working Paper*, March, No 3238, 27 p.

5. Deardorff, A.V. and Stern R.M. (2004). Empirical Analysis of Barriers to International Services Transactions and the Consequences of Liberalization. *Research Seminar in International Economics Discussion Paper* No. 505 January, 77 p.

6. Dee, P. and Hanslow K. (2001). Services in the international economy. In: Stern R.M. (Ed.), *Services in the international economy*. The University of Michigan Press, 117-139.

7. Dee, P. and Nguyen-Hong D. (2002), "Trade in infrastructure Services and Economic Efficiency: Australia's Experience", *Conference Paper, WTO Symposium on Assessment of Trade in Services*, Geneva, 14-15 March, 52 p.

8. Dee, P. (2005), "A compendium of barriers to services trade*",* Australian National University, mimeo, (for the World Bank), November, 75 p. http://www.crawford.anu.edu.au/staff/pdee.php.

9. Eschenbach, F. and Hoekman B. (2006a), "Services policies in transition economies: on the EU and WTO as commitment mechanisms", *CEPR Discussion Paper Series*, No 5624, 25 p.

10. Eschenbach, F. and Hoekman B. (2006b), "Services policy reform and economic growth in transition economies, 1990-2004", *CEPR Discussion Paper Series*, No 5625, 25 p.

11. Eurostat, IMF, OECD, United Nations Statistical Division (UNSD), United Nations Conference on Trade and Development (UNCTAD) and World Trade Organisation (WTO) (2002), "Manual on Statistics of International Trade in Services (MSITS*)"*, www.oecd.org/dataoecd/32/45/2404428.pdf

12. FEMISE (2005), "Impact of Liberalization of Trade in Services: Banking, Telecommunications and Maritime Transport in Egypt, Morocco, Tunisia and Turkey", Research No FEM22-02, dir. Bilkent University, Center for International Economics, Turkey, December.

13. Ghoneim, A. F. (2003), "Helping to identify the potential and mode for liberalisation of trade in services in the southern Mediterranean countries: the case of Egypt", *ERF Working Paper Series*, No 0303, 22 p.

14. Hoekman, B. (1998), "Free Trade and Deep Integration: Antidumping and Antitrust in Regional Agreements", *World Bank Policy Research Working Paper*, July, No 1950, 49 p.

15. Hoekman, B. and Mattoo A. (2006), "Services, economic development and the Doha Round: exploiting the comparative advantage of WTO", *CEPR Discussion Paper Series*, No 5628, 26 p.

16. Hoekman, B. (2006), "Trade in services, trade agreements and economic development: a survey of the literature", C*EPR Discussion Paper Series,* No 5760, July, 55 p.

17. Jansen, M. and Piemartini R. (2005), "The impact of mode 4 liberalization on bilateral trade flows", *CEPR Discussion Paper Series*, No 5382, December, 18 p.

18. Konan, D.E. and Maskus K.E. (2006), "Quantifying the impact of services liberalization in a developing country", *Journal of Development Economics* Vol. 81, No 1, October, pp. 142-162.

19. Kox, H. and Lejour A. (2006), "The effects of the Services Directive on intra-EU trade and FDI", *Revue économique*, Vol. 57, No 4, July, pp. 747-770.

20. Langhammer, R. (2005), "The EU offer for service trade liberalization in the Doha Round. Evidence for a not-yet-perfect customs", *Journal of Common Market Studies*, Vol. 43 No 2, pp. 311-325.

21. Lehman, A., Tamarisa N. and Wieczorek J. (2003), "International trade in services: implications for the IMF", *IMF Policy Discussion Paper*, No PDP/03/6, 24 p.

22. Lipsey, R. (2006), "Measuring international trade in services", *NBER Working Paper Series*, No 12271, May, 69 p.

23. Markusen, J.R., Rutherford T.F. and Tarr D. (2006). Trade and foreign direct investment in producer services and the market for foreign expertise. *Canadian Journal of Economics* 38, 758-777.

24. Mattoo, A. (2005), "Services in a development round: three goals and three proposals", *Journal of World Trade*, Vol. 39 No 6, pp. 1223-1238.

25. Müller-Jenksch, D. (2003), "Economic prospects for the Euro-Mediterranean partnership: deeper integration and trade in services", *Programme on 'Private Participation in Mediterranean Infrastructure', World Bank/European Commission*, April, 39 p.

26. Omet, G. and Al-Zu'bi K. (2005), "Financial Reforms and Interest Rate Spread in the Jordanian Banking System (1981 – 2002)", *Arab Administrative Journal*.

27. Radwan, S. and Reiffers J.-L. (2005), "The Euro-Mediterranean Partnership, 10 Years after Barcelona: Achievements and perspectives*"*, FEMISE report, February.

28. Radwan, S. and Reiffers J.-L. (2006), « Politique de voisinage et jalon dans le marché intérieur, quelles perspectives, quelle méthode, quel contenu, qui fait quoi ? », in *The 10th Mediterranean Conference*, Brussels, 8-9 June, 42p.

29. Sapir, A. (1993), "The structure of services in Europe: a conceptual framework", in *Market Services and European Integration: the Challenge of the 1990's*, *European Economy*, n° 33, pp. 87-97.

30. Walmsley T.L. and Winters L.A. (2003). Relaxing the restrictions on the temporary movements of natural persons: a simulation analysis. *Journal of Economic Integration*, December, 20(4), 688-726.

31. Whalley, J. (2004), "Assessing the benefits to developing countries of liberalisation in services trade", *World Economy*, Vol. 27 No 8, pp. 1223-1253.

32. World Bank, (2006), *Is There a New Vision for Maghreb Economic Integration? Volume I: Main Report and Volume II: Annex*, November.

33. WTO, (2005), "Part C: Offshoring services: recent developments and prospects", in *World Trade Report 2005*, pp. 265-301.

34. WTO, (2006), "Measuring Trade in Services: a training module produced by WTO / OMC in collaboration with the Inter-agency task Force on Statistics of International Trade in Services*"*, March, http://www.wto.org/english/res_e/statis_e/services_training_module_e.pdf, 54 p.

Appendix: Quantifying welfare and income gains from services trade liberalisation

Table 1: Projected Effects on Real GDP and Welfare of Eliminating Trade Barriers (per cent)

Country	Brown and Stern (2001)		Dee and Hanslow (2001)			
	% GNP	$USbn	Real GDP (%)		EV* ($USbn)	
			Tertiary	Total	Tertiary	Total
Industrialised countries						
Australia	1.8	6.0	0.0	0.2	2.1	4.1
Canada	14.8	84.0	-0.1	0.0	-0.5	-1.0
European Union	0.5	42.4	0.0	0.1	-6.2	0.2
Japan	-2.0	-103.7	0.0	0.3	4.1	25.1
New Zealand	9.1	5.2	-0.1	1.1	0.3	4.7
United States	0.5	35.0	-0.1	0.1	-1.8	20.9
Developing countries						
Asia						
China	3.8	26.9	14.6	18.0	90.9	105.0
Hong-Kong	6.6	6.6	1.0	0.9	5.9	6.8
Indonesia	15.6	30.8	5.1	5.9	2.5	3.9
Korea	-2.8	-12.3	0.1	1.6	1.9	10.7
Malaysia	2.3	2.1	0.7	4.5	1.0	4.5
Philippines	2.3	1.6	0.4	5.5	1.2	2.8
Singapore	1.7	1.0	-1.3	-1.5	-0.2	7.2
Taiwan	7.6	20.7	0.2	3.0	-0.1	11.5
Thailand	-2.2	-3.6	0.2	2.8	1.7	5.8
Other						
Chile	-2.0	-1.3	0.4	1.1	0.3	0.4
Mexico	-4.3	-11.7	0.1	0.4	0.4	0.3
R. Cairns	-3.7	-39.6	0.1	1.3	7.0	19.7
R. World			0.8	1.9	23.0	34.4
World		**90.3**			**133.4**	**266.9**

(Source: Brown and Stern, 2001; Dee and Hanslow, 2001)

R. Cairns : rest of Cairns; R World: rest of the world

Table 2: Projected Effects on Real GDP and Welfare of Eliminating Trade Barriers (per cent)

	Walmsley and Winters (2003)				
	% Changes Real GDP	Welfare changes ($Usbn)		% Change in Real GDP	
		Home region	Host region	Unskilled	Skilled
USA	1.07	-3.0	70.1	0.58	0.49
Canada	1.12	1.0	6.6	0.69	0.43
Mexico	-0.56	4.1	-1.4	-0.07	-0.49
UK	1.16	0.9	13.5	0.61	0.55
Germany	0.97	2.5	18.4	0.51	0.46
Rest of EU	1.03	53.6	36.6	0.53	0.50
Rest of Europe	0.88	7.6	3.6	0.47	0.41
Eastern Europe	-0.9	2.3	-1.4	-0.12	-0.78
Former Soviet Union	-1.12	5.2	-3.6	-0.12	-1.00
Australia – New Zealand	1.05	0.4	4.3	0.53	0.52
China	-0.79	7.5	-2.2	-0.12	-0.67
Japan	1.07	12.7	29.8	0.60	0.48
Rest of East Asia	-1.23	3.9	-7.6	-0.13	-1.10
South East Asia	-0.72	6.0	-3.2	-0.15	-0.57
India	-0.44	18.7	16.0	-0.08	-0.36
Rest of South Asia	-0.62	1.9	0.3	-0.13	-0.50
Brazil	-1.05	6.1	-7.5	-0.13	-0.92
Rest of Latin America	-0.86	8.3	-4.3	-0.13	-0.73
Middle East and Northern Africa	-1.63	9.8	-10.7	-0.52	-1.11
South Africa	-0.98	4.5	-0.1	-0.17	-0.81
Rest of the World	-0.76	2.2	-0.9	-0.10	-0.66
World		**156.1**	**156.3**		

(Source: Walmsey and Winters, 2003)