


## Trade in Services Agreement (TISA) and Services Liberalization in Korea



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As disgruntlement increases over the stalled discussions of trade liberalization in WTO, members of WTO have begun to seek other formats and channels for continuous trade liberalization. A number of regional trade agreements such as FTAs have reached their deals and many are under active negotiations or discussions. Another well-known format is issue-based plurilateral trade agreements. The subject of regional trade agreements includes all possible sectors and industries of participating countries in a region. On the other hand, issue-based plurilateral trade agreements deal with only one sector among various countries regardless of their regions. There are several sectors under such a discussion and trade in services agreement (TISA) is one of those.

The initiative for a plurilateral trade in services agreement was first taken in 2012 and currently twenty-two 'Really Good Friends' countries around the world including the United States, EU and Japan are participating in the TISA negotiation. All 155 services sectors covered in WTO services negotiation are the subject of liberalization. Korea is also a participant in the negotiation.

The continued increases in economic importance of services sectors deserve much greater attention than was given previously. The current GDP share of services sectors in the world is greater than 60%, and surpasses 70% in many developed countries. In Korea, services sectors account for about 60% of its GDP and for about 67% of total employment. Moreover, as the development of global production networks speeds up in many regions, especially East Asia, services coordinating production processes in different locations are in high demand.

In spite of the rising importance of services, the labor productivity of services sectors in Korea is known to be uncompetitive. This means some services sectors in Korea are vulnerable to the liberalization. Then, the question is whether we should participate in negotiations on services liberalization such as TISA? The answer is yes and for three reasons. First, services have become key intermediate inputs in improving the competitiveness of outputs in the global market. As high-quality intermediate inputs are crucial for producing high-quality outputs, high-quality services through liberalization will play an important role in survival amidst global competition. Indeed, effective advertisements for smart phones or automobiles competing in global markets are no less important than high-quality electronic parts for these products. Second, considering the economic importance of services sectors, participating in services liberalization negotiations such as TISA is of strategic importance for trade policy makers of Korea. If we accept the fact that further liberalization on services is inevitable, we have to participate in and utilize the international negotiations strategically. For sectors where Korea possesses strong comparative advantages, we can ask other members to open those markets further or use them as leverage, allowing us to be flexible regarding liberalization in sectors we have comparative disadvantages. In addition, we have to participate in establishing new trade rules on new industries. One of the issues garnering great attention in services is the emergence of new industries or undefined industries in the traditional services classifications. Many countries have tried to figure out how to apply existing rules or set up new rules on new industries. Fast changing ICT (information and communications technology) industries are a good example. Ensuring that our interests are reflected in negotiations is

therefore critical. Once agreement is reached concerning the new trade rules, it is going to be very hard to change them later. Third, history tells us that once an international trade agreement reaches a critical mass in terms of trade volume, late-participants to that international trade negotiation always face much higher obstacles and costs to get into the negotiation table. It should be noted that TISA members already account for about 70% of cross-border services trade in the world. Moreover, recent negotiations and agreements in services liberalization have become more thorough and intensive; the negative list approach with a ratchet clause is generally accepted and the adoption of future MFN is no longer new. Simply put, to wait and watch is not a wise strategy to take, and could end up being expensive in the long run.

It is thus imperative that Korea stay prepared. As in the trade liberalization on commodities, there will be gainers and losers from services liberalization. Since there will be less and less non-tradable services, structural changes from services liberalization can happen to any services sectors. Local restaurants in Korea are already competing with international restaurant chains. Korea exports culture such as K-pop or animation characters to the world. Sectors with comparative advantage will expand while importing services sectors will shrink. Given the above, one of our biggest concerns is the impact of services liberalization on the labor market. Structural changes through services liberalization may increase temporary job instability in Korea. Temporary lay-offs will rise as a consequence. The greatest concern, however, is that prolonged unemployment status of laid-off workers can lead those workers to become less employable over time. While the expected level of ambition on services liberalization is not so high in negotiations, policy makers should address policies that can enhance the productivity of services and the flexibility of the labor market in order to minimize undesirable side-effects from further liberalization.

Korea has no doubt benefitted from trade liberalization and prospered economically. Services liberalization is expected to bring us further gains from trade. Furthermore, staying out of the TISA negotiation does not seem to be an affordable option for Korea. The best strategy is then to get actively involved in the negotiation so that our interests are reflected, to build a system that can minimize the damages from trade and to set up a fair mechanism where benefits from liberalization can be shared. **KIEP**