

**COMMUNICATION FROM THE REPUBLIC OF KOREA**

Treatment of Autonomous Liberalization  
in the WTO Service Negotiations

The following communication has been received from the delegation of the Republic of Korea with the request that it be circulated to the Members of the Council for Trade in Services.

1. This paper is submitted solely for the purpose of facilitating the discussion on the treatment of autonomous liberalization and does not prejudice Korea's position on the issues raised in it.

2. Since the circulation of the Korean paper on the treatment of autonomous liberalization at the December 2000 meeting of the Service Council, there have been many comments and questions regarding the practicality of the approach as proposed in the paper. This paper is prepared with a view to respond to those inquiries and to provide a focal point for negotiations on this issue.

**I. PURPOSE OF DEVELOPING A FORMULA**

3. To develop a hard and fast rule in calculating the value of autonomous liberalization measures undertaken by the WTO members is not the goal. As discussed in this paper and also as reflected in past consultations related to this matter, the formulation of assessing the value of autonomous liberalization is a tall order. However, technical difficulty should not lead one to jump into a hasty conclusion that the attempt to derive such a formula would be a futile exercise. Without such a formula, all the service negotiations will be based on the request-offer approach, where the negotiations leverage is tilted to the disadvantage of countries, which have autonomously liberalized. Hence, it is desirable to have a simple and practical formula, which would facilitate the assessment of the value of autonomous liberalization measures. Such a formula would serve as a reference point or benchmark, not a binding formula at the negotiations process.

**II. SCOPE OF AUTONOMOUS LIBERALIZATION MEASURES ELIGIBLE FOR CREDIT**

4. Autonomous liberalization measures take various forms. The spectrum of the form ranges from policy changes directly affecting terms of market access or national treatment to regulatory reform, which indirectly affect market access conditions.

5. In the GATS negotiations, if a certain autonomous liberalization measure fails to be incorporated in the national schedule, then the value of such a measure would be greatly diminished. Therefore, a reasonable approach is to consider credit only for those autonomous liberalization

measures, which can be reflected in the national schedule. That is, horizontal measures affecting overall sectors, and measures related to market access, national treatment, and additional commitments would be considered for credit.

6. The autonomous liberalization measures undertaken in the context of a regional trading arrangement can be considered for credit with the understanding that they would be bound at the end of the negotiations, so that they would be applied to all WTO Members on an MFN basis.

### **III. NOTIFICATION AND BINDING**

7. To identify the nature and scope of autonomous liberalization measures for credit, Members need to notify their autonomously liberalized measures. To alleviate concern that such a notification would lead to pressure from negotiating partners to bind those measures, a procedure of handling those notified measures and a credit allocation mechanism need to be put in place prior to notification. Otherwise, some Members may opt not to notify their autonomous liberalization measures.

8. Credit for autonomous liberalization measures would be granted with the understanding that all the measures for which credit are granted would be bound at the end of the negotiations.

### **IV. THE IMPROVEMENT INDEX AS A BASIS FOR CREDIT**

9. The most important idea of the Korean paper circulated at the December 2000 meeting was the Improvement Index. We propose the elaboration of this Improvement Index in the following way.

10. An Improvement Index can be calculated at various dimensions:

- (i) Improvement Index for the overall service sectors;
- (ii) Improvement Index for a certain service sector;
- (iii) Improvement Index for a certain sub-sector;
- (iv) Improvement Index for a certain mode of supply.

11. In the absence of the exact weights of significance among market access, national treatment and national treatment, the above-mentioned Index would be calculated for market access, national treatment and additional commitment independently, such as Improvement Index of market access for communications services, Improvement Index of national treatment for mode 3.

12. For the purpose of calculating the Improvement Index, horizontal measures are to be allocated in the relevant parts of market access, national treatment and additional commitment.

13. For instance, some WTO members may find it useful to calculate the Improvement Index of the negotiating partners in the business sector only. Then, the calculated Improvement Index of the business sector of the countries may be compared and serve as a starting point of negotiations.

14. In another example, certain WTO members may find it useful to calculate the Improvement Index of the negotiating partners in mode 3 only for the overall sectors. Then, the calculated Improvement Index of the mode 3 of the countries in the overall sectors may be compared and serve as a starting point of negotiations.

## **V. CREDIT AND THE NEGOTIATIONS**

15. The Improvement Index value can be used as a basis for credit and for the exchange of concession at the negotiations. WTO members may want to use this credit to request an equivalent improvement of market access and national treatment in the relevant areas (overall sectors, some specific sectors or specific mode of supply) from their negotiating partners.

16. The most clear-cut way of using the Improvement Index is to use the Index for the purpose of exchanging concession within and across the modes of supply. For instance, if a country improved its Improvement Index for mode 3 related to market access by the value of 20 %, it may request a comparable increase of the same mode 3 or other mode of its interest from the negotiating partners, under the condition that its autonomous liberalization measure would be bound at the conclusion of the negotiations.

17. In another example, if the country improved its market access by 30% in a certain service sector, it may request its negotiating partner to improve market access by a comparable degree in the same service sector, under the condition that its autonomous liberalization measure would be bound at the conclusion of the negotiations.

## **VI. SCORING SYSTEM**

18. It is our proposal to assign a value out of 0, 0.25, 0.5, 0.75 or 1 to a measure related to market access. The same value structure is proposed for the assessment of measures related to national treatment and additional commitment as well.

19. The most open and liberal commitment for the given mode of delivery will get a 1, while the most restrictive such as an 'unbound' one will get a 0. The score of 0.5 will be given to the commitment in which the value deems to be a halfway between the most liberal and the most restrictive.

20. Pursuant to this scheme, a 51% foreign investment limitation for commercial presence will be given a score of 0.75, while a 49% foreign investment limitation will get a score of 0.5 and a 33% limitation gets a score of 0.25.

## **VII. DIFFERENT VALUES FOR DIFFERENT MODES OF SUPPLY**

21. For most services, one may claim that commercial presence is the most important mode of delivery. At the same time, it is increasingly the case that technological advances make mode 1 more important than before, with varying degrees of impact on market access depending on the nature of different service sectors. On the other hand, for many WTO Members mode 4 may deem to be more significant in terms of commercial value of market access and national treatment.

22. There is a certain degree of common understanding that for service sectors like business services, the significance of mode 4 would be greater than other service sectors, and for service sectors such as educational services, health related and social services, and finally tourism and travel related services, the significance of mode 2 would be greater than other service sectors. When it comes to the question of how much greater, however, the question becomes elusive.

23. Hence, all these different value assessments of each mode of supply within a particular sector and for the overall sectors imply that any reasonable formulation of agreeable weight to a mode of supply may not be practical. A possible way out of this problem is to assign the same weight to each mode in the absence of consensus on the exact weights.

### **VIII. SECTORAL SPECIFICITY**

24. One may calculate the weight value of a sector on the volume of trade and investment, but it is not easy to do so. Different countries may assign different values to the sector reflecting its productivity, market size, and so on. The same argument as developed in the mode of supply is applied in this case as well.

### **IX. PROPOSAL**

25. The Korean government proposes to establish a working group under the Service Council with a view to studying technical issues related to the assessment of autonomous liberalization measures, including:

- The number of sub-sectors with each service sector;
- The weight of different modes of delivery for sub-sectors;
- The weight of different service sectors;
- The criteria for assigning numerical values; and
- A scoring system.

## Attachment

### Technical Note for the calculation of the Improvement Index (For illustration purposes)

1. The actual procedure of calculating the Improvement Index from notified autonomous liberalization measures is simple and easy to use. It proceeds in two steps.
2. In the first step, depending upon what the parties are trying to compare for purposes of negotiation, we calculate a score based on the current situation and a score based on the notified autonomous liberalization (NAL). In the negotiations, parties may want to calculate the improvement index for (a) a particular mode of delivery, (b) for a particular sub-sector, (c) for a particular sector, or (d) for the national schedule as a whole. Depending upon what the parties want to calculate, they follow the calculation procedures outlined below.
3. In the second step, using the two scores derived in the first step, we calculate the actual Improvement Index (II) which measures the degree of improvement resulting from the notified autonomous liberalization.
4. Schematically, it would work as follows:
  1. Step 1: Calculation of NAL score (denoted as **b**) and current situation score (denoted as **a**).
    - (a) Option 1: If want to calculate II for a particular mode of delivery
    - (b) Option 2: If want to calculate II for a particular sub-sector
    - (c) Option 3: If want to calculate II for a particular sector
    - (d) Option 4: If want to calculate II for the national schedule as a whole
  2. Step 2: Calculation of the Improvement Index using the formula  $(b - a)/a$ .
5. An Improvement Index should be calculated for market access, national treatment and additional commitments respectively.
6. For the purpose of illustration, the calculation in what follows is demonstrated for the calculation of the Improvement Index for Option 1, 2, 3 and 4 in the case of market access.

#### **Option 1: Calculating the scores for a particular mode of delivery**

1. Here, we calculate a score for the NAL and also for the current situation according to the following procedure.
  - For each mode of delivery, either 0, 0.25, 0.5, 0.75 or 1 will be scored for market access. The most open and liberal commitment for the given mode of delivery will get a 1, while the most restrictive such as an 'unbound' one will get a 0. In principle, a score of 0.5 will be given to the commitment in which the value lies half-way between the most liberal and the most restrictive. Using this principle of scoring, a Member allowing a 33% foreign investment limitation for commercial presence will get a score of 0.25, while a Member permitting a 51% limitation gets a 0.75.

### **Option 2: Calculating the scores for a sub-sector**

1. Here, for both the NAL and the current situation, we:
  1. Calculate the scores for each of the four modes of delivery (as explained above in option 2)
  2. Aggregate the modes of delivery scores into a sub-sector score according to the following procedure.
    - The maximum possible score for market access in a certain sub-sector is 4 and the minimum possible score is 0. A Member committing to the most liberal trading regime for each and every mode of delivery will score a 4. A Member having the most restrictive trade measure for every mode of delivery in a sub-sector will get a score of 0.

### **Option 3: Calculating the scores for a sector**

1. Here, for both the NAL and the current situation, we:
  1. Calculate the scores for each of the sub-sectors within a given sector (as explained above in option 2)
  2. Aggregate the sub-sector scores into a sector score according to the following procedure.
    - Each sub-sector within a service sector will get an equal weight. To ensure that each sub-sector will be treated equally and in the light of a positive listing approach for services subject to market access and national treatment, it is necessary to forge a common understanding of what kinds of sub-sectors exist in each sector.
    - In order to keep the scoring system simple and operational, a maximum score of **10** and a minimum score of **0** will be set for each service sector. As long as the weights of each sub-sector are properly assigned, the discrepancy of the total number of sub-sector among service sectors would be taken care of.
    - Suppose sector K has all five sub-sectors pursuant to the service sector classification. If a Member committed to the most open trade measures for two sub-sectors while it did not list the other three sub-sectors in sector K, it will score 4 in this sector.

### **Option 4: Calculation of the total national schedule score**

1. Here, for both the NAL and the current situation, we:
  1. Calculate a sector score for each sector in the national schedule (as explained above in Option 3).
  2. Aggregate the sector scores according to the following procedure.
    - In the aggregation of the total score of a Member, each service sector will get an equal weight. To get the total score, a Member can add the scores obtained for all the sectors.

- According to the current classification system of the GATS, there are 11 service sectors (we rule out the category of “Other services not included elsewhere”). Hence, the maximum possible score for a Member is 110, when it has the most open and liberal trade measure for each mode of supply in every sub-sector.

### **Calculating Improvement Index**

1. Once the scores are calculated using the above procedures, we then calculate the Improvement Index according to the following procedure.

- One can compare the Member’s score based on its current situation (denoted as **a**) with that based on notified autonomous liberalization measures (denoted as **b**). If the Member has undertaken substantial autonomous liberalization measures, **b** should be significantly higher than **a**.
- The degree of a Member’s improvement of its liberalization commitment due to autonomous liberalization can be calculated by  $(b - a)/a$ . We call the absolute value of this calculation, the Improvement Index. This will form the basis for credit.
- Using the same procedure, one may calculate a Member’s total score on the basis of its submitted information regarding autonomous liberalization measures, assuming that these autonomous liberalization measures would be bound at the end of the negotiations.

2. The calculation of the Improvement Index for the autonomous liberalization measures related to additional commitments is a bit different from the above-mentioned procedure, because Members did not inscribe their additional commitment in each mode of delivery. In this case, one just needs to assign a proper numerical value out of 0, 0.25, 0.5, 0.75 or 1 for the entire sub-sector and move on to the next step.

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