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Should China Join the WTO's Services Agreement?

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As the Doha round of the World Trade Organization (WTO) enters its 13th year, the goal of a comprehensive multilateral agreement including all of the WTO's 159 members and addressing their major points of disagreement remains elusive. As a result, the negotiators have been scaling back their ambitions for a "single undertaking" agreement under which "nothing is agreed to until everything is agreed by everyone."

Rather than reach a massive and all-encompassing outcome, negotiators are aiming instead for a series of smaller agreements, a process known as "early harvest." Last year, early harvest talks focused on three agreements: trade facilitation, information technology, and trade in services. A deal on trade facilitation, which removes onerous customs procedures, was successfully concluded at the Bali summit in early December, the first multilateral deal to succeed in the stalled Doha round.* But this modest achievement was overshadowed by the failure to sign an Information Technology Agreement (ITA), to update the 1997 ITA. Many parties, including the United States, blamed Beijing for not offering acceptable terms to join the other members of the ITA.

In this climate – one of momentum mixed with frustration – negotiations on the Trade in Services Agreement (TISA) are slowly progressing. The talks, currently comprising 22 countries plus the European Union (28 member

Key Points

- China petitioned last October to join the Trade in Services Agreement, a side agreement in the WTO that entered its sixth round of talks in late February. The United States and other parties are considering whether to allow it to join.
- U.S. companies could benefit, given the potential of services in China and signals that Beijing is willing to open up services (e.g. U.S.-China BIT, Shanghai Free Trade Zone, and Third Plenum Decision). But the recent failure of the WTO information technology talks, coupled with slow enactment of domestic reforms, raises doubts.
- Some sectors in China's economy, such as construction and shipping, could immediately benefit. But most of China's services industries, both in consolidated and fragmented sectors, are uncompetitive and are likely to oppose liberalization.
- China might be unwilling to make concessions on free data flows, given its growing preoccupation with cyber-security and ongoing regime of internal censorship.
- China may pursue TISA for economic reasons, but it may also seek to join the talks in order to thwart a U.S.-led trade agreement.

* Trade facilitation could cut global trade costs by more than 10%, by one estimate, raising annual global output by over $400 billion. The deal is unique in that it neither addresses tariffs nor non-tariff barriers "behind the border." That helps explain its success. Nonetheless, it was not easy to settle, as "some poorer countries raised concerns about their ability to make the required capacity upgrades, and talks briefly stalled as arrangements for assistance were worked out." *The Economist*, "Doha Delivers," December 9, 2013. http://www.economist.com/blogs/freeexchange/2013/12/world-trade-organisation.

states),[†] began in May of 2013 and entered their sixth round on February 17. TISA aims to update the 1994 General Agreement on Trade in Services (GATS). Since the original GATS, globalization has lowered the cost and widened the scope of services that are provided across borders, such as engineering and information & communications. TISA seeks not only to open services sectors, but also to develop new rules, like those applied to government procurement of services, licensing procedures or access to communication networks (see table 1). Many U.S. services companies now do business globally and stand to gain more from open flows of capital, labor, goods, and data than from protection against foreign competition back home.

Table 1: Priority Issues in the TISA Talks

1. Cross-border movement of professionals
2. Domestic regulation and transparency
3. Financial services
4. Professional services
5. Information and communications services
6. Transport and logistics services
7. Maritime services
8. Environmental services
9. Energy services
10. Government procurement

Note: Priority issues were set out in a proposal by Germany and Australia in 2012.
Source: "Negotiations Begin on New Services Deal," M2 Presswire, July 5, 2013, via Factiva.

But to make TISA a success, the negotiating parties must confront difficult questions. One of the most important is whether to allow China to sit at the table. The world's second-largest economy announced only last October after TISA's third negotiating round that it had petitioned to join the services talks.[1] Since then, the United States has debated with the other parties on whether to accede to China's request. Pessimists contend that, a decade after acceding to the WTO, China has done little to open its services sector, not only to foreign companies, but also to its own private firms. Many of the most lucrative sectors are dominated by Chinese state-owned enterprises (SOEs); according to a 2012 report commissioned by the USCC, SOEs accounted for over half of China's services.[‡] Some observers contend that China could undermine talks on liberalizing financial services to shield lenders and borrowers from market forces. Others argue that China has less to gain from liberalizing services, and is more interested in thwarting a U.S.-led trade pact.

On the other hand, the European Commission, Australia, and others argue that involving China in the talks is a risk worth taking. A 2012 study by the Peterson Institute estimated that the overall trade gain from TISA would rise by 30 percent if Brazil, India, and China signed on.[2] China's services sector is relatively small but rapidly growing, and the new Politburo, under President Xi Jinping, has renewed the momentum behind market reform. While China may open services through alternate means, such as the establishment of the Shanghai Free Trade Zone or regional trade agreements, more countries would benefit if

[†] The negotiating parties are Australia, Canada, Chile, Colombia, Costa Rica, Hong Kong, Iceland, Israel, Japan, Liechtenstein, Mexico, New Zealand, Norway, Pakistan, Panama, Paraguay, Peru, South Korea, Switzerland, Taiwan, Turkey, the United States, and the EU28.
[‡] For more information, see Andrew Szamosszegi and Cole Kyle, "An Analysis of State-owned Enterprises and State Capitalism in China." (Washington, DC: Capital Trade for the U.S.-China Economic and Security Review Commission, 2012).

China did so on a most-favored nation (MFN) basis through TISA, rather than unilaterally or preferentially. (A MFN approach would provide any concession China makes to one country to all other TISA signatories). If concluded, a TISA agreement could pave the way for other trade agreements with China, while also spurring India and others to follow suit.

What are Beijing's motives for joining the TISA talks? What interest groups in China might oppose it? On what issues might China do more harm than good to TISA, both during negotiations and after enactment? These questions are central to assessing costs and benefits for the United States.

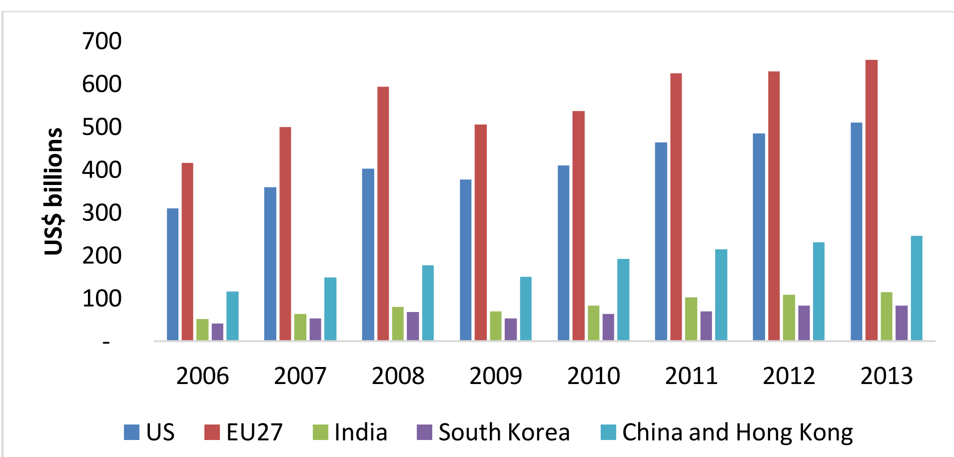
Services in the Context of China's Market Reforms

Why does China want to join TISA? The primary motive may be economic. James Bond, president of the Australian Services Roundtable, sums up this view:

> *Given China's extensive restrictions on services trade, often though substantial administrative burden, geographic restrictions, licensing requirements and foreign equity caps in media, telecommunications, transport, electricity and finance amongst others, it has little choice but to liberalize services to drive productivity growth in these critical sectors.*[3]

Owing to the size of its economy, China already ranked fourth in the world in services traded in 2011, accounting for 5.3 percent of the total (versus 12.8 percent for the United States). When Hong Kong is included, China's services trade is considerably larger than India's (see figure 1). But China is also a principal reason why services in Asia are not expanding faster. According to the Asian Development Bank, the value of services trade in Asia doubled to US$2.2 trillion in 2005-2011, but still lags behind the booming goods trade, which increased from $5.2 trillion to $10.9 trillion over the same period. By focusing trade on consumer goods exports and the trade in parts and components associated with regional supply chains, China has seen the share of services in its total national trade decline in recent years.[4]

Figure 1: Value of Services Trade
(US$ billions)



Source: UNCTAD.

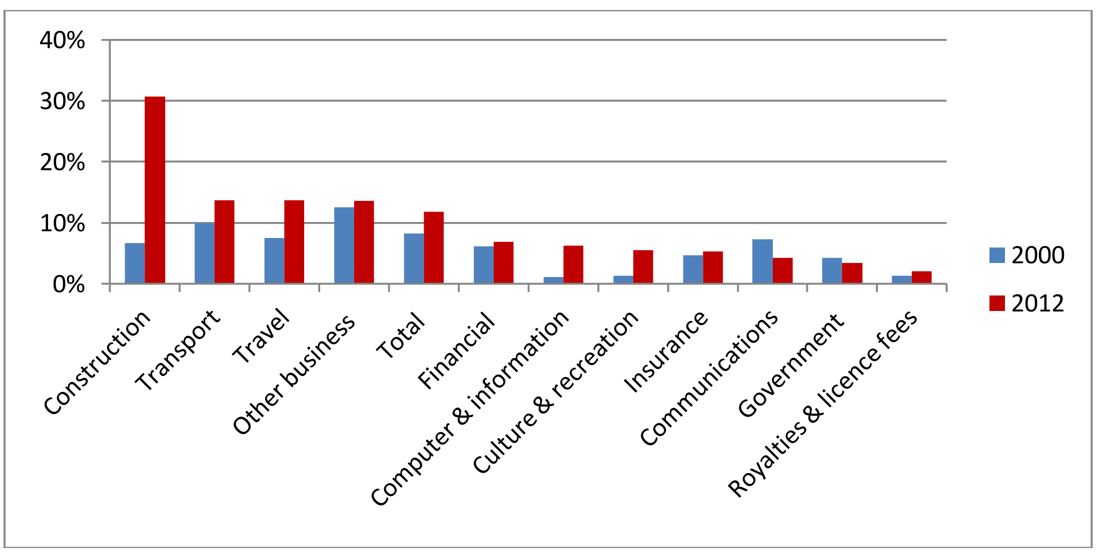
Domestically, China's services are underdeveloped as well. According to China's official statistics, the services or "tertiary sector" in 2013 for the first time made up a slightly larger share of China's economy (46.1 percent) than the secondary sector (43.9 percent), which denotes manufacturing. Yet the tertiary sector is a crude measurement of services dominated by wholesale & retail, transport & storage, banking & insurance, and real estate. "Other" services, such as healthcare, education, and advertising, have actually declined as a share of China's tertiary sector since 2005 (see table 2).[§] Due to its large goods shipments and vast real estate market, China also contributes to East Asia's outsized share of traditional services like construction and transport (see figure 2).

Table 2: China's Tertiary Sector

	Total value (RMB bn)	Share of GDP	Composition					
			Transport, Storage & Post	Wholesale & Retail	Hospitality & Catering	Banking & Insurance	Real Estate	Other
1990	588.8	31.5%	19.8%	21.5%	5.1%	17.3%	11.2%	25.0%
1995	1,997.8	32.9%	16.2%	23.9%	6.0%	14.0%	11.8%	28.0%
2000	3,871.4	39.0%	15.9%	21.1%	5.5%	10.6%	10.7%	36.2%
2005	7,491.9	40.5%	14.2%	18.6%	5.6%	8.1%	11.4%	42.0%
2010	17,359.6	43.2%	11.0%	20.6%	4.6%	12.1%	13.1%	38.5%
2011	20,520.5	43.4%	10.9%	21.2%	4.5%	12.2%	13.1%	38.2%
2012	23,193.4	44.6%	10.6%	21.3%	4.5%	12.4%	12.7%	38.5%
2013	26,220.4	46.1%	10.4%	21.2%	4.4%	12.8%	12.7%	38.5%

Source: China National Bureau of Statistics, via CEIC data.

Figure 2: East Asia's Share of Global Services Exports and Imports: By Service Category



Source: UNCTAD.

[§] As a legacy of the Soviet era, China still uses a producer-based measure of GDP that divides up the economy into primary, secondary, and tertiary sectors. The United States and other advanced economies instead use an expenditure-based measure of GDP, which tends to measure consumption and services more accurately.

China's new leadership, which took office a year ago, has some incentive to expand services. Under the 12th Five Year Plan (2011-2015), the tertiary sector is required to contribute 47.2 per cent of GDP by 2015, a target that may be tough to meet at the present pace of growth, especially if manufacturing activity picks up again.[5] Supporting services industries may help to rebalance the economy by stimulating consumption; alternatively, China could channel investment from inefficient infrastructure projects into service industries.[**]

Further, boosting services could improve China's labor markets. Only about one-third of workers in China are employed in services, compared to three-quarters in the United States. A lack of services jobs is particularly bad for university graduates – some seven million were unemployed last year. Perhaps not coincidentally, a week after China declared its intent to join TISA, President Xi met with university graduates struggling to find jobs.[6] In the distant future, some services, such as accounting and information & communications, could also cushion China's economy against volatility in the labor-intensive manufacturing sector, which relies heavily on consumers in Europe and the United States. In theory, services are less susceptible to downturns, less burdened by fixed costs, and more accessible to smaller firms in the private sector.

Actions by China last year suggest that TISA could be part of a broader market reform effort. At the U.S.-China Strategic and Economic Dialogue last summer, the two countries resumed talks on a U.S.-China Bilateral Investment Treaty (BIT) that, if signed, could afford new market opportunities to U.S. service providers. Crucially, the BIT uses a *negative list* approach to defining which industries are off-limits for investors; that is, everything is considered to be covered unless it is specifically excluded.[††] The United States is pursuing a similar negative list in the TISA talks.

China also committed last year to partially open its services to foreign investors through the establishment of the Shanghai Free Trade Zone. The pilot project, launched in October, is supposed to permit foreign enterprises to compete on the same terms as Chinese firms. Like the BIT, it commits to a negative list to make explicit which sectors are off-limits for investors, an approach that enhances regulatory certainty. Further, as part of its ongoing tax overhaul, China last year began to extend a value-added tax rebate for services to cover the entire country and additional sectors. These actions were reinforced at the Third Plenary Session of the 18th Party Congress in November. The Plenum Decision stated that China would "spur the orderly opening up of service fields such as finance, education, culture, and medical care," and "ease the restrictions on foreign fund access in service fields such as nurseries, care for the elderly, building design, accountancy and auditing, commerce and trade circulation, and e-commerce."[7‡‡]

A Less Benign View on China Joining TISA

Past Negotiating Behavior

Market reform may partly account for China's decision to join TISA, yet it must be weighed against China's past negotiating behavior, the interest groups in its services sector, and its sensitivities on key TISA issues. First and foremost, the United States and Europe were

** China's incremental capital output ratio (ICOR) is rising perennially, an indication that more and more investment is needed to achieve the same amount of economic output.

†† For more information on the U.S.-China BIT, see the August 2013 edition of the USCC Monthly Trade Bulletin.

‡‡ For more information on the 3rd Plenum, see Iacob Koch-Weser and Nargiza Salidjanova, "Third Plenum Economic Reform Proposals: A Scorecard" (Washington, DC: USCC, November 19, 2013).

disappointed by the failure of the information technology talks in December. Already in October, then U.S. Trade Representative Michael Froman stated that "[China's] behavior in ITA was not terribly reassuring about them joining [the services] negotiations and trying to achieve the same level of ambition as the existing participants." The main deal breaker in the ITA talks was China's lengthy "sensitivities list" – IT industries it wanted to either exclude from the talks or phase in over a long time period. That list included items, such as semiconductor manufacturing equipment, that are crucial to the supply chains of U.S. technology companies.[89] Equally frustrating was the stop-and-go rhythm of the talks, which were suspended in July due to China's intransigence, only to be resuscitated in October before they collapsed again in December.[§§]

Meanwhile, progress on the Shanghai Free Trade Zone has not inspired much confidence. Gordon Orr, the Asia chairman of McKinsey, the global consultancy, published an article in January arguing that "the Shanghai Free Trade Zone will be fairly quiet" in 2014. He noted that not much had happened in the Zone during its first three months. The only real benefit he could discern was that companies allowed to invest in the zone would not have to go through a formal investment approval process, as is required in the rest of China. He also commented that, for all the talk of a negative list, the current list "very much matches the categories for restricted and prohibited projects in the government's fifth Catalogue of Industries for Guiding Foreign Investment," a 2011 document that places restrictions on the types of sectors foreign companies can invest in.[10] Ahead of the annual meetings of the National People's Congress, held in early March, the Chinese government did unveil some additional measures for the Zone, but these were limited to easing controls on currency conversion, foreign borrowing, and interest rates.[11] Little mention was made of more access for services providers. Since the Zone serves as a litmus test for China's market opening, its slow progress has also sapped momentum from the U.S.-China BIT.

Domestic Interest Groups

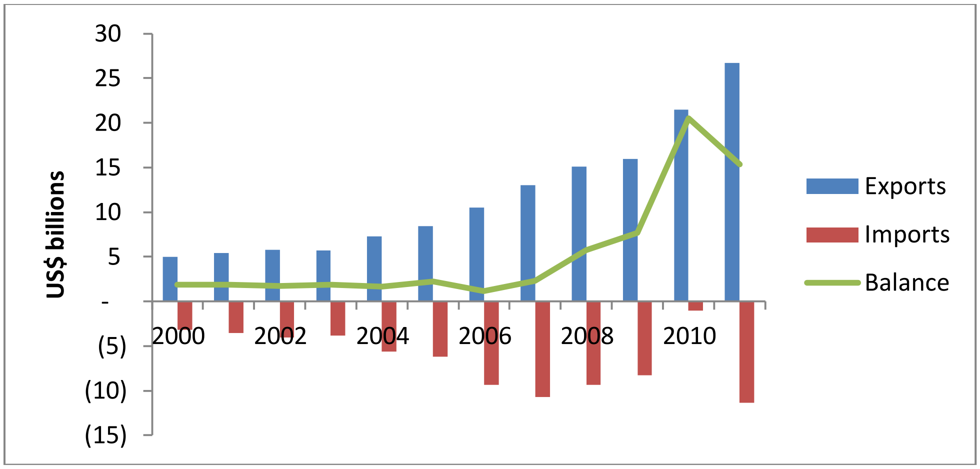
The Third Plenum Decision released in November is ripe with ambitious language but short on specifics and timelines. A closer look at China's domestic interest groups may explain why. If and when China liberalizes services, many Chinese companies stand to be outcompeted. Contrary to its vast export surplus in goods trade, China already runs a deficit in services. Most of that deficit is owing to Hong Kong, but the United States also has a moderate services surplus with China (see figure 3). In this regard, China is very different from India, which has achieved a large surplus in services. Among other things, China lacks India's advantage in English-language services. China's export sectors have long prioritized goods, and its outbound investors have been keener to acquire technology, brands, and resources than to sell services abroad.[12]

In select industries, of course, China might favor liberalization. Two examples are shipping and civil engineering. China has become a world leader in shipping, boasting the world's largest port throughput and best shipping line connectivity, as well as one of the world's largest shipping companies, the central SOE China Ocean Shipping (Group) Company (COSCO) (see table 3). Transport, logistics, and maritime services are an explicit focus of TISA. Chinese contractors, in turn, are among the earliest Chinese companies to venture abroad, and are currently building bridges and railroads in places as far afield as Angola and New York. China's contractors could derive indirect benefits from TISA; for example, if so-

[§§] For further details on the ITA talks, see the August 2013 and January 2014 editions of the USCC Monthly Trade Bulletin.

called "Mode 4 services" for visas are liberalized, that could make it easier for Chinese nationals to work in the United States and other advanced economies.***

Figure 3: U.S. Trade in Services with China, 2000-2011
(US$ billions)



Source: OECD.

Table 3: Major Countries in Global Shipping†††

	Container port throughput (share, %)			Liner shipping connectivity index (max value in 2004 = 100)	
	2008	2009	2010	2004	2013
China	22.5%	23.0%	24.1%	100.0	157.5
Hong Kong	4.7%	4.5%	4.4%	94.4	116.6
United States	8.2%	7.9%	7.8%	83.3	92.8
Germany	3.3%	2.8%	2.7%	76.6	88.6
France	0.9%	1.0%	1.0%	67.3	74.9
Japan	3.7%	3.4%	3.3%	69.2	65.7
Taiwan	2.5%	2.4%	2.3%	59.6	64.2
India	1.5%	1.7%	1.8%	34.1	44.4

Source: UNCTAD.

*** The original GATS fails to mention visas in much detail. On account of the growing mobility of services labor, the TISA talks are trying to remedy this gap. For net recipients of foreign migrants, this is a very sensitive issue, not least in the United States, where Congress continues to deliberate proposals to overhaul the nation's immigration laws. For China, however, there is an obvious benefit: on the one hand, many Chinese nationals, often from Chinese companies, are seeking easier access to visas in developed countries; on the other hand, China is much more concerned about its "floating population" of rural migrants than about expatriates. *Inside U.S. Trade,* "TISA Negotiators Begin Mode 4 Talks; New Proposals Expected In June," May 10, 2013, via Factiva.

††† The Liner Shipping Connectivity Index captures how well countries are connected to global shipping networks. It is computed based on five components of the maritime transport sector: number of ships, their container-carrying capacity, maximum vessel size, number of services, and number of companies that deploy container ships in a country's ports. For each component a country's value is divided by the maximum value of each component in 2004, the five components are averaged for each country, and the average is divided by the maximum average for 2004 and multiplied by 100. The index generates a value of 100 for the country with the highest average index in 2004 (which is China).

However, shipping and construction are the exception, not the rule. Most services sectors in China are not internationally competitive. Two sets of interest groups are most likely to oppose liberalization. On the one hand, in "pillar" industries such as telecommunications, banking & insurance, oil & gas, aerospace, and media, an oligopoly of SOEs, descendants of Soviet era monopolies, wields a powerful influence over the leadership and is likely to object to too much competition (see table 4). For example, the market share of foreign banks has actually declined from 5 percent in 2001 to 2 percent in 2013. A similar trend is visible in the insurance sector (see figure 4). That helps explain why financial services account for just 12 percent of China's economy, less than half the OECD average.[13] To the extent that foreign participation in services is encouraged in strategic sectors, it is often in connection with research and development of technology-sensitive products such as automobiles, aerospace, and pharmaceuticals that China has prioritized for industrial upgrading.

On the other hand, numerous services industries are heavily fragmented and cater to the interests of localities. In logistics and retail, local companies often act as middlemen in supply chains to siphon off profits from manufacturers. As foreign companies use China more as a consumer market than an export platform, they have found it particularly difficult to vertically integrate downstream services, such as distribution and after-sales, into their operations. Alternatively, in healthcare and education, local state ownership is pervasive, under the pretext that these sectors serve the public interest. In reality, hospitals and schools are increasingly market-driven, owing to a lack of fiscal resources.

Important reasons to protect local companies are that most pay dividends or taxes into local coffers, and create jobs for local communities that could be lost if more efficient firms are allowed into the market. Local officials, in turn, enjoy significant leeway in interpreting and enforcing central government policies. Although China's cadre system of evaluating Communist Party officials has become more sophisticated in recent years, to include energy efficiency, debt reduction, and other performance indicators, its core tenets are still economic growth and social stability.[‡‡‡] These indicators may directly conflict with liberalizing services.

Both of the above interest groups – the consolidated and the fragmented - are also backed by influential state agencies in Beijing, which taken together wield more influence than the Ministry of Commerce, which would negotiate TISA. The most prominent are the National Development and Reform Commission, which approves transactions, sets prices, and formulates output targets; the State-owned Assets Supervision and Administration Commission, which manages the assets of China's largest central SOEs; and the Ministry of Finance, which works closely with the state-owned banking sector, depends heavily on corporate income and value-added taxes, and wants local governments to grow their own tax base so as to ease fiscal pressure on the central government. Further backing comes from industry-specific agencies, such as the Ministry of Land and Resources, the China Aviation Authority, and the Ministry of Health, which serve both as regulators and administrative backers of key enterprises.

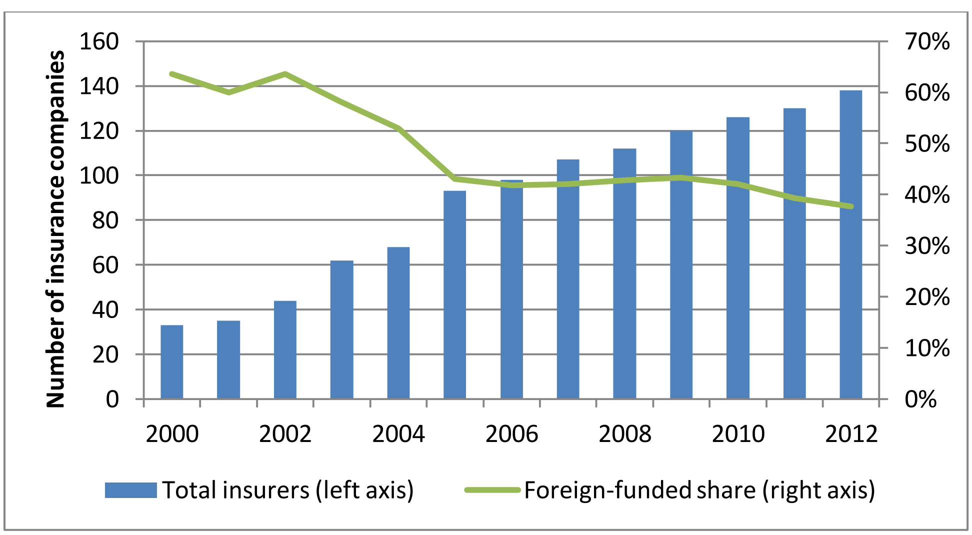
[‡‡‡] For an excellent study on changes in China's cadre system, see Alex L. Wang, "The Search for Sustainable Legitimacy: Environmental Law and Bureaucracy in China," *Harvard Environmental Law Review* 37 (2013): 365-440.

Table 4: Examples of Oligopolistic Service Industries in China

	Major companies	Market share facts
Airlines	(1) Air China (2) China Eastern (3) China Southern	Account for 76% of market share; operate 66% of all Airbus aircraft in China
Railways	China Railway Corp.	Monopoly
Banking	(1) Industrial and Commercial Bank of China (2) Agricultural Bank of China (3) China Construction Bank (4) Bank of China (5) Bank of Communications	Accounted for 47% of total loans and deposits and 60% of Ministry of Finance bonds in 2010
Insurance	(1) People's Insurance Company of China (PICC) (2) China Pacific Insurance (3) China Life Insurance Company (4) China Taiping Insurance Holdings (5) Ping An Insurance	PICC and China Life Insurance each account for approx. one-third of the market; Ping An approx. 17% (2011)
Oil & gas	(1) China National Offshore Oil Corp. (CNOOC) (2) China Petroleum and Chemical Corp. (3) Petrochina Co. Ltd.	Sinopec and CNOOC own >80% of petroleum retail market; Big3 have >90% share of revenue from oil and gas drilling support services
Telecommunications	(1) China Telecom (2) China Unicom (3) China Mobile	Monopoly
Television Broadcasting	China Central Television	Monopoly
Film Distribution	China Film Group Shanghai Film Group	Dual monopoly

Sources: USCC Annual Report 2013; Credit Suisse; Airbus; media sources.

Figure 4: The Share of Foreign Insurers in China



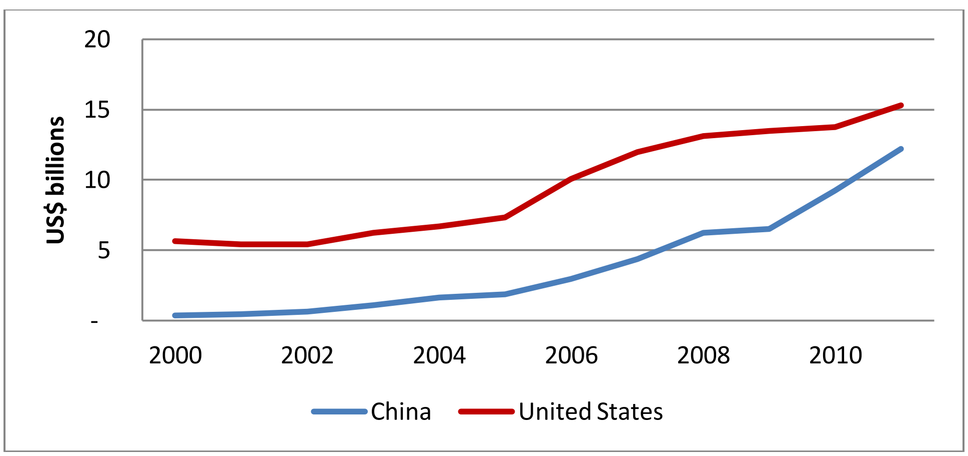
Source: China Insurance Regulatory Commission, via CEIC data.

Sensitivities Regarding Key TISA Issues

Other TISA negotiating points also appear to go against China's current policies. One example is the unimpeded flow of data across borders. Many companies have complained of requirements that data be stored on servers in the country in which it is being used. China's exports of information and communications (ICT) services have soared (see figure 5). China also has major ambitions to be a provider of cloud services. Export-oriented factions in China might exert pressure on protectionists to accept a TISA deal on freer data flows, which could make it easier to transfer data in the United States and other critical markets. The telecommunications equipment providers Huawei and ZTE, which compete with the likes of Cisco and Verizon, are examples of Chinese companies that might favor such a deal.

On the other hand, the free flow of data across borders also raises sensitive considerations of privacy protection and national security. Those issues are particularly salient in the case of China, given the recent revelations of cyber espionage, which have gravely damaged China's credibility on data traffic.[§§§] In late February, President Xi convened a new leading group that explicitly aims to mold China into a "cyber power".[14] Further, unimpeded data flows conflict with China's internal censorship policies. Censorship in China remains pervasive not only for U.S. companies exchanging confidential data, but also for those doing business in publishing, entertainment, and online services. Major U.S. online service providers Twitter and Facebook are banned in China for political reasons. Foreign films are capped according to a quota of 34 per year, and the State General Administration of Press, Publication, Radio, Film and Television reserves the right to censor and block foreign films based on their content.[****]

Figure 5: Exports of Information and Communications Services, 2000-2010



Source: UNCTAD.

[§§§] For more information, see the *USCC 2013 Annual Report*, chapter 2.2. See also Bryan Kekel, Patton Adams, and George Bakos, "Occupying the Information High Ground: Chinese Capabilities for Computer Network Operations and Cyber Espionage" (Washington, DC: Northrop Grumman Corp. for the U.S.-China Economic and Security Review Commission, March 2012).

[****] In July 2013, the Chinese government stated that its State General Administration of Press, Publication, Radio, Film and Television no longer will demand that filmmakers working on projects about "ordinary topics" secure full script approval before going into production. However, because the term "ordinary topic" is vaguely defined, it is unclear whether this represents a fundamental policy shift. Clarence Tsui and Alex Ben Block, "Hollywood Skeptical as China Claims Relaxed Censorship Enforcement," *The Hollywood Reporter*, July 25, 2013. *http://www.hollywoodreporter.com/news/china-claims-relaxed-censorship-enforcement-590768*.

The explicit intent of TISA negotiators to impose disciplines on government procurement and SOEs is a further area that would invite contention. China still has not signed on to the WTO's General Procurement Agreement (GPA), despite repeated pledges to do so. In December, two months after announcing its intention to join TISA, China submitted its fourth GPA proposal, but failed once again to satisfy the demands of the other parties. Although each revised offer has broadened the number and kind of Chinese government entities that would be covered by the GPA, China still does not classify purchases by SOEs as "procurement", and has included less than half of its 31 provinces, autonomous regions, and municipalities in the GPA. Beijing also reserves the right to deviate from the national treatment principle in specific procurements for "important" public policy objectives and to impose requirements for technology transfer.[††††]

The Diplomacy Angle

The lack of a democratic process, combined with powerful state influence, preempts the type of interest group pressure in China that is common in the United States. Given that many groups are opposed to liberalizing services, the Party leadership may be seeking to join TISA of its own accord, primarily for diplomatic reasons. A positive interpretation is that Beijing wants to be seen as a responsible power that is willing to break ranks with other emerging economies, such as India and Brazil, in order to build a case for joining other trade agreements, such as the Trans-Pacific Partnership (TPP) currently being negotiated among APEC members.

Realists, in contrast, would say China is keen to thwart any agreements between the United States with a subset of large economies outside the Doha Round. Japan's decision to join the TPP in 2013, coupled with the U.S-Korea FTA, arguably dealt a blow to China's trade diplomacy.[15] In view of this, China may aim to stall or at least water down the final TISA document. China's lack of interest in negotiating services – which have not figured much in its preferential agreements – provides further grounds for suspicion.

Even if China negotiates earnestly and signs an agreement acceptable to the other parties, its compliance is not guaranteed. Since joining the WTO, China has complied with its basic commitments, but serially abused many others, either by design or weak enforcement. Whereas the United States has had some success challenging China through the WTO dispute settlement process, that mechanism may be more difficult to use under TISA. Since TISA is a plurilateral agreement, the TISA negotiators have yet to clarify whether they can use the WTO dispute settlement process. And while it is fairly easy to retaliate against another country by raising tariffs on goods at the border, placing restrictions on services – say, by revoking an engineering firm's operating license – is a lot trickier.

If the United States opposes China joining TISA, it will have to contend with the interests of the other negotiating parties, some of whom already disagree with the United States on other TISA issues.[‡‡‡‡] Brussels has said that more assurances should be exacted from

[††††] For more details, see the January 2014 edition of the USCC Monthly Trade Bulletin.

[‡‡‡‡] One notable area of disagreement between the United States and Europe is in regard to security exceptions. The United States seeks to broaden the security exceptions in the original GATS to include exceptions it negotiated in its FTA with Korea, where "essential security interests" are presumed to be self-judging rather than spelled out (as in GATS). The Europeans generally object to any change to the GATS language because they want TISA to be viewed as part of the ongoing Doha negotiations, and think it is less likely to do so if the language is too different from GATS. *Inside U.S. Trade*, "U.S. Proposes Alterations To TISA Text, Delaying Market Access Offers," July 5, 2013, via Factiva.

Beijing during, not prior to, negotiations.[16] Canberra has been a driving force behind TISA and has actively lobbied China and other Asian governments to join, given their importance for the Australian economy.[17] Taipei also appears to support China joining: The Taiwan-China Service Trade Agreement, signed last June, has provided Taiwanese companies with expanded opportunities to enter the financial and e-commerce sectors in the China market.[18]

[1] Brian Jackson, "China Formally Enters New Trade in Services Agreement Negotiations," *IHS Global Insight Daily Analysis*, October 17, 2013, via Factiva.
[2] Gary Clyde Hufbauer et al, "Framework for the International Services Agreement," *Policy Brief* PB12-10 (Washington, DC: Peterson Institute for International Economics, April 2012.
[3] Greg Earl, "China Opens Economy to Services," *The Australian Financial Review*, October 7, 2013, via Factiva.
[4] Asian Development Bank, "Asian Economic Integration Monitor" (Manila: Asian Development Bank, March 2013).
[5] Angus Grigg and Geoff Winestock, "A New Wind from China," October 8, 2013, via Factiva.
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