Managing the Request-Offer Negotiations under the GATS: Construction & Related Engineering Services (CRES)

Contribution by the UNCTAD Secretariat
CRES & Development

CRES can promote social & economic development:
• basic & safe infrastructure & low cost housing
  (roads, water systems, energy, telecom & slum relocation);
• macroeconomic tool for sustaining economic growth
  (employment for people at all skill levels, very cyclical);

But, frequently, domestic supply constraints, thus need to:
• ensure development of local firms & professionals;
• manage to boost capacity/effectiveness of industry
  (to meet domestic demand & social development objectives).
Main Market Features, Players & Drivers

Market demands:
- IC: environm. friendly, energy efficiency, repair & maintenance;
- DC: providing safe & basic infrastructure;

Major players:
- no clear market dominance, highly fluid & competitive market;

Recent trends & drivers towards international trade:
- rapidly changing ec. environment, privatization of public utilities;
- internationalization of production (clients becoming global);
- IC markets: low profit margins, prod. capacities & tight competition;
- 70% of opportunities found in DC (e.g., infrastructure);

DC challenges:
- supply capacity constraints.
Origin of trade:
- project-based internationalization;

“Modes” of trade:
- M1: increasingly relevant (management of supplies, inventory, tracking; feasibility studies, env. impact assessment etc.);
- M3: temporary presence or more permanent FDI (subsidiary);
- M4: ensure timely movement of project personnel to site;

International trade:
- limited number of large projects (energy, transport, infrastructure, urban construction);
- much sub-contracting & cooperation (allows skill gain)
- regional markets: central for DC firms.
... and “Barriers” to such Trade

- Many "barriers" beyond MA & NT, or even GATS;
  - bringing team of workers (& recognition), ENTs, access only for specific projects, limits on foreign equity %, compulsory sub-contracting, employment & training of local personnel, preference for local companies, deposit for non-residents, nationality conditions (managers), multiple registration requirements, licensing entrusted to potential competitors;
  - specifications, capital equipment & materials (customs procedures, duties, charges), liability implications, knowledge of local regulations; lack of info about opportunities & lack of contact with consumers;

- Sometimes:
  - means to overcome barriers;
  - valid regulatory rationale of barriers.
CRES & GATS

• Classification: 5 sub-categories W120 (resp. UN CPC)
  • general construction work for buildings & for civil engineering; installation & assembly work; building completion & finishing work, other;

• Links & separations:
  • goods & services; professional & construction;

• Commitments:

• Earlier proposals (2000ff):
  • Australia, Brazil, Chile, Cuba, EC, Japan, Kenya, Korea, New Zealand;
  • Coverage, MA & NT, DR, other;

• More recently:
  • June 2005, Joint Statement (Job(05)130);
  • October 2005, Sectoral & Modal Objectives;
  • March 2006, Plurilateral Requests.
Plurilateral Request: Construction

- **Co-sponsors:**
  - Australia, Canada, Chinese Taipei, EC, Japan, Korea, Malaysia, Mexico, N. Zealand, Norway, Singapore, Turkey, US;

- **Introduction:**
  - strategically important (employment & growth), special importance for DCs, linkages construction & other sectors;

- **Sectoral coverage:**
  - substantial coverage CPC 511 - 518 (focus: 512 & 513);

- **Specific commitments:**
  - M2: full; M 3 commitments or at least phase-out: elimination of some forms of limitations;

- **Note:**
  - also plurilateral request in architect, engineering & integrated engineering.
Liberalizing CRES: Opportunities & Challenges

• Importance of trade for DCs in light of:
  • centrality of sector & factor cost differentials;
  • but hard to enter foreign markets (DCs & LDCs);
  • need to address: supply capacity & trade barriers;

• Supply capacity:
  • efficient construction services, needs efficient other services;
  • SMEs, small scale of markets;

• Multilateral & bilateral assistance:
  • much DC demand for construction from government projects, supported by funding of IFIs or bilateral donors;
  • multilateral agencies allow for preferences (e.g. pre-qualification conditions), bilateral: mostly firms from donor countries.
Domestic Level Support Policies, Some Examples

- Promote use of local labor & productive capacities:
  - building supply capacity (e.g., local content, reserving small scale market or market for residential building);

- Improve technological capacity:
  - boost technology cooperation agreements;

- Upgrading skills (management & financial);

- Overcome institutional & regulatory weaknesses:
  - e.g. ensure adequacy of technology;

- Broader reforms affecting construction sector:
  - customs & duties & tax burden; env. & social impact assessments; zoning management; PPPs;

- Enhance role of national associations:
  - to allow for multi-stakeholder approach.
Thank you for your attention!

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