

Peru's Trade in Services: Multilateral and Preferential Liberalization

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Abstract

This thesis is aimed at evaluating Peru's PTA in order to determine the level of preferences granted and received by it. From an importing side, the focus is to assess the services commitments given by Peru to its three major trading partners, the US, the EU and China, with the view to comparing their coverage. From an exporting side, the aim is to analyze US, EU and China's offers granted to Chile, Colombia and Costa Rica, accordingly, with the objective of determining to what extent these PTAs are benefiting Peru. The research is based on the Marchetti and Roy (2008) methodology of computing services commitments.

LIST OF ABBREVIATIONS

BCRP – Central Bank of Peru

CPC – United Nation's Central Products Classification

EPA – European Partnership Agreement

EU – European Union

FDI – Foreign Direct Investment

FTA – Free Trade Agreement

GATS – General Agreement on Trade in Services

GDP – Gross Domestic Product

MFN – More Favoured Nation

OSIPTEL – Regulator Organism of Private Investment on Telecommunications

PROINVERSION – Private Investment Promotion Agency

PROMPERU – Peruvian Agency for the Promotion of Private Investment

PTA – Preferential Trade Agreement

RCA – Revealed Comparative Advantage

UNCTAD – United Nations Conference on Trade and Development

UK – United Kingdom

US – United States

WTO – World Trade Organization

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1. Introduction

The importance of services trade has grown substantially over the last 30 years. The increasing share of services in world trade and GDP,¹ as well as the escalating number of international agreements intended to deal with services trade allows to confirm this. On the one hand, services sectors share to the world GDP has increased from 55% in 1977 to 70% in 2007. On the other hand, the number of international agreements has also grown considerably specially after the Uruguay Round, reaching a total of 92 agreement notified to the WTO.²

Developing countries have gradually begun to expand the scope of their PTAs including services as part of the issues to be discussed. According to Hoekman, negotiations on trade in services, during the Uruguay Round, were mainly proposed by the US and support by few other developed countries while developing countries remained reluctant to open their services markets.³ However, this situation has changed specially from 2000s when most developing countries have involved in PTAs that included provisions on services.

Peru is an illustration of a developing country that has gradually started to commit, first multilaterally and later bilaterally, minimum levels of services liberalization. In the last 20 years, Peru has implemented a trade policy aimed at opening its domestic market unilaterally as well as through trade negotiations at multilateral and bilateral level. This liberalization had led to a better performance of the domestic markets caused by the increasing competition.⁴

Peruvian unilateral liberalization began in the nineties, when, the Peruvian government began to apply economic and legal changes with the objective of liberalizing services and goods markets. After a decade of unilateral liberalization, including changes made to implement the WTO Agreement in its domestic legislation, Peru began a strategy of bilateral liberalization through PTAs with trade partners of different development levels, geographical locations, trade relations, etc.

¹ See WTO and UNCTAD statistics.

² The first agreement on trade in services was signed in 1957 by the EU (Treaty of Rome). After the Treaty of Rome, Canada – US Free Trade Agreement (1988) was the second trade agreement that involved services, followed by the North American Free Trade Agreement (NAFTA).

³ Hoekman, B.. "Assessing the General Agreement on Trade in Services", in Will Martin and L. Alan Winters (eds), *The Uruguay Round and the Developing Countries*, Cambridge University Press, 1996, p. 2.

⁴ Illescas, J. "Comercio de Servicios en el Perú" (Trade in Services in Peru), in Guevara, E. & Novak, F. (eds), *El Perú y el Comercio Internacional (Peru and the International Trade)*, PUCP: Fondo Editorial, 2010, pp. 262.

Although, Peru has an aggressive agenda designed to maintain PTAs with all its major trading partners, there is a lack of understanding and academic analysis as to what implications this policy is and will be originating. In this context this research paper is focused on analyzing the liberalization process that has taken place in Peru's services sectors through multilateral and bilateral negotiations, and to what benefits Peru is receiving from its major trading partners (the US, the EU and China) in comparison with its main regional competitors such as Chile, Costa Rica and Colombia.

To this end, the thesis is organized as follows. Chapter two presents the main characteristics of Peru's services trade. The third chapter compares the trade opportunities of Peru with its trading partners using the RCA index. The fourth chapter introduces the methodology that is being applied and the criteria used to evaluate the Peru's services PTAs and those of its major partners and competitors. The chapter five and six show the main results and findings of applying the methodology to compute the degree of liberalization granted by Peru in its services PTAs and the level of preferential treatment received by it in comparison with its main regional competitors. Finally, final remarks and comments are contained in the conclusions chapter.

2. Peru's Services Trade Profile

This chapter presents the data and main characteristics of Peru's services sectors and foreign trade, focusing on cross-border services trade, Peru's inward and outward FDI and main country investors in Peru.

2.1. Peru's services economy and foreign trade

During the last three decades, the service sector has represented more than 50% of Peruvian GDP. Although, Peru's GDP has increased significantly between 1980 and 2010, from US\$ 32,086 million to US\$ 74,625 million, services have maintained a stable share, increasing 2% in this period (from 60.0% to 62.4%).⁵ This confirms that the main function of services is to act as inputs in the production process having a very important role in the economy of a country such as Peru.⁶ And that Peru has not yet embarked on a significant journey of endogenous service sector growth.

The contribution of services to GDP has also remained constant. Other services, which include telecommunications and financial services represent 38.7% of GDP, followed by retail trade (commerce), construction and utilities (water, electricity) with shares of 15.0%, 6.7% and 2.0% respectively.⁷

On the foreign trade side, the contribution of the services sector has increased significantly over the past 30 years. In 1980, the share of the international trade in services to GDP was 5.0% whereas in 2010, this share had reached 13.1%. Services imports explain much of this increase, with an average growth rate of 7.3%.⁸

Peru has historically showed a deficit on trade in services. Since 2004, Peru's trade balance became positive given the significant growth of goods exports. However, this trade surplus was not reflected in services sectors, where imports have continued to exceed exports. During the last five years, the country's trade deficit in services has grown by 38.2% on average, reaching US\$ 1,869 million in 2010, with exports of US\$ 3,951 million and imports of US\$ 5,820 million.⁹

The trade deficit in services is mainly caused by a deficit on transportation-related services. Although, transport services exports have grown faster than imports (of the same sector), the

⁵ See Peru's Central Bank economic statistics. Available at: <http://www.bcrp.gob.pe/estadisticas.html>

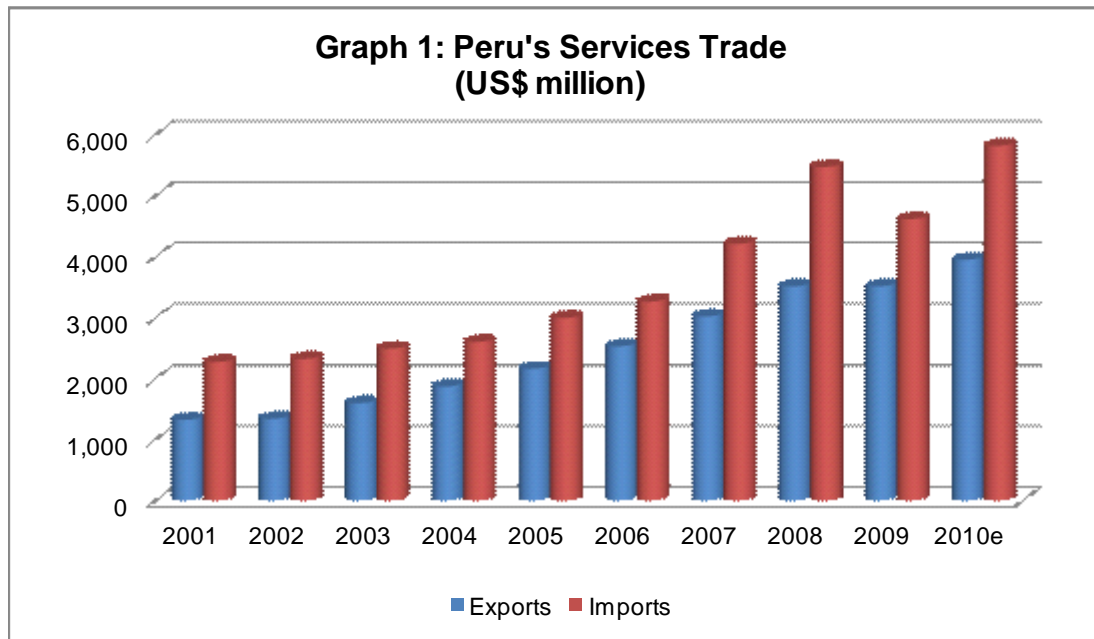
⁶ François, J. and B. Hoekman. Services Trade and Policy, in *Journal of Economic Literature*, 48, 2010, pp. 645.

⁷ See Peru's Central Bank economic statistics. Available at: <http://www.bcrp.gob.pe/estadisticas.html>

⁸ See Peru's Central Bank economic statistics and UNCTAD database.

⁹ Ibid.

trade deficit in this sector is over US\$ 1,000 million, which represents almost 60% of the overall deficit.



e: estimated

Source: BCRP, UNCTAD

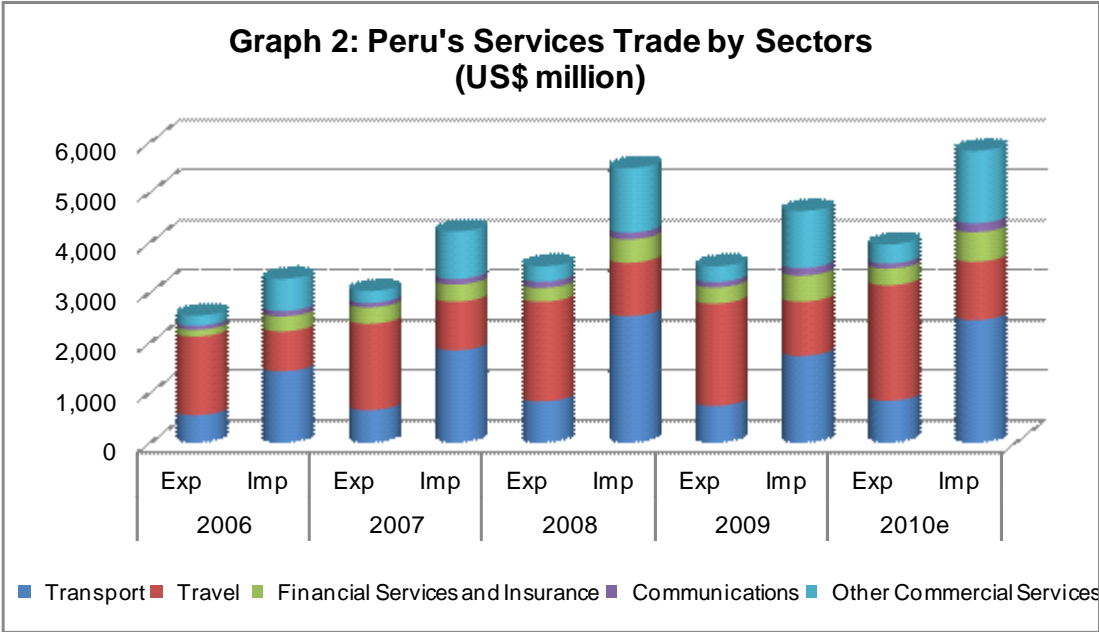
Even though services in Peru's overall trade has declined, it is still increasing. The share of services exports from 2001 to 2010 in Peru's foreign trade of goods and services fell from 15.9% to 10.0%. However, the export value grew at an average rate of 13.1%. Similarly, the participation of services imports in Peru's total imports of goods and services is also dropping. The share of services in imports fell from 24.0% in 2000 to 16.8% in 2010 with an average import value growth rate of 11.9%. In 2011, services exports and imports together accounted for 12.4% of the Peru's trade flows.¹⁰

According to the country's balance of payments statistics, Peru's services exports are mainly focused on the travel sector while imports are concentrated on transportation-related activities. Travel is the sector closely related to tourism, where Peru has a significant comparative advantage, even at the world level (see Chapter 3). On average between 2006 and 2011, travel services represented 58.3% of all revenues related to services exports; followed by transport (21.6%), other commercial services¹¹ (8.7%), financial services (8.4%) and communications (3.0%) respectively. On the other hand, transport is the main importing sector, with an average share on the total services imports of 42.5%. Being other commercial

¹⁰ Ibid.

¹¹ Other commercial services are all other services not covered by transportation and travel categories. This sector includes, computer and information, construction, royalties, business and personal, cultural and recreational services.

services and travel in second and third places with a average share of 23.4% and 21.8 respectively.¹²



e: estimated
Source: BCRP, UNCTAD

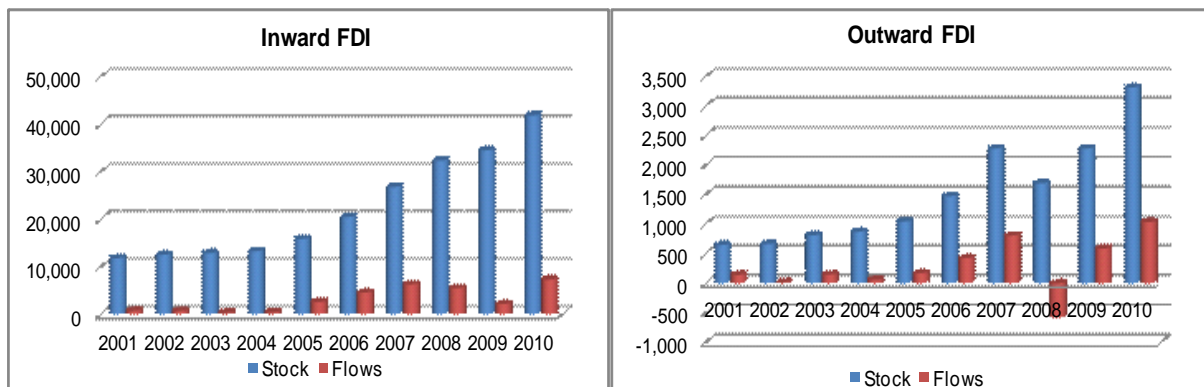
2.2. Peru’s Inward and Outward Foreign Direct Investment (FDI)

Another way to capture the flow of international trade in services is through FDI statistics, which contain data about mode 3 trade (commercial presence) in most countries. In 2010, Peru’s inward FDI stock reached US\$ 41,849 million, representing 3.2% of all FDI in Latin America. Between 2006 and 2010, FDI stock in Peru grew at an average rate of 21.7%, being the fifth highest growth rate in Latin America.¹³

With regard to the outward FDI stock, Peruvian investment abroad has begun to grow substantially. In 2010, Peruvian companies invested approximately US\$ 3,199 million outside the country, which showed a growth of 30.0% (average 2006-2011). Graph 3 provides the latest Peru’s data for inward and outward FDI.¹⁴

¹² Ibid, see footnote 4.
¹³ See PROINVERSION and UNCTAD database.
¹⁴ Ibid.

**Graph 3: Peru's Inward and Outward FDI
(US\$ million)**



Source: Proinversion, UNCTAD

2.3. Peru's statistics on Mode 3

2.3.1. FDI received by Peru

According to PROINVERSION, the EU is the main foreign investor in Peru, followed by the US and Chile. In 2010, the United Kingdom and Spain were the European countries with the highest share in Peru's total FDI, with 21.2% and 21.0% respectively. In the case of the UK, HSBC and Nextel International are two of the most important investors. Telefonica has been the main Spanish investor in Peru since the 1990's. Moreover, the US and Chile represented 15.2% and 6.4% in 2010.¹⁵

At the sectoral level, inward FDI in Peru is highly concentrated in mining and telecommunications. The mining sector had a share of 23.3% in 2010, with Southern, Xtrata, Gold Fields, Cerro Verde and Yanacocha acting as the country's main foreign investors in the sector. On the other hand, foreign investment in the telecommunications sector continues to be dominated by Telefónica, alongside Nextel International and America Movil.¹⁶

It is important to mention that despite the increasing participation of more enterprises in the Telecom sector, Telefónica maintains an important position in the market. As in most countries, Telecom enterprises were of public ownership in Peru until 1990's. In 1994, the privatization process began and Telefónica bought Peru's Telecom public enterprise (Entel Peru) and enjoyed of a monopoly until 1999 (according to the privatization contract). After this period, the liberalization process in the telecommunications sector began in 1999, under

¹⁵ PROINVERSION.

¹⁶ Ibid.

the supervision of OSIPTEL. After more than ten years of liberalization process, Telefónica's share has reduced from 99.6% in 2001 to 74.1% in 2010, maintaining its dominated position in the market.¹⁷

Chart 1: Peru's Inward FDI by Country of Origin

Country	2009 share (%)	2010 share (%)	Growth Rate (%)
European Union	53.53	52.30	4.56
United States	15.79	15.24	3.30
Chile	6.73	6.37	1.19
Brazil	2.54	4.88	105.87
Panama	4.79	4.48	0.00
Colombia	3.99	4.29	15.05
Mexico	2.39	2.24	0.00
China	1.80	1.83	8.86
Singapore	1.88	1.76	0.00
Canada	1.66	1.66	6.56
Switzerland	1.61	1.65	9.86
Uruguay	1.29	1.28	5.54
Japan	0.97	1.05	16.01
China	0.76	0.71	0.00
Others	0.25	0.27	15.17
Total	100.00	100.00	7.02

Source: Proinversion - Peru

Chart 2: Peru's Inward FDI by Economic Sector

Sector	2009 share (%)	2010 share (%)	Growth Rate (%)
Mining	21.22	23.32	17.62
Communications	19.05	18.23	2.42
Financial Services	15.12	14.88	5.32
Industry	15.68	14.72	0.48
Energy	13.62	13.42	5.45
Commerce	3.89	3.79	4.13
Other Services	2.71	2.56	1.06
Housing	2.72	2.54	-0.08
Oil	1.83	2.27	32.51
Transport	1.59	1.53	2.76
Construction	1.15	1.42	32.79
Fishing	0.84	0.78	0.00
Tourism	0.33	0.31	-0.47
Agriculture	0.23	0.22	-0.44
Forestry	0.01	0.00	-16.67
Total	100.00	100.00	7.02

Source: Proinversion - Peru

2.3.1. Peru's FDI abroad

Although, Peru is an important receptor of FDI in Latin America, it is also becoming a relative significant investor in the region. As shown in Chart 3, Peruvian investment abroad is heavily concentrated on Latin American countries, with the exception of Spain and the US. The main Peru's investment destinations are Bolivia, Chile, and some Central America countries. As it may be expected given the boom of Peruvian cuisine and tourism in the last years, many restaurants are expanding their operations abroad by opening direct-related restaurants or by selling their franchises to entrepreneurs in the destination country.

It is important to mention that, in Peru, there are no precise statistics, at sectoral or firm level, about Peru's FDI outward. In that sense, based on the information from the Peruvian Chamber of Franchises and the National Commission of Values, Chart 3 shows a sample of Peruvian firms that have invested abroad,

¹⁷ See OSIPTEL statistics.

Chart 3: Peru's Outward FDI

Enterprises	Sector	Destination
Yobel SCM	Customs Agency	Bolivia, Chile, Ecuador, Honduras, El Salvador and Guatemala
Transporte Transaltina Chile Limitada (CERVESUR)	Land Transport	Chile
Banco de Credito de Bolivia S.A.	Financial Sector	Bolivia
Banco Interbank	Financial Sector	China, Brazil* and Panama*
Credibolsa S.A.	Financial Sector	Bolivia
Credicorp Securities INC	Brokerage	United States, Panama
Credifondo SAFI S.A.	Financial Sector	Bolivia
Inversiones BCP Ltda.	Financial Sector	Chile
Soluciones en Procesamiento S.A. Servicorp	Flower shop	Bolivia
Rosatel	Flower shop	Chile, Colombia, United States and Mexico
Heladeria 4D	Restaurants	n.a.
La Caravana	Restaurants	United States
Astrid & Gaston	Restaurants	Colombia, Chile, Spain and others
La Mar	Restaurants	United States, Mexico, Chile, Brazil and Panama
China Wok	Restaurants	Guatemala, El Salvador, Costa Rica, Ecuador and Chile
Pardos Chicken	Restaurants	United States, Chile and Mexico
Rockys	Restaurants	n.a.
Tanta	Restaurants	Bolivia and Chile
Bembos	Restaurants	India and Guatemala
Alfresco	Restaurants	Chile

n.a. : not available

* In progress

See Table 4 in Illescas, J. (2010)

Author's Elaboration

3. Revealed Comparative Advantage Index

The index entitled revealed comparative advantage (RCA) represents a measure of the competitive performance of a country in various product categories. This index was initially proposed by Bela Balassa in 1965, who suggested that comparative advantages can be “revealed” by analyzing a country’s current trade pattern.

In this chapter, the RCA index is applied to Peruvian trade in services and that of its key trading partners (the United States, China and the European Union) and competitors (Chile, Colombia and Costa Rica), based on balance of payments data, in order to identify those sectors where Peru and its partners appear to maintain their advantages on the exporting and importing side.

The RCA index for a service in a specific country is derived from the quotient between the participation of the exports of a specific sector in the total services exports of a country and the participation of the world exports of that sector in world services exports. The equation used for RCA calculations is the following:

$$RCA_i = Ln [(X_i / X_m) / (X_{iw} / X_{mw})]$$

where: X_i is the exports value of service i of a country

X_m is total value of services exports of the same country

X_{iw} is the world exports value of service i

X_{mw} is the total value of world services exports

The index has been calculated using logarithms in order to smooth the results. In that sense, when the index is positive, the specific service sector can be said to have a relative comparative advantage over the rest of the services sectors of that country. On the other hand, if the index is negative, one may conclude that the country has a relative disadvantage in that specific sector over the rest of its service sectors.

3.1. Services Exports

4 presents calculations of the RCA index for services exports. The positive values have been highlighted to show the sector where a country has a comparative advantage. According to

Chart 4, Peru and its competitor countries, except Chile, have a comparative advantage in the exportation of travel services. In other words, Colombia, Costa Rica and Peru are all good at exporting tourism services, which is a sector in expansion in these three countries. Also, Peru and Colombia have a comparative advantage in the export of telecommunication and IT-related services, which is shown in case of Peru through the boost in exports of call centers from US\$ 345 thousand dollars in 2005 to US\$ 110 million in 2010.¹⁸

As regards Peru's main trading partners, the US, China and the EU seem to enjoy comparative advantages in other commercial services. However, given the fact that such category covers different types of service sectors, it is not possible to clearly identify where the latter countries' RCA lies.¹⁹ On the other hand, the US and the EU are the only countries that show a relative advantage in financial services, whereas China also maintains a RCA in travel services.

**Chart 4: Exports' Revealed Comparative Advantage Index
(average 2005 - 2009)**

	Transport	Travel	Financial Services	Communi - cations	Other Commercial Services
Chile	0.94	-0.49	-2.82	-0.29	-0.66
China	-0.02	0.20	-3.61	-1.05	0.01
Colombia	0.23	0.56	-1.64	1.06	-1.04
Costa Rica	-0.94	0.75	-3.06	-0.71	-0.28
European Union	-0.04	-0.13	0.15	0.09	0.02
Peru	-0.07	0.78	-2.10	0.24	-1.02
United States	-0.33	-0.02	0.37	-0.34	0.05

Source: UNCTAD

Author's Elaboration

It is important to note that the RCA index may not be the best indicator to compare the performance of a specific sector among and across countries. The index is particularly useful to compare the relative advantage of sectors in a country's trade. However, to compare a specific sector among various countries, a better alternative is to calculate the tendencies of the RCA and to contrast them.

Taking the above caveats in mind, Graphs 4 to 8 show the RCA index evolution for Peru, as well as that of its competitor countries and of its target markets. These estimations are based

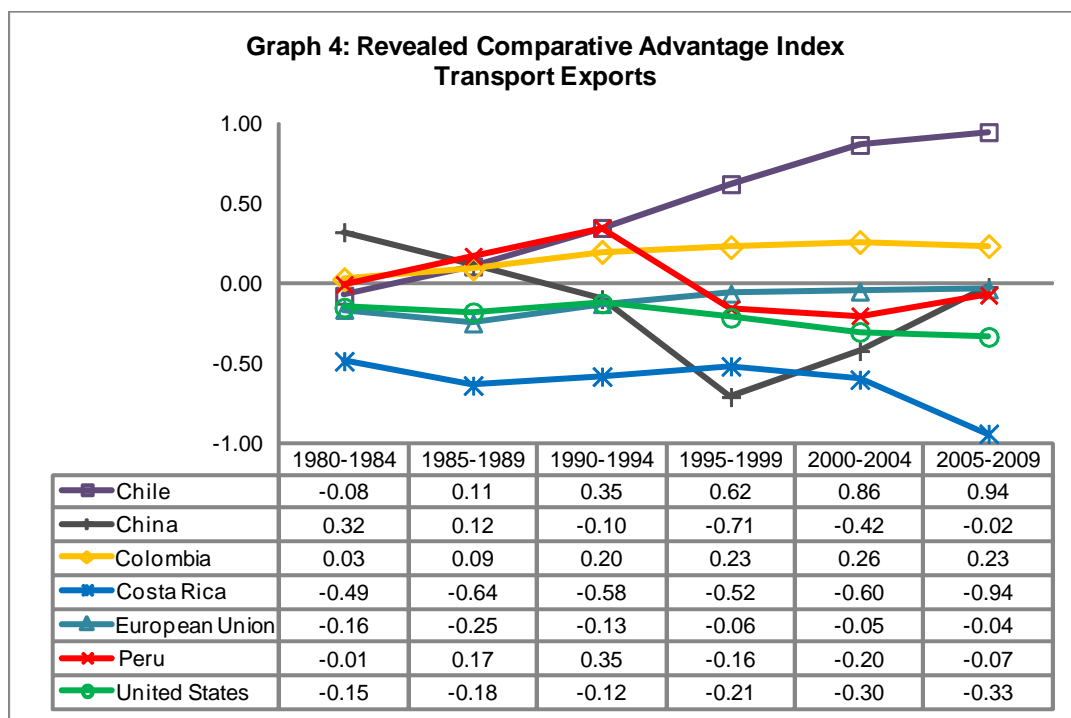
¹⁸ Contact centers portfolio published by PROMPERU (Spanish only) in December 2010: http://www.peruservicesummit.com/repositorioaps/0/0/ger/analisis_sectores/catalogo-centros-de-contacto.pdf

¹⁹ Other commercial services are all other services not covered by transportation, travel, communications and financial services categories. This sector includes, computer and information, construction, royalties, business and personal, cultural and recreational services.

on data from 1980 and 2009, using five-year averages in order to identify discernable tendencies.

Graph 4 shows that the RCA index has a clear positive tendency for countries such as Chile and Colombia. Except during 1980-1984 in the case of Chile, these countries have had a RCA index higher than zero. This indicates the increasing exporting capacity of Colombia and Chile in the transport sector.

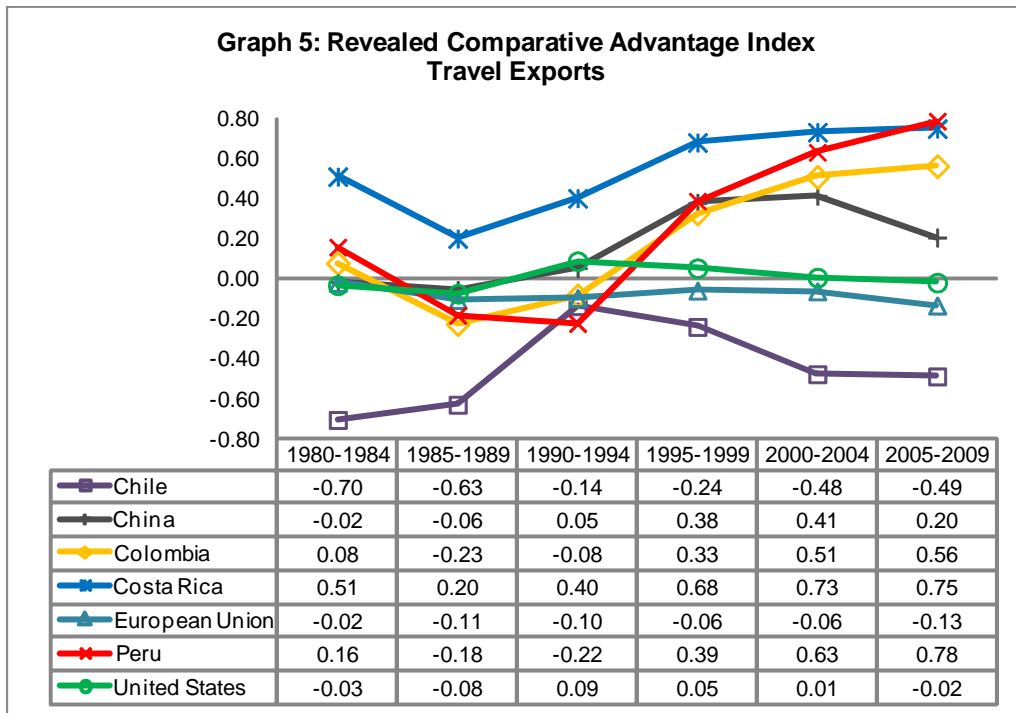
In contrast, the rest of the sample countries present a negative value of the index. Costa Rica, the EU and the US reveal no particular comparative advantage during the covered period while Peru and China had it only until 1995, following which they appear to have lost their relative advantage.



Source: UNCTAD

Author's Elaboration

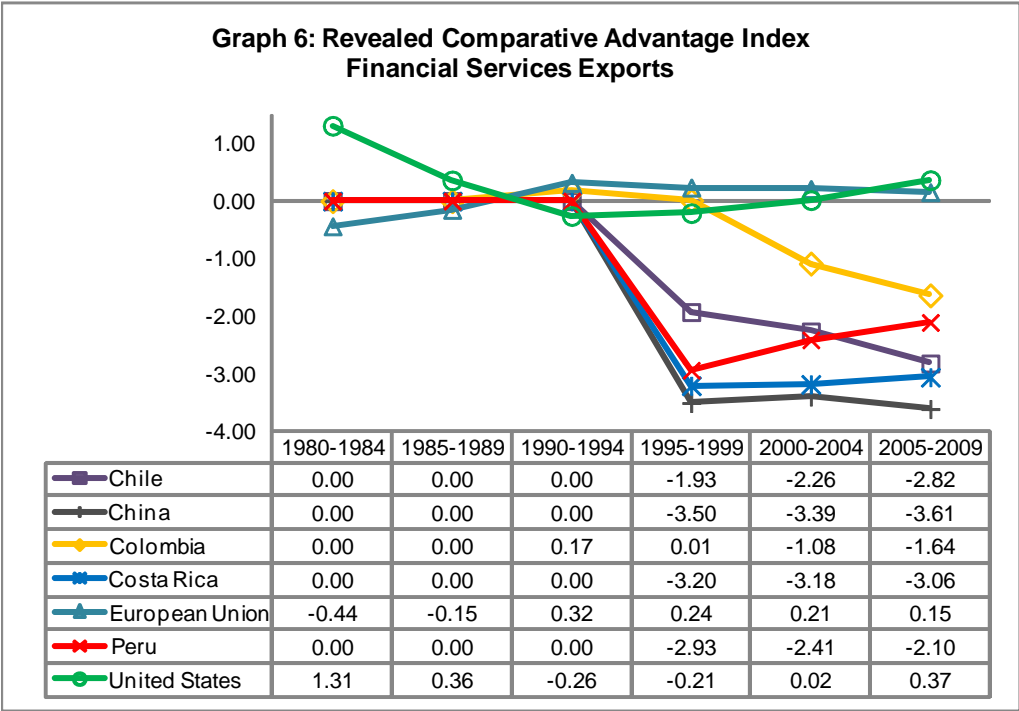
Regarding travel services, Colombia, Costa Rica and Peru show a clear improved performance in the RCA index. This evidences a robust improvement in the relative advantage of these countries in the tourism sector. On the contrary, for Chile, the EU and the US, the RCA reveal a decreasing trend, indicative of a relative disadvantage for the exportation of travel services.



Source: UNCTAD

Author's Elaboration

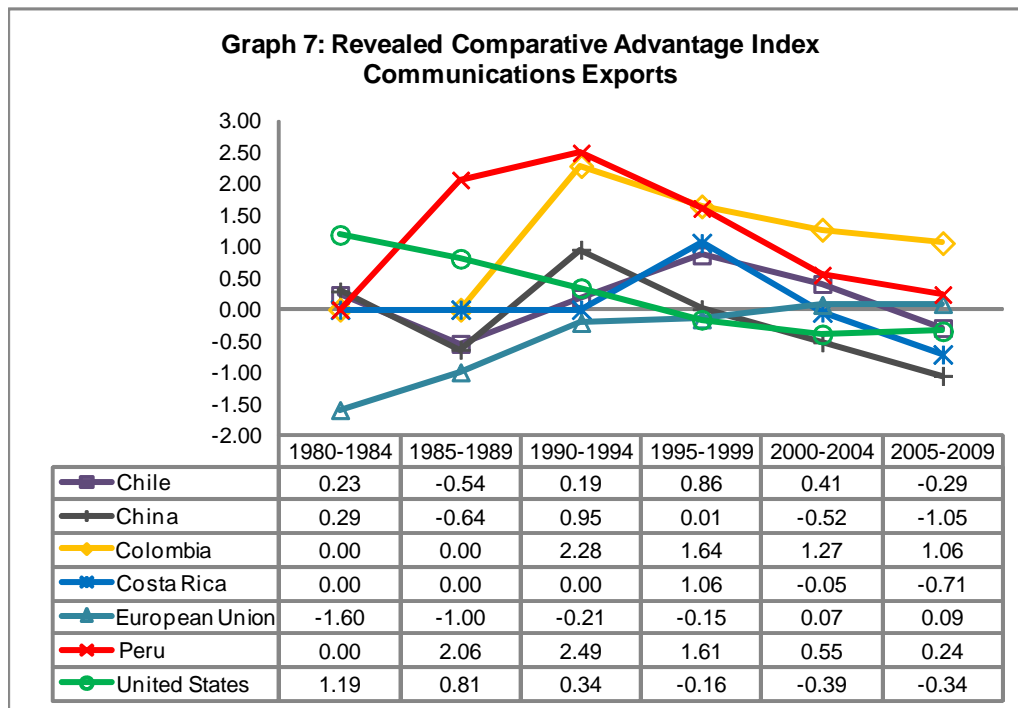
With respect to financial services, the export RCA index shows that Peru and all its competitor countries have a negative tendency in this sector. This suggests that these countries have been losing their export competitiveness in financial services. On the other hand, the US and the EU present a positive indicator as well as an upward tendency, especially from 1995, when the US began to recover from the fall of 1980 – 1994.



Source: UNCTAD

Author's Elaboration

As showed by Graph 7, all countries, except for the EU, show a negative trend for their export RCA index. Although Peru and Colombia present RCA indexes higher than zero, their trend has been decreasing from the 1990-1994 period. On the other hand, the European Union shows a positive trend from 2000 onwards.

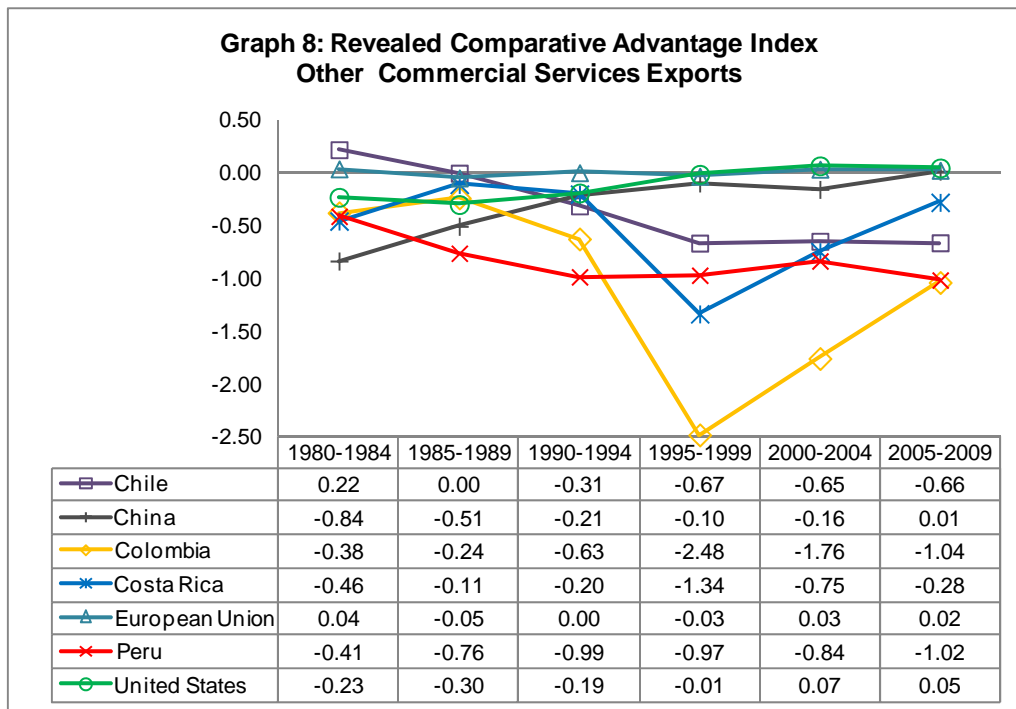


Source: UNCTAD

Author's Elaboration

For other commercial service sectors, the US and the EU present positive RCA values but with slightly decreasing tendencies over the 2000 – 2009 period). In contrast, Colombia and Costa Rica have negative values of the RCA. However, their tendencies are positive, especially from 1995 onwards. In the case of the Peru, the tendency is clearly negative, which evidences a relative disadvantage of Peru in offering this type of services.

It bears mentioning that other commercial service sectors aggregate an important number of service subsectors such as computer and information, construction, royalties, business and personal, cultural and recreational services. The RCA index shows an average result for these subsectors. In this sense, the fact that Peru and most of its competitor countries have a negative index does not necessarily mean that they maintain a disadvantage in all subsectors. For example, while Peru has a negative RCA index in other services sectors, it can still be competitive in professional services.



3.2. Service Imports

From the importing point of view, the calculation of the RCA index is aimed at identifying in which sectors a country is more competitive at demanding. In other words, the RCA index for imports illustrates the demanding capacity of a country of a specific sector; giving information about what services should be more offered or sold to a particular country.

Chart 5 presents the calculation of the RCA index for imports. The positive values have been highlighted to show sectors where a country has a comparative advantage. According to the chart, Peru and its competitor countries have a comparative advantage in the importation of transport and communications (except Chile) services.

As regards Peru's target countries, the EU is seen to have comparative advantages at demanding travel, financial, communications and other commercial services, while the US enjoys comparative advantages in buying financial services while China has ones in transport and other commercial services.

Notwithstanding the above trends, the dynamism and competitiveness shown by some service sectors when a country maintains comparative advantages in both the export and import of such services bears mentioning. In the case of Peru, the country maintains comparative advantages in the export and import of telecommunications services. Peru's main regional competitors, Chile and Colombia, maintain comparative advantages in the export and import of transport services while Costa Rica maintains it in travel services while

Colombia also maintains it in telecommunication services. In the case of the EU, it maintains a comparative advantage in the export and import of financial, telecommunications and other services, while the US maintains it in financial services.

**Chart 5: Imports' Revealed Comparative Advantage Index
(average 2005 - 2009)**

	Transport	Travel	Financial Services	Communi - cations	Other Commercial Services
Chile	0.61	-0.59	0.12	-0.28	-0.53
China	0.10	-0.08	-2.19	-1.08	0.00
Colombia	0.32	-0.08	-0.46	0.36	-0.37
Costa Rica	0.24	0.14	-1.72	0.84	-0.50
European Union	-0.22	0.01	0.25	0.29	0.05
Peru	0.37	-0.15	-1.29	0.22	-0.33
United States	-0.04	-0.08	0.17	-0.10	-0.01

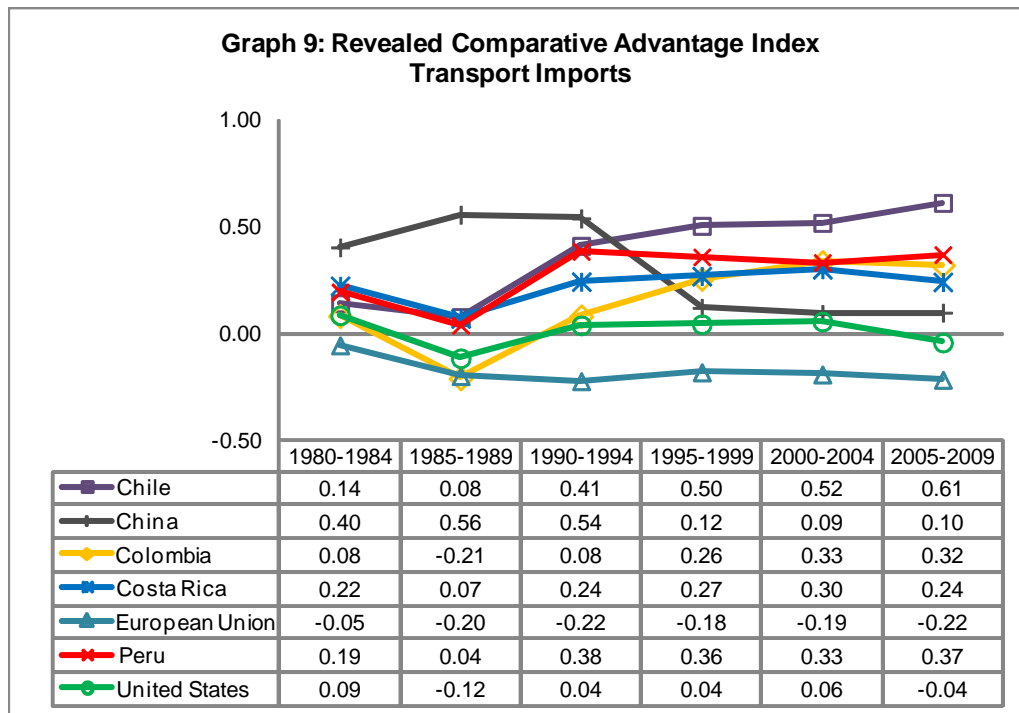
Source: UNCTAD

Author's Elaboration

Graphs 9 to 13 show the RCA index evolution for Peru, its competitor countries and its target markets. These estimations are based on data from 1998 and 2009, once again using five-year averages in order to identify discernable tendencies.

Graph 9 shows that that the RCA index has a clear positive tendency for Peru and its competitors. Except during 1985-1989 in the case of Colombia, these countries have maintained a positive RCA index. This indicates the increasing import capacity of Peru and its competitors in the transport sector.

In contrast, Peru's target countries have shown a declining trend and in particular the EU has shown a negative value of the index during the period analyzed. China is the only one of Peru's target markets to maintain a RCA higher than zero and US has hovered around zero but without clear comparative advantages during the periods from 1985 to 1989 and from 2005 to 2009.



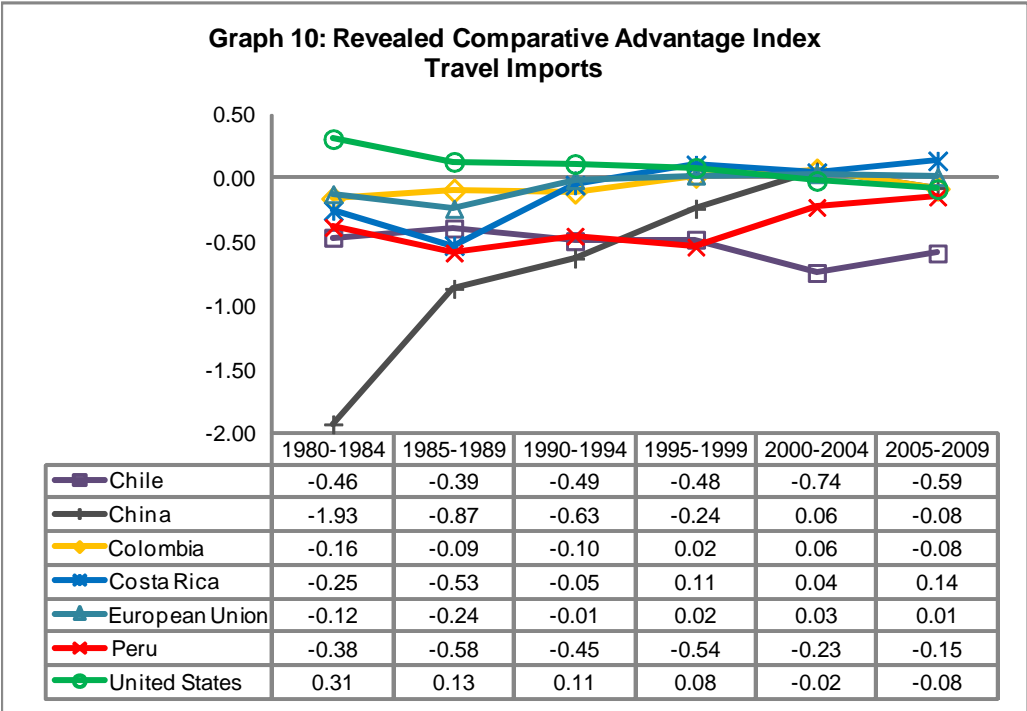
Source: UNCTAD

Author's Elaboration

Regarding travel services, only China (except in the last period) and Costa Rica have a clear increasing tendency in their respective RCA indices. This evidences the increasing demand of touristic services by these two countries, especially China. On the other hand, Peru, Colombia and the EU all maintain a slightly rising trend but without a clear performance in their comparative advantages in the import of travel services, meaning that their capacity to demand touristic services has not increased dramatically. Such evidence also demonstrates that Chile and the US are generally declining and losing their comparative advantage in demanding touristic services.

This results evidence the growing importance of China as one of the main importing countries in the tourism sector. Although China RCA index is still negative, its trend is clearly positive²⁰, showing the opportunity for countries like Peru to diversify their touristic demand beyond countries such as the US and those of the EU.

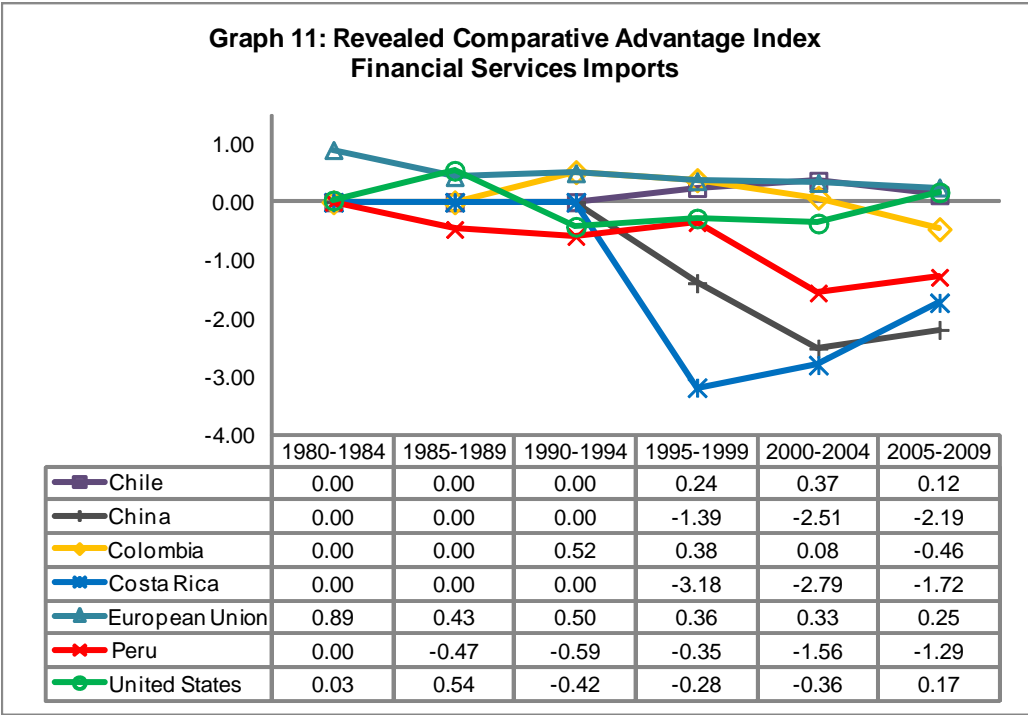
²⁰ Except during the last five-year period (2005 – 2009).



Source: UNCTAD
 Author's Elaboration

With respect to financial services, the import RCA index shows that Peru and all its competitor countries (except Chile) have maintained no comparative advantages in this sector. This means that Peru, Colombia and Costa Rica all have a RCA index lower than zero and with a negative trend (except for Costa Rica).

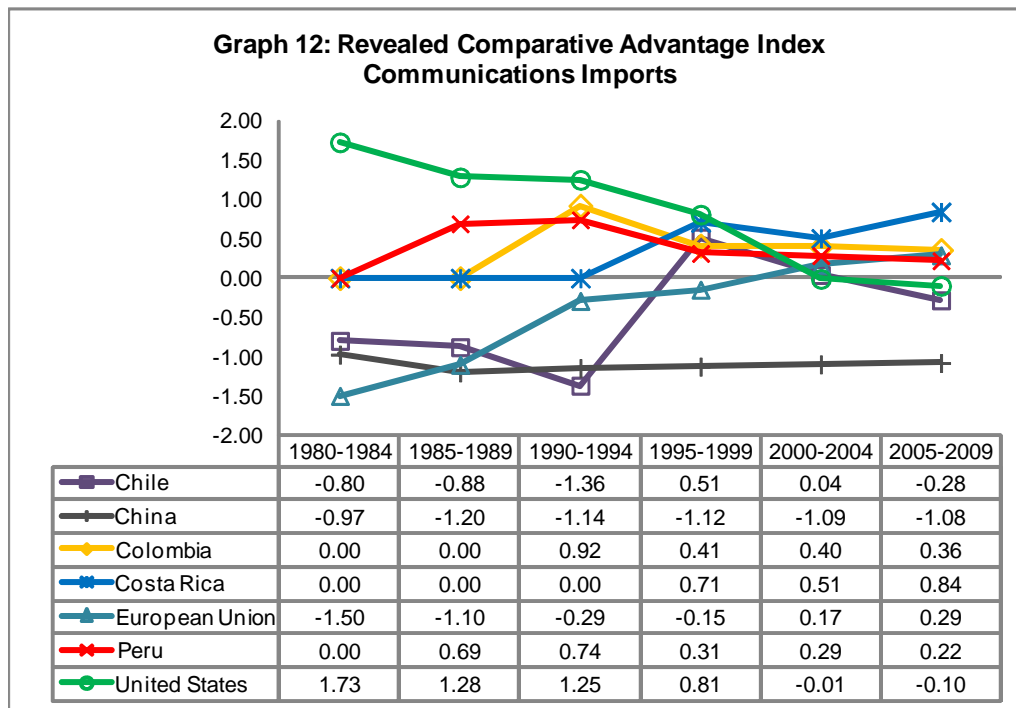
Regarding Peru's target countries, China and the EU have maintained a negative trend while the US shows a erratic one. Although, China's statistics in this sector began on the 1005 – 1999 period, its trend has been negative as well as the value of the index. In the same manner, the EU index has been reducing. On the contrary, the US does not show any clear trend, as its import index has improved during the period from 2005 to 2009.



Source: UNCTAD
Author's Elaboration

Considering communications services, as shown in Graph 12, Peru and Colombia present a slightly negative tendency whereas Chile and Costa Rica’s performances have been more erratic. This means that the importation of communications services, in those countries, has been decreasing in comparison with other services sectors.

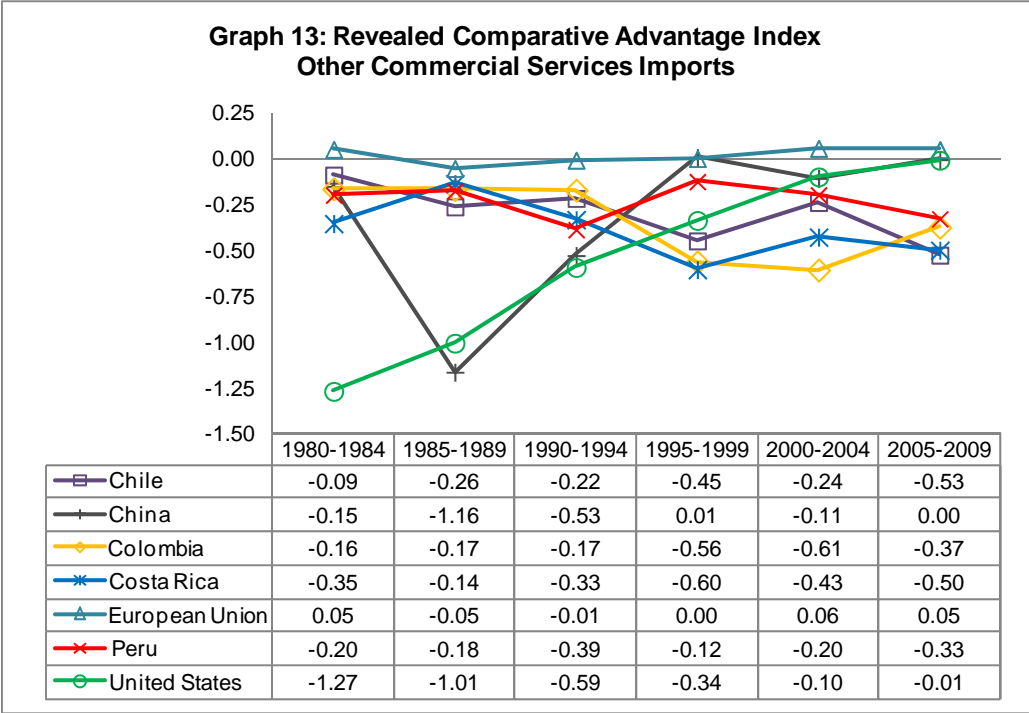
On the other hand, Peru’s target countries have shown a different behavior. The EU has a clear positive trend since 2000 while the US has a clear decreasing trend, seemingly losing its importing comparative advantage (e.g. a negative value) from 2000 to 2004. For its part, China has negative RCA values but also a slight recovery trend since 1985. This result suggests that countries such as Peru, may have an opportunity to supply communication services to European countries where the demand is increasing.



Source: UNCTAD

Author's Elaboration

For other commercial service sectors, Peru and its competitors experienced negative RCA index values and trends during the analyzed period. On the other hand, Peru's target countries show positive trends. The EU maintains positive RCA values from 1995 onwards, and US confirms the recovery note above, evidencing that the improving demand of the EU and the US may constitute an opportunity for some countries to supply these services. In the case of Peru, the main niches would be computer and information services; personal, cultural and recreational services and other business services, which exports have been growing during the last years, at rate of 50.5%, 2.2% and 31.4% respectively.



4. Methodology for Quantifying Peru's Services Commitments

The objective of this chapter is to introduce the methodology used to evaluate the selected services PTAs as well as to describe how preference margins have been calculated taking as a benchmark the countries' commitments under GATS. The chapter is divided as follows: Sources of Information, Services Sectors Covered, Modes of supply covered and Sectoral Quantification and Preference Margins.

4.1. Sources of Information

The main difficulty in dealing with trade barriers in services trade is the lack of border measures that can be identified in order to be eliminated or reduced. Services negotiations focus on potentially trade impeding domestic regulations between trading partners. In this context, to assess the level of protection of a country's services trade, its schedule of commitments or lists of reserved (non-conforming) measures have become the most important sources of information.

In what follows, this paper analyzes the preferential treatment granted and received by Peru to and from its main trading partners (the US, China and the EU). To this end, Peru's commitments under the GATS, the US-Peru FTA, the China-Peru FTA and the Andean countries – European Union FTA are evaluated. A similar process is performed with the commitments by the US, China and the EU under the GATS and in their PTAs signed with Chile, Colombia and Costa Rica.

GATS commitments have been chosen as the threshold of comparison because most countries normally choose to deepen their liberalization commitments in the context of PTAs. In this way, it is possible to compare the degree of preferential treatment granted by a country to its selected trading partners, both over time relative to the GATS and in absolute terms across PTAs.

As mentioned before, scheduled commitments are the major source of information; however, the US, China and the EU each have different ways to make their services commitments. The US uses a negative list approach, in which, all sectors are liberalized except those that are included in its non-conforming annexes (also called reservation lists). Moreover, US

services PTAs also include separate chapters for cross-border services, investment, financial services and telecommunications, Electronic Commerce, which also are being used.²¹

For their part, China and the EU adopt a GATS-like positive list or hybrid approach, where sectors and sub-sectors are committed only when they are included in the schedules of commitments. China usually negotiates a single chapter, entitled Cross-Border Services and a single list, called Schedule of Specific Commitments. From China's FTAs under analysis, only in the case of Peru has China has negotiated a specific chapter on investment. In the case of Chile-China FTA, Investment chapter is still under negotiations while in the case of Costa-China FTA, the Parties agreed to reaffirm their obligation under their Agreement on Promotion and Protection of Investments signed in 2007.

In the case of the EU, it usually negotiates services-related disciplines in a chapter featuring disciplines on trade in Services, establishment and electronic commerce. This chapter includes specific disciplines for cross-border services, establishment (investment), computer services, postal and courier services, telecommunications, financial and international maritime transport services. Furthermore, the specific commitments are included in two annexes, the List of Commitments on Establishment and the List of Commitments on Cross-Border Supply of Services. All this information has been analyzed.

Chart 6: PTA services under evaluation

Trade Agreement	Coverage	Date of Signature	Status
Peru - US FTA	goods & services	Apr. 2006	In place
Peru - China FTA	goods & services	Apr. 2009	In place
Andean Countries - EU FTA	goods & services	Mar. 2011	Implementation process
US - Chile FTA	goods & services	Jun. 2003	In place
US - Colombia	goods & services	Nov. 2006	In place
China - Chile FTA	goods & services	Apr. 2008	In place
China - Costa Rica	goods & services	Feb.2010	In place
EU - Chile EPA	goods & services	Nov. 2002	In place
EU - Central America Countries EPA	goods & services	Mar. 2011	Implementation process

Author's Elaboration

4.2. Service Sectors Covered

The GATS Services Sectoral Classification List is used to as a basis to analysis the services commitments in 154 sub-sectors.²² W120 divides services activities into twelve major sectors

²¹ In the case of the US-Chile FTA, a Chapter on Temporary Movement of Services Suppliers was agreed, however, it is not included in the analysis because it involves exclusively mode 4.

²² This classification is also known as W120 and was prepared by the WTO Secretariat during the Uruguay Round taking the UN Central Products Classification (CPC) as a bottom line.

and provides information about the activities and the equivalent CPC number, covered by each sector and subsector.

The W120 classification is not a statistical tool; instead it is used to support trade negotiations. In this sense, by using this classification, an extensive analysis of countries' services commitments can be done in order to identify sectors where more liberalization has been granted and countries that receive such benefits.

4.3. Sectoral Quantification and Preference Margins

4.3.1. Sectoral Quantification

The methodology developed by Juan Marchetti and Martin Roy to assess services commitments has been used in this analysis.²³ In 2007, they improved on Bernard Hoekman's earlier methodology of assigning scores to countries' GATS commitments by taking into account not only the type of commitment made but also the quality of such commitments.

Hoekman's methodology is limited to capturing improvements in partial commitments. It consists of allocating a score of 1 if a country has no restriction on a specific subsector, of 0 if the subsector is not committed and 0.5, if one or more partial restrictions are maintained.²⁴ Although, this scoring method allows to approximate the restrictiveness level of services commitments, it does not help determine if better access has de facto been granted. For instance, if Peru maintains a partial commitment with 2 restrictions under GATS and 1 in its PTA with the US, this improvement would not be captured by the Hoekman methodology.

In contrast, Marchetti & Roy's scoring system allows us to take account of any better treatment related to partial commitments while still measuring instances where full or no commitments are made. Following Hoekman's first attempt, Marchetti and Roy's methodology assigns a value of 1 when no limitations are introduced (full commitment) and 0, when no commitment exists (unbound). The main difference is on the scores to quantify partial commitments. If a country has committed a subsector with 3 partial restrictions under GATS, with 2 under a PTA with country A, and 1 under a PTA with country B, the scores

²³ Roy, M & Marchetti, J. "Services Liberalization in the WTO and in PTAs", in Marchetti, J. & Roy, M (eds.), *Opening Markets for Trade in Services: Countries and Sectors in Bilateral and WTO Negotiations*, Cambridge: Cambridge University Press, 2008, pp. 78 – 82.

²⁴ Hoekman, B. "Tentative First Steps: An Assessment of the Uruguay Round Agreement on Services", CEPR, Discussion Paper 1150, 1995, pp. 12 – 16.

would 0.5, 0.75 and 0.875 respectively. This important modification allows us to more fully capture and qualify the further liberalization made after GATS (see Chart 7). It is important to take account of the fact that Marchetti & Roy’s methodology is an attempt to quantify new and improved commitments made by countries in their post-Uruguay Round PTAs. However it is not aimed at “assess[ing] the depth and ‘quality’ of the new and improved commitments”.²⁵

Chart 7: Examples to illustrate the methodology (mode 3)

Sector	GATS	PTA with country A	PTA with country B	PTA with country C
Software implementation services	No commitment	Partial commitments (3 restrictions)	Partial commitments (2 restrictions)	Partial commitments (1 restrictions)
Score	0	0.5	0.75	0.875
Travel agencies and tour operators services	No commitment	Full commitment	Partial commitment	No commitment
Score	0	1	0.5	0
Supporting services for air transport	No commitment	Partial commitments (3 restrictions)	Partial commitments (3 restrictions)	Partial commitments (2 restrictions)
Score	0	0.5	0.5	0.75

See Table 2.4 in Marchetti & Roy (2008)
 Author’s Elaboration

Once the commitments are quantified, a score is calculated by mode of supply. This score is represented on a scale from 0 to 100, where 100 would be the percentage of maximum possible score, in other words, full commitments in all sub-sectors.

4.3.2. Implicit Preference Margins

In line with the analysis developed by Pierre Sauvé and Anirudh Shingal, implicit margins of preference are calculated.²⁶ Based on the score obtained from the above-explained methodology, implicit preference margins are estimated in order to approximate the level of preference granted by Peru to its main trading partners and received by Peru from them in comparison with what has been obtained by its competitor countries.

4.4. Modes of supply covered

²⁵ Roy, M & Marchetti, J. “Services Liberalization in the WTO and in PTAs”, in Marchetti, J. & Roy, M (eds.), Opening Markets for Trade in Services: Countries and Sectors in Bilateral and WTO Negotiations, Cambridge: Cambridge University Press, 2008, p. 78.

²⁶ Sauvé, P and A. Shingal. “Reflections on the Preferential Liberalization of Services Trade”, NCCR Working Paper, 5, 2011, pp. 5 – 9.

The evaluation of the services commitments have been done in regard to Modes 1, 2 and 3. Although, in the majority of cases Mode 2 trade is significantly liberal, that is not necessarily the case for countries such as China, where restrictions have been scheduled.

Mode 4 is not evaluated in this document due to the lack of PTA commitments on it and the horizontal treatment of measures affecting labor movement. On the one hand, services PTAs like those of negotiated by the US do not include any preferential treatment on Mode 4 (except in the case of Chile). Moreover, China's PTA commitments on Mode 4 are usually the same as those scheduled under the GATS.²⁷

Taking account of the above considerations an evaluation is based on Mode 1 (cross-border trade), Mode 2 (consumption abroad) and Mode 3 (commercial presence) commitments due to their economic importance, especially in the case of Modes 1 and 3, which together account for over 80% of world services trade.²⁸

The quantification of each commitment is assigned to different modes of supply in accordance with the specific features of the schedules. For example, the EU PTAs include Mode 1 and 2 under Cross-Border Services while Mode 3 is covered by the Establishment chapter.

²⁷ Mode 4 commitments are usually made on a horizontal basis, so that the sectoral approach used in this document may not be the best way to capture the progress achieved in this mode (Marchetti & Roy, 2008).

²⁸ Roy, M & Marchetti, J. "Services Liberalization in the WTO and in PTAs", in Marchetti, J. & Roy, M (eds.), *Opening Markets for Trade in Services: Countries and Sectors in Bilateral and WTO Negotiations*, Cambridge: Cambridge University Press, 2008, p. 81.

5. Evaluation of the Peru's Services Commitments

This chapter presents and evaluates the main results for Peru from applying the methodology described in chapter 4. The objective of the chapter is to provide information about Peru's services commitments at the multilateral and preferential level as well as to compare such levels of liberalization.

5.1. Peru's services PTAs with the US, China and the EU

As in the case of many other developing countries, Peru's GATS commitments were quite limited, having an average score of 11 out of 100; being 100 the maximum score if full liberalization is reached in all sub-sectors. Although, the average score by mode of supply is different, Peru's commitments under GATS are still timid across all modes of supply. Mode 3 has the highest score with 21. This evidences the Peruvian interest in attracting foreign investment during the structural reforms that took place during the 1990's. On Modes 1 and 2, Peru's scores show the regulatory precaution that Peru chose to follow in not making commitments that could be difficult to fulfill in the future.

In 2001, Peru opted to consolidate its unilateral liberalization achieved during the nineties through preferential trade agreements. Thus, Peru negotiated a FTA with the US from 2003 to 2006 which entered into force in both countries in 2008. Being the US, Peru's main trading partner and the first bilateral agreement where services sectors were under negotiation, Peru's services commitments granted to the US are significantly deeper than those committed with other important trading partners such as China and the EU.

The overall score of Peru's commitments with the US is the highest of Peru's PTAs. As stated by Illescas, the Peru-US FTA reflects to a significant extent the unilateral liberalization already in place in Peru after the implementation of the policies from the structural reform program.²⁹ In this context, the score of Peru's services commitments somehow shows the level of actual liberalization already achieved in Peru at the time of the PTA's entry into force. Consequently, the score recorded in the FTA with the US is 82, while the scores with China and the EU are 56 and 60 respectively.

Peru's PTA commitment score is usually higher for Mode 2. The score on this mode is the highest in the three PTA under analysis. For instance, in the PTA with the US, the score on

²⁹ Illescas, J. "Comercio de Servicios en el Perú" (Trade in Services in Peru), in Guevara, E. & Novak, F. (eds), *El Perú y el Comercio Internacional (Peru and the International Trade)*, PUCP: Fondo Editorial, 2010, pp. 273 – 274.

Mode 2 is 87, followed by Mode 1 and Mode 3 with 80 each. In the China and EU PTAs, Mode 2 also has the highest score, at 64 and 69 respectively. Meanwhile, Mode 3 scores are 60 with the EU and 57 with China.

Chart 8: Peru's commitments across agreements by mode of supply (average score)

	GATS	US	China	EU
Total Score	11	82	56	60
Mode 1	7	80	47	53
Mode 2	6	87	64	69
Mode 3	21	80	57	60

Author's Elaboration

The score are from 0 to 100, being 100 possible maximum score (in percentage).

At the sectoral level, telecommunications (with a average score of 38) and financial Services (with a average score of 21) are the most liberalized under GATS. This situation is explained by the fact that Peru was part of the post-Uruguay Round negotiations that involved telecommunications and financial services, in order to deepen WTO members' commitments on both sectors. Other sectors that were committed in GATS are: Distribution services (13), Tourism and travel related services (13), Recreational, cultural and sporting services (12), Business services (5) and Transport services (1). Construction, Educational, Environmental and Health services had no commitment under GATS in Peru's case.

With respect to FTAs scores, Business, Construction and Tourism and services show the highest scores with an average scores of 86, 83 and 81 respectively . In the case of the US, almost all sectors are vastly committed, except for Educational services with a score of 50. All other sectors show scores higher than 70. With the EU, Peru has no commitment on Health services and low scores in Educational services (15). Peru maintains the lowest level of liberalization with China where not only Health (0) and Educational services (15) have the lowest scores but also environmental services (8)

Chart 9: Peru's commitments across agreements by sector (average score)

	GATS	US	China	EU
Business services	5	91	78	88
Communication services	38	84	53	40
Construction and related engineering services	0	100	50	100
Distribution services	13	77	40	42
Educational services	0	50	15	15
Environmental services	0	75	8	67
Financial services	21	88	57	60
Health related and social services	0	50	0	0
Tourism and travel related services	13	100	71	71
Recreational, cultural, sporting services	12	90	63	53
Transport services	1	73	45	48

Author's Elaboration

The score are from 0 to 100, being 100 possible maximum score (in percentage).

5.2. Implicit Preference Margins

Based on the calculations made in the previous section, Chart 10 shows the implicit preference margins taking GATS commitments as a benchmark. Given the low level of commitments made by Peru at the multilateral level, the preference margins secured by the US, China and the EU are all significantly high. The US, China and the EU all have preference margins above the 80% mark in the Peruvian services market, at 86.5%, 80.0% and 81.5% respectively.

In modal terms, Mode 3 presents the lowest preference margins because Peru made a greater number of commitments on this mode under the GATS. The US enjoys a greater than 90% preference margin on Modes 1 and 2 while in Mode 3 the preferential treatment is 74.2% better than under the GATS. A similar pattern holds for China and the EU, where preference margins on Modes 1 and 2 are more than 80% while in Mode 3 the preference margin reaches 65.4%.

Business, Transport and Tourism services present the highest level of preferential treatment with margins ranging from 82% to 98%. In Business and Transport services, Peru grants similar levels of preferences to the US, China and the EU, with a margin of 94% in the former sector and 97% in the latter. Moreover, in Tourism the margin of preference is higher in the case of the US with 88% while China and the EU received 82%.

The sectors with lower margins of preferences are Communication, Distribution and Financial services with 29%, 72% and 69% respectively. It is important to mention that in the three sectors, the US obtained the highest preference margins (Communication, 55%; Distribution, 83%; and Financial services, 77%) while China received the lowest (Communication, 4%; Distribution, 68%; and Financial services 66%).

Chart 10: Peru's implicit preference margins by mode of supply (average score)

	GATS/US	GATS/China	GATS/EU
Total Score	14	20	18
<i>Preference margin (%)</i>	86.47	80.00	81.52
Mode 1	9	15	13
<i>Preference margin (%)</i>	91.28	85.02	86.75
Mode 2	7	9	9
<i>Preference margin (%)</i>	93.30	90.82	91.49
Mode 3	26	36	35
<i>Preference margin (%)</i>	74.24	63.82	65.40

Author's Elaboration

6. Evaluation of Target Trade Partners’ Services Commitments

This chapter presents the results obtained from applying the methodology described in chapter 4 to Peru’s three main trading partners (target countries): the US, China and the EU. The aim of this chapter is to compare the preferential treatment granted by these three countries to Peru and three Latin American countries which can be seen as the main competitors of Peru in the region.

6.1. US services PTAs with Chile, Peru and Colombia

As with most developed countries, the US has a high GATS score, which has been enhanced in subsequent preferential trade agreements. The US’s GATS score is 53, with Mode 2 as the highest with 58, followed by Mode 1 and 3 at 50 and 52 respectively.

With respect to its PTAs, the US has granted a more liberal access to Chile than to Peru and Colombia. The average score of the US’s services commitments with Chile is 84, where Modes 1 and 3 present the deepest commitments in comparison with those given to Peru and Colombia in the same modes.

Comparing GATS commitments with PTA ones, all sectors have received better treatment preferentially than multilaterally. Education (58) and Health services (50) maintain the lowest scores while Environmental (100), Construction (100) and Tourism services (100) are the most committed in PTAs.

Chart 11: US's commitments across agreements by mode of supply (average score)

	GATS	Chile	Peru	Colombia
Total Score	53	84	83	83
Mode 1	50	84	82	82
Mode 2	58	88	87	87
Mode 3	52	80	79	79

Author's Elaboration

The score are from 0 to 100, being 100 possible maximum score (in percentage).

Chart 12 US's commitments across agreements by sector (average score)

	GATS	Chile	Peru	Colombia
Business services	64	97	97	97
Communication services	77	90	85	85
Construction and related engineering services	33	100	100	100
Distribution services	60	78	78	78
Educational services	28	58	58	58
Environmental services	100	100	100	100
Financial services	62	71	71	71
Health related and social services	13	50	50	50
Tourism and travel related services	96	100	100	100
Recreational, cultural, sporting services	70	80	80	80
Transport services	16	72	70	70










Author's Elaboration

The score are from 0 to 100, being 100 possible maximum score (in percentage).

In order to compare the preferential treatment granted by the US to Chile, Peru and Colombia, implicit margins of preference have been calculated. As mentioned before, Chile receives more liberal commitments from the US, with a preference margin of 37.1%. Although the access enjoyed received by Chile is more liberal, Peru and Colombia also enjoy a significant preference margin (35.9%) in the US market. The highest margins are concentrated on Mode 1 (with an average of 40.8%), while Modes 2 and 3 have average margins of 39.4% and 39.4% respectively.

At the sectoral level, transport, health and construction services maintain preference margins over 65%. In these sectors, Chile, Peru and Colombia have average preferences of 77.7% for Transport, 75.0% for Health and 66.1% for Construction services. On the other hand, the sectors with the lowest preference margins are Tourism, Communication and Recreational services with averages of 4.2%, 11.4% and 12.5%. It bears nothing that in the case of Construction and Transport, the high margins are mainly explained by the limited commitments agreed by the US in the GATS.

Chart 13: US's implicit preference margins by mode of supply (average score)

	GATS/Chile	GATS/Peru	GATS/Colombia
Total Score	63	64	64
Preference margin (%) 	37.08 	35.85 	35.85
Mode 1	59	61	61
Preference margin (%) 	40.80 	39.41 	39.41
Mode 2	65	66	66
Preference margin (%) 	34.68 	34.07 	34.07
Mode 3	64	66	66
Preference margin (%)	35.81	34.09	34.09

Author's Elaboration

6.2. China's services PTAs with Chile, Peru and Costa Rica

Due to its post-Uruguay Round accession to the WTO, China's level of services commitments under the GATS is pretty high given its developing country status. Thus, China's overall GATS score is 45, being Mode 2, the mode with the deepest commitments, with a average score of 57. Mode 1 is the second most liberalized with a score of 41 while mode 3 maintains a score of 37.

Comparing the degree of liberalization committed by China multilaterally and bilaterally, it is clear that China maintains similar levels of commitments in both instances. Peru and Chile only have a score three points higher than the GATS score, being 48, whereas Costa Rica's score is two points higher, 47. This situation may mainly be explained by China accession to the WTO. Having acceded after the Uruguay Round was completed; China had to grant more concessions, in comparison with what other developing countries have committed, in order to become a WTO member. In that sense, China is usually not willing to deepen its services commitments especially in financial and telecommunications services sectors.³⁰

At the sectoral level, China's GATS and PTA commitments are also very similar. The few improvements made by China bilaterally are mainly focused on Transport, Tourism and Business services. In the case of Peru, China's services offer is slightly deeper than China's GATS commitments on all services except Health, Environmental, Educational, Financial and Distribution Services. On the other hand, with Chile, fewer sectors are improved by China such as Communications and Tourism; however, this country received better improvements

³⁰ In China-Chile FTA and China-Costa Rica FTA, it was agreed that the Parties to the agreements maintain the degree of liberalization committed under the WTO. Moreover, in China-Peru FTA, commitments in Financial services and Telecommunications are the same as in the case of the WTO.

in Transport and Environmental Services. Costa Rica is the country with the lowest score, having basically received China's GATS offer.

Chart 14: China's commitments across agreements by mode of supply (average score)

	GATS	Peru	Chile	Costa Rica
Total Score	45	48	48	47
Mode 1	42	43	44	44
Mode 2	57	59	59	58
Mode 3	37	41	41	40

Author's Elaboration

The score are from 0 to 100, being 100 possible maximum score (in percentage).

Chart 15: China's commitments across agreements by sector (average score)

	GATS	Peru	Chile	Costa Rica
Business services	51	56	56	55
Communication services	58	59	58	58
Construction and related engineering services	50	58	58	58
Distribution services	65	65	65	65
Educational services	42	42	42	42
Environmental services	83	83	88	83
Financial services	58	58	58	58
Health related and social services	0	0	0	0
Tourism and travel related services	44	45	44	45
Recreational, cultural, sporting services	0	10	10	10
Transport services	27	28	30	27

Author's Elaboration

The score are from 0 to 100, being 100 possible maximum score (in percentage).

Analyzing the preference margins, it is clear that China's bilateral commitments are quite limited to the extent that its commitments are, on average, higher than that achieved by other developing countries. The preference margin for Peru, Chile and Costa Rica ranges from 3.6 to 5.6%, with Mode 3 showing the highest preference margin (cite the number) and Mode 1 the lowest (cite the number in parenthesis).

At the sectoral level, Peru enjoys the highest level of preferences in Business services and Tourism, with 9% and 2% respectively. The most liberalized sectors with Chile are Transport and Environmental services with margins of 10% and 5% respectively. Costa Rica, on the other hand, does not obtain any new commitment apart from those granted to Chile and Peru. This results evidence the limited potential commercial benefits for Peru from its FTA with China, not only because its main competitor have received similar treatments but also due to the lower degree of China's commitments in its FTAs.

Chart 16: China's implicit preference margins by mode of supply (average score)

	GATS/Peru	GATS/Chile	GATS/Costa Rica
Total Score	95	94	96
Preference margin (%)	4.72	5.58	3.57
Mode 1	99	96	97
Preference margin (%)	1.15	3.72	3.36
Mode 2	96	96	98
Preference margin (%)	4.12	3.86	1.69
Mode 3	91	90	93
Preference margin (%)	9.27	9.98	6.50

Author's Elaboration

6.3. EU services PTAs with Chile, Peru and Costa Rica

The EU services commitments are similar to the average of developed countries. According to Marchetti and Roy, the GATS scores of developed countries range between 43 and 53 while their PTAs scores go from 59 to 67.³¹ Similarly, the EU has a GATS score of 49 whereas its PTAs scores are between 60, to Chile and 66, to Costa Rica.

Analyzing by mode of supply, mode 2, as expected, is the most liberalized in all the agreements under examination, followed by mode 3 and mode 1, respectively. In mode 2, Peru and Costa Rica received a similar level of commitments from the EU, with a score of 75. A similar scenario exists in the case of mode 1 where, Peru and Costa Rica obtained the most liberalized offer with a score of 56. Regarding mode 3, the EU granted a better treatment to Costa Rica, with a score of 67, 2 and 5 points higher than those obtained by Peru and Chile respectively.

Chart 17: EU's commitments across agreements by mode of supply (average score)

	GATS	Chile	Peru	Costa Rica
Total Score	49	60	65	66
Mode 1	39	50	56	56
Mode 2	59	69	75	75
Mode 3	50	62	65	67

Author's Elaboration

The scores are from 0 to 100, being 100 the possible maximum score (in percentage).

³¹ Roy, M & Marchetti, J. "Services Liberalization in the WTO and in PTAs", in Marchetti, J. & Roy, M (eds.), *Opening Markets for Trade in Services: Countries and Sectors in Bilateral and WTO Negotiations*, Cambridge: Cambridge University Press, 2008, p. 82.

At sectoral level, Transport services and Health related and social services are the least liberalized while Construction and related engineering services and Business services show the deepest commitments. Although PTAs score for Transport and Health related services are higher than GATS score, they are still the lowest, in comparison with other sector. For instances, Transport services show a GATS score of 22 while a PTAs average score of 44. Likewise, Health related services have a GATS score of 27 whereas it PTAs average score is 36.

On the other spectrum, Construction and Business services are of the most liberalized sector not only multilaterally but also bilaterally. Thus, Business services have been significantly opened with a score of 69 in the GATS context and an average score of 80 in the PTAs context. Costa Rica and Peru have received the best treatment among the analyzed PTAs with a score of 82. Regarding the Construction sector, although it is the fourth most liberalized sector under the GATS, it has been completely liberalized in the context of EU – Central American countries PTA while in the case of EU – Andean countries FTA, it has been almost fully liberalized with a score of 96.

Chart 18: EU's commitments across agreements by sector (average score)

	GATS	Chile	Peru	Costa Rica
Business services	69	77	82	82
Communication services	42	59	65	65
Construction and related engineering services	62	66	96	100
Distribution services	40	47	41	40
Educational services	65	70	67	67
Environmental services	58	67	83	83
Financial services	59	69	66	66
Health related and social services	27	33	38	38
Tourism and travel related services	65	68	65	65
Recreational, cultural, sporting services	40	53	59	59
Transport services	22	38	45	48










Author's Elaboration

The score are from 0 to 100, being 100 possible maximum score (in percentage).

Having calculated the implicit preference margins, it is possible to state that the EU has granted significant level of preferences in its PTAs, especially in the most recently negotiated like with Peru and Costa Rica. Either by mode of supply or by overall score, Costa Rica has received the best treatment of the PTAs under analysis, with a overall preference margin of 25.2%, followed by Peru and Chile with margins of 24.5% and 17.9% respectively.

Regarding the level of preferences granted by the EU by sectors, Transport, Communication and Recreational services maintain the highest preference margins whereas Tourism, Distribution and Educational services the lowest. Transport services show an average preference margin of 48.2%. Likewise, Communication and Recreational have margins of preference of 33.4% and 26.8% respectively. It bears mention that although Transport sector is the third sector with the lowest score, it has the highest preference margin due to the lack of commitments under GATS. With regard to Tourism, Distribution and Educational services, they maintain levels of preference quite limited with 2.3%, 5.4% and 4.0% respectively.

**Chart 19: EU's implicit preference margins by mode of supply
(average score)**

	GATS/Chile	GATS/Peru	GATS/Costa Rica
Total Score	82	76	75
<i>Preference margin (%)</i> 	17.95 	24.45 	25.19
Mode 1	79	70	70
<i>Preference margin (%)</i> 	21.37 	29.69 	29.89
Mode 2	86	79	79
<i>Preference margin (%)</i> 	14.45 	21.34 	21.34
Mode 3	81	76	74
<i>Preference margin (%)</i>	19.11	23.57	25.60

Author's Elaboration

CONCLUSIONS

This research is aimed at expanding the understanding about services PTA commitments, especially in a country like Peru, where studies in this subject are quite limited. Thus, preferential margins have been calculated with the objective of comparing different levels of preferential treatment given and received by Peru in its services negotiations. In this way, this thesis contributes to overcome the need for studies that allow to shed light about the coverage and preferential treatment of PTAs Peru is involved.

With respect to the RCA index, it was calculated to give an insight of Peruvian trade opportunities and its trading partners. As it may be expected, Peru and its regional competitors have comparative advantages in less technologically-oriented sector like Tourism, while the US and the EU are significant importers of Tourism services. This gives Peru a better position to take advantage of its PTAs with these countries, in order to become a major supplier.

In the importing side, the EU and the US have comparative advantages in Financial services and Communications, being these sector two of the most imported by Peru and its regional competitors. This situation also grants an opportunity to Peru to have access to services suppliers that are world-level competitors and to increase the quality of services offered in the economy.

Regarding the margins of preference, the impact of services liberalization has two spectrums. From an exporting point of view, the results evidence the limited preferential treatment obtained by Peru when comparing to its regional competitors, mainly in services PTAs with the US and China. To a certain extent, most of what Peru has received in its PTAs is the reflection of what other competitors have already obtained, especially in the case of Chile. In other words, by maintaining services PTAs with its major partners, Peru is obtaining, at least, similar preferential treatment to that received by its regional competitor. Thus, Peru's services PTAs are, in fact, a tool to level the playfield for Peruvian services exporters and allow them to compete under similar circumstances to suppliers from Chile, Costa Rica and Colombia in big markets such as the US, the EU and China.

Although, the strategy of negotiating PTAs is an important tool to have access to bigger markets, it is not enough to secure an actual expansion of Peru's services exports. In order to achieve this goal in a sustainable manner, it is necessary to develop a strategy, through

the government, that may involve not only trade mechanisms but also fiscal, customs and financial incentives. On the trade side, PTA negotiations as well as a trade promotion campaigns are the main instruments that help to increase services exports. The most used fiscal incentives are: exemption or reduction of indirect taxes such as value-added tax, systems to avoid double and triple taxation. Refund of customs duties and fiscal credit to buy capital goods, on the customs side, and governmental funds, intended to secure domestic services exporters to have access to private credit and to attract foreign buyers through loans in order to buy domestic services, on the financial side, are also employed to support services exporters. A country that makes use of this type of mechanisms is Chile, having exported in, 2010, US\$ 10,685 million, three times higher than Peru's.³²

From an importing point of view, services PTAs have been very useful to lock-in the unilateral liberalization performed by Peru. By comparing GATS commitments to PTAs commitments, it is clear that bilateral negotiations have been used by Peru as a tool to secure the levels of liberalization achieved unilaterally during the 1990s. While GATS offer is quite limited, PTA offers, specially the one committed with the US, are substantially opened, reaching full liberalization in some sectors.

In addition, the deep liberalization achieved under the bilateral approach may permit Peru to open multilaterally its services trade. After having liberalized its market to three of the main world services suppliers, Peru should not be afraid of opening its services markets multilaterally. This would simplify Peru's trade policy design by reducing trade diversion effects of granting preferential treatment only to some countries.

³² See <http://www.chilexportaservicios.cl/ces/ChilePaisdeServicios/OfertaExportable/tabid/405/Default.aspx>.

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