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A Handbook of International Trade in Services

edited by Aaditya Mattoo, Robert M. Stern, and Gianni Zanini

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In any new field of economic research, publication of the first specialized textbook may be viewed as the equivalent of a coming-of-age ritual. In this sense, this handbook is proof that international trade in services is now firmly established as a mainstream topic in trade policy analysis. In fact, this is a textbook as much as a handbook in that most of its 13 chapters (plus a substantial appendix on how to organize a country's participation in international services negotiations) have grown out of learning activities organized by the World Bank Institute, as well as operational work by the Bank and others.

The book is written to be comprehensible to readers with some understanding of economic principles, but not necessarily any specialist background in international trade. Apart from government officials, including service sector regulators and trade negotiators, the book will also be useful to undergraduate students as a textbook-style resource, and to practitioners and senior students as reference material. The 'addenda' to many chapters are in fact short country case studies that usefully illustrate the core messages. Each chapter aims to be self-contained; as a result, there is an inevitable but limited amount of repetition across chapters.

Since the book is based on World Bank work, much of the text implicitly or explicitly assumes the perspective of developing countries in discussing the benefits of service sector reforms and liberalization of market access. However, for many chapters, such as those on the theory of trade policy instruments applied to services trade or the methodology of empirical estimates of the impact of trade barriers, the country perspective does not matter much. Similarly, the various 'North-South' topics are analytically the same, independent of whether they are looked at from a Northern or Southern point of view. Therefore, readers approaching trade in services from an industrialized country perspective should also find the book useful.

Appropriately for a handbook, the individual chapters, taken together, constitute a *tour d'horizon* of the economic theory, empirical methodology, and policy debates relating to international trade in services. The chapters are held together firmly by their focus on helping policy makers in developing countries understand why and how appropriate service sector regulations and trade-related policies may promote economic development. On this basis, there is considerable discussion throughout the book on how negotiating objectives and strategies may be defined and pursued in multilateral, regional, and bilateral settings.

The first three chapters set the scene. Aaditya Mattoo and Robert Stern briefly review the key economic issues raised by international trade in services as well as the core messages of each subsequent chapter (Chapter 1). Rudolf Adlung and Mattoo introduce the relevant features of the GATS and summarize the state of play in Doha Round negotiations on services (Chapter 2). Brian Copeland and Mattoo provide an insightful diagrammatic exposition of the effects of several important policy instruments affecting trade in services. By taking the familiar partial-equilibrium analysis of the welfare effects of an import tariff as their starting point, they establish the notion of

tariff-equivalent effects as the key concept for measuring and comparing the impact of barriers to services trade (Chapter 3).

The next three chapters deal with issues of empirical application. Andreas Maurer, Yann Marcus, Joscelyn Magdeleine, and Barabara d'Andrea (all from the WTO International Trade Statistics Division) discuss how the four modes of supply of services in international trade are reflected in existing statistical concepts and what data are available on each (Chapter 4). Alan Deardorff and Robert Stern survey the methodologies used to estimate tariff equivalents for trade barriers affecting each of the four modes of supply, along with literature summaries until approximately the year 2000. They also review studies on the wider economic impact of trade liberalization in services based on computable general equilibrium models. They conclude with a set of guidelines for measuring services barriers and assessing the consequences of their liberalization that applied researchers will find useful, particularly as a basis for policy formulation (Chapter 5). Mattoo and Pierre Sauvé discuss the economics of preferential trade agreements for services, review in detail the services provisions in existing agreements, and describe the multilateral constraints on preferential services liberalization under GATS Article V. One interesting finding is that, in contrast to tariffs on goods, many barriers to services trade increase the operating costs of foreign suppliers without creating equivalent rents (such as tariff revenue); in this case, regional liberalization is more likely to be welfare-improving (Chapter 6).

The following six chapters cover, in turn, important services sectors. Wendy Dobson briefly discusses several issues related to the development dimension of financial services and their role in international trade agreements, especially the 1997 Financial Services Agreement (Chapter 7). Philippa Dee and Christopher Findly lay out a conceptual framework for analyzing how trade policy for infrastructure services is affected by economies of scale and scope and natural monopolies. They point out, *inter alia*, that the policy relevance of natural monopolies is often overstated and call for careful definition of the relevant market (e.g. land transport, rather than rail or road transport) and attention to technological innovations (e.g. mobile and voice-over internet telephony supplementing traditional landlines; Chapter 8). Findlay then applies this conceptual framework to transport services, lists elements of successful trade policy reform, and discusses the contributions of multilateral and regional agreements to such reforms (Chapter 9).

Peter Cowhey and Jonathan Aronson relate the emerging technological challenges in services telecommunications to the multilateral negotiating agenda, with the 1997 WTO Reference Paper on pro-competitive regulatory principles as an important early achievement. They particularly emphasize that trade negotiations and commitments, whether in a multilateral or a regional context, should reinforce a well-defined strategy for domestic market reform (Chapter 10). In a short note on trade in health services, Richard Smith, Chantal Blouin, Nick Drager, and David Fidler review the relevant GATS provisions and point out that not only trade negotiators (who tend to know little in detail about health services) but also health ministry officials should be aware of the potentially wide-ranging implications of GATS commitments (Chapter 11). Carlos Primo Braga briefly reviews the regulatory framework for electronic commerce. He argues that global rules would be desirable in some areas as a point of reference for

national regulations, but sees little hope that the WTO will be able to contribute much to this process (Chapter 12).

Finally, Alan Winters provides a comprehensive overview of the theory, empirics, political economy, and recent negotiations relating to GATS Mode 4 temporary movement of workers to provide services. He emphasizes that temporary movement, especially in the form of circular flows of workers to provide certain services, may entail many of the same economic benefits to source countries as labor migration. At the same time, temporary movement may be more politically palatable to destination countries because temporary workers are not expected to integrate fully with the resident population and any fiscal cost of integration should therefore be lower. However, given the flexibility that destination countries will probably still require to establish or withdraw quotas for temporary workers, a bilateral or regional context may be more appropriate for such agreements than binding commitments under GATS (Chapter 13).

In the appendix, Geza Feketekuty presents a framework for how national governments may effectively organize their participation in international services negotiations. He provides hands-on advice on a wide range of topics, including how to establish a knowledge base on the national regulatory regimes and the likely impact of liberalization, how to structure consultations with several concentric circles of national stakeholders, and how to ensure communication and cooperation among the various government agencies involved. While presumably aimed at smaller developing countries with limited administrative capacity and effective negotiating experience, this appendix establishes a list of good practices that should prove useful to government officials almost everywhere.

At first sight, the ubiquitous references to the GATS throughout this handbook may seem at odds with the fact that multilateral trade negotiations are largely failing, in the real world, to effectively reduce trade barriers for services. On second thought, however, this seeming contradiction testifies to how successfully the GATS has set the terms of the debate about trade liberalization in services, both in the academic and policy communities. As several chapters of this book show, GATS-style disciplines are present in many regional trade agreements, and even a government considering unilateral liberalization will benefit from organizing its strategy along GATS concepts and terminology. In the grand scheme of things, establishing the terms of reference for a comprehensive debate on trade liberalization in services, and thereby allowing this debate to take place at all, may well turn out to be the lasting achievement of the GATS process.

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