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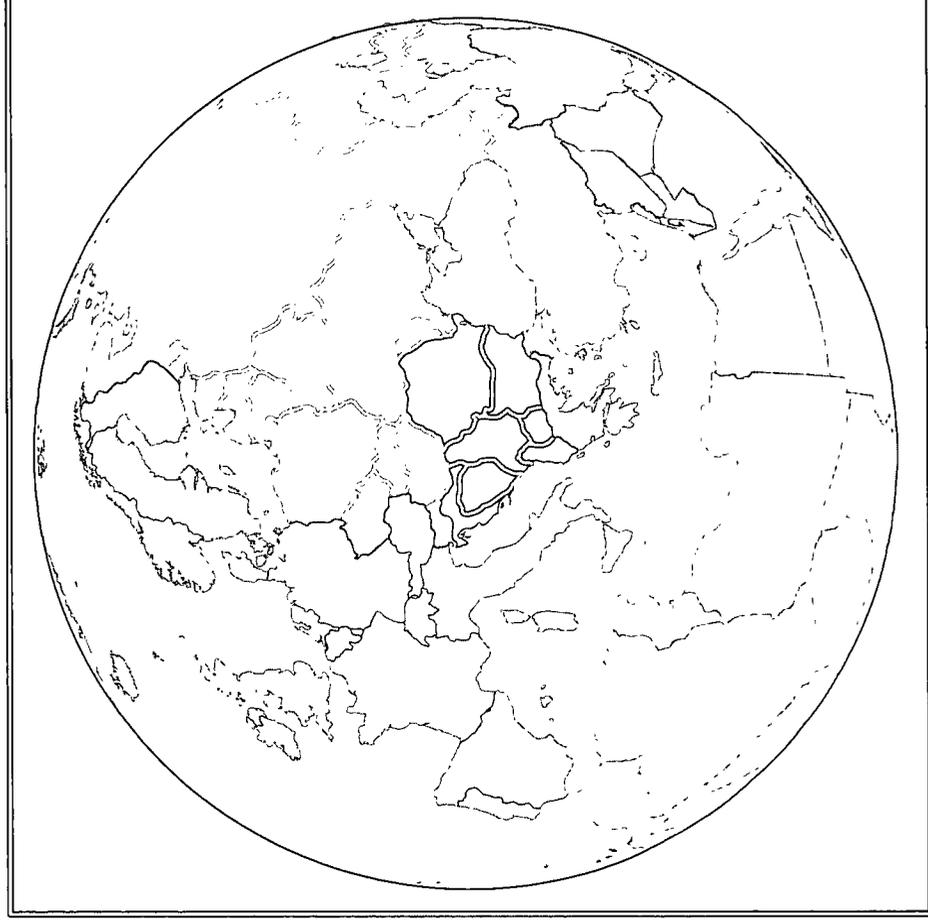
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Management Series*

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Services Trade in the Balkans



*Constantine Michalopoulos
Vasilios Panousopoulos*

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Management Series*

Services Trade in the Balkans

*Constantine Michalopoulos
Vasileios Panousopoulos*

*The World Bank
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FOREWORD

This study was prepared in support of the Working Group on Trade Liberalization and Facilitation of the Stability Pact for South Eastern Europe, with the objective to provide an overview of policies affecting services trade in seven countries of the Balkan region that signed in June 2001 the Memorandum of Understanding on Trade Liberalization and Facilitation. These countries—Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the former Yugoslav Republic of Macedonia, Romania and the Federal Republic of Yugoslavia—have embarked in a process of broad liberalization of their merchandise trade. This study stresses the growing importance of services trade, which has been growing more rapidly than merchandise trade. Traditional sectors such as transport and tourism, and newly expanding sectors such as telecoms and financial services are potentially important not only for generating export revenues but, most important, for increasing the overall productivity of the economy and its competitiveness abroad. The paper recommends more systematic collection and analysis of information on services trade in the Balkans, as well as further liberalization in the multilateral setting of the WTO.

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ABSTRACT

The service sectors, especially tourism and transport, play an important role in the economies of the Balkan countries. The paper finds that, on average, these countries are committed to a liberal trade regime for services, and that they have made more commitments to liberalize services in the WTO than developing countries at comparable levels of development. For the future, the paper encourages further liberalization at the regional level on an MFN basis, as well as policy harmonization with the European Union.

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The authors are consultants to the World Bank. This study has been prepared as part of the program of technical assistance of the World Bank to countries of the Stability Pact. The findings, interpretations and conclusions expressed in the study are entirely those of the authors and do not necessarily represent the view of the World Bank, its Executive Directors or the countries they represent. The authors wish to thank Aaditya Mattoo of the World Bank and participants of the Stability Pact Working Group on Trade Liberalization and Facilitation for helpful comments on an earlier draft, Daniela Gressani of the World Bank for her overall support and direction of this project, and Erlinda Inglis of the World Bank for her assistance with formatting and processing.

EXECUTIVE SUMMARY

Trade in services has been expanding rather rapidly in the Balkan countries over the last five years, despite the instability and conflicts in the region. This study, the first one to analyse trade in the service sectors of the seven Balkan countries (Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the Former Yugoslav Republic of Macedonia, the Federal Republic of Yugoslavia and Romania) examines trends over the past decade, provides an overview of policies affecting trade, examines systematically the countries commitments in the WTO and provides some preliminary conclusions and recommendations for policy reform, as well further research and data development.

The service sectors, especially tourism and transport play an important role in the economies of the seven countries. Developments in trade in services are important both because they impact on employment and output and because they affect the inflow of foreign investment and the overall productivity of the economy. A liberal trade policy in services can also contribute to the further integration of the Balkan economies into the European structures, a central objective of all seven countries.

The overview of their policies on trade in services was handicapped by the absence of systematic data and by the fact that the policies in some countries are still in flux. But the overall impression is that the governments are committed to a liberal trade regime. The evidence in this respect is especially strong in the case of countries like Albania and Croatia which have recently acceded to the WTO. The other countries which acceded earlier (Bulgaria and Romania) or are in the process of acceding and have made 'offers' on services (Former Yugoslav Republic of Macedonia) also have made a significant number of liberalizing commitments, especially in the financial services sector. Thus, on average, the Balkan countries have made more commitments to liberalize services in the WTO than developing countries at comparable levels of development.

For the future, the study recommends further liberalization in a number of sectors such as transport and the harmonization of policies with those of the European Union. The study encourages liberalization of services at the regional level, as envisaged by the Memorandum of Understanding on Trade Liberalization and Facilitation signed by the seven countries in 2001; but cautions that this liberalization would yield better results if it was pursued on an MFN basis. Finally, the study urges further research in identifying specific policies that impede trade in services in the seven Balkan countries as well as the systematic development of data to facilitate such research.

INTRODUCTION

The role of the service sector in the economy tends to increase at higher levels of economic development for a variety of reasons: consumers spend a higher share of their income on services as opposed to goods; and the complex processes of transformation that characterize production in developed economies involve progressively higher shares of service inputs. As a consequence, the service sector is not only of importance as a source of income and output, but also as a determinant of overall productivity. Inefficient and high cost provision of service inputs, for example in banking, insurance or transportation undermines overall productivity growth and international competitiveness of other sectors.

Efficiency in the provision of services is affected by a variety of factors, most important of which is the role of government intervention and regulation. In good part for non-economic reasons, governments have traditionally regulated service sectors or provided services themselves through the operation of government monopolies, in such sectors as utilities, transportation, but also in banking and insurance. The operation of government monopolies or closely regulated industries has limited competition, including, of course, from foreign providers. Partly because of this traditional role played by governments in limiting competition and partly because the provision of certain services requires the physical presence of the service provider in the consuming country—which itself maybe regulated, the output of service sectors typically has been considered as non-tradable. And until recently, little attention was devoted to services trade in general, and to its role in promoting economic efficiency and growth. Even less is known about services trade in transition economies and in particular the Balkans.

The Balkan countries emerged from the period of central planning with even more government controls and monopolies in the services sectors, than those traditionally exercised by market economies. In the last decade, the introduction of market oriented reforms in the services sectors have proceeded at a different pace in the various Balkan countries, as has the liberalization of merchandise trade. But there has been no systematic review of the role international trade in services plays in their economies.

Balkan countries which have joined the WTO have had to review their policies which affect international trade in services when they had to make commitments under the General Agreement of Trade in Services (GATS) in the context of their accession; and others which are in the process of accession will have to do so in the future. In June 2001, seven Balkan countries signed a Memorandum of Understanding (MOU) in the context of the Stability Pact, in which, *inter alia* they committed themselves to investigate opportunities for further liberalization of their trade in services in a regional context. Yet there is little systematic information of how liberal their existing policies actually are.

The purpose of this paper is to try to fill in a preliminary way some of these knowledge gaps in the area of trade in services in the seven countries that signed the MOU: Albania, Bosnia and Herzegovina (BiH), Bulgaria, Croatia, Federal Republic of Yugoslavia (FRY), Former Yugoslav Republic of Macedonia (FYROM), and Romania. The paper is organized as follows: First, we undertake a brief review of the overall role of the services sectors in the seven economies in the last decade. Next we review the growth and, where possible, the sectoral composition of trade in services in these countries over this period and how it compares with the growth of merchandise trade. The following section focuses on policies affecting trade in services in each of the countries, based in part on information obtained from studies of the foreign trade regimes recently completed for five of these countries,¹ and in part on an examination of the commitments several of these countries have made in the GATS. The last section summarizes the main conclusions and recommendations of the analysis, including recommendations for further analysis and research.

The preliminary nature of this analysis should be stressed. Data on trade in services are notoriously weak,² and this is the first effort to compile such data for these countries. Also, there is simply no information about the direction of their trade in services. Thus, it is impossible to determine what proportion, for example, of their financial imports or tourist receipts comes from trade with each other and how much with the European Union or the rest of the world. Moreover, this preliminary analysis did not investigate in detail the variety of government regulations and controls affecting various service sectors in each of the countries; nor could this analysis provide a judgment—usually a very difficult task—on the restrictiveness of these regulations on trade. Nonetheless, we hope this preliminary effort would be helpful in informing governments in the region about some of the issues of international collaboration in the area of services which they are considering and in paving the way for further research which would help in the formulation of government policies in this area of rising importance.

THE SERVICE SECTORS

In the last decade, the overall economic performance of the Balkans has in many respects lagged behind that of other transition economies of Central and Eastern Europe (CEE). By 2000, GDP in the CEE countries as a group had reached 107 percent of its 1989 level. All seven countries in the Balkans are below this average. Albania, has done relatively the best, having slightly exceeded its very low 1989 level, with growth averaging more than 7 percent the last three years.

All seven countries experienced the typical economic depression associated with the immediate post transition years. Few have succeeded in re-establishing vigorous and sustainable growth. Croatia experienced sharp declines early on, grew substantially in the period 1994-1997 but its GDP growth has declined in recent periods. FYR Macedonia, after substantial declines in 1992-1995, had seemingly embarked on a

¹ See for Albania, Kaminski, 2001; for Bosnia and Herzegovina, Mesinovic, Hurtic and Suseska, 2001; for Croatia, Jurlin and Galinec, 2001; for FYR Macedonia, Daskalov et.al, 2001; for FR Yugoslavia, Popovic and Jovicic, 2001.

² Whichard, 1999.

steady growth path, only to have the recent conflict jeopardize past achievements. As a consequence, Croatia and FYR Macedonia, had reached only 80 percent and 77 percent respectively of their 1989 level in 2000 (EBRD, 2001). FR Yugoslavia appears to have done even worse, with the GDP in 2000 at less than 50 percent of its 1989 level and similarly for Bosnia and Herzegovina—although for the latter, no comparable data are available for the whole period. Both Bosnia and Herzegovina and FR Yugoslavia experienced drastic declines in GDP both earlier and during 1992-1995, and in the latter's case again in 1999. Bosnia and Herzegovina has recently resumed growth, albeit from a low base. Similarly, the overall economic performance of Bulgaria and Romania has been unstable. In the case of the latter, substantial growth in the period 1993-1996 has been followed by several years of economic decline. Bulgaria experienced sharp declines in income and output in 1996-1997, but has managed a significant recovery since.

Several of these countries (Albania, Bosnia and Herzegovina, FYR Macedonia) started the process of transition at substantially lower levels of development than other CEE countries. The relatively poor growth performance and lack of progress in economic transformation of all seven countries was to some extent the result of the internal strife and wars in the region. In some cases (Bosnia and Herzegovina, Croatia, FR Yugoslavia) the impact was large and direct. In the other cases the effect was smaller and indirect. As a result of the combination of the initial conditions and relatively slow progress in the last decade, most countries in the Balkans are lagging by comparison to other countries in CEE in establishing the institutions needed for the efficient operation of market economies.

During this period, the performance of the service sectors in these countries was in general somewhat better than the performance of the economy as a whole. This was due to several factors. First, under the central planning regimes that were previously present in some of the countries, the service sectors were deliberately de-emphasized. Although this was less the case in the 'socialist' FR Yugoslavia of the 1980s, even there, with the exception of retail trade, the service sectors were tightly controlled. The demise of central planning brought about an increase in private (often informal) service sector activity, usually involving individual entrepreneurs and small enterprises. Second, the economic depression of industrial activity associated with the early stages of transition appeared to affect less the large scale utilities which, in most cases continued to remain in the hands of the state. Third, the introduction of market forces in the determination of the prices of services and the reduction of government imposed price controls may have had the effect of increasing the relative price of services. As a consequence of all these developments, the share of services as a percent of GDP expanded in all the countries (Table 1).

Table 1: The Balkans: GDP and Services

	GDP in million of US dollars			The share of services in GDP (%)		
	1990	1995	1999	1990	1995	1999
Albania	2,102	2,192	3,676	16	23	21
BiH*	n.a	n.a.	4,387	n.a	n.a.	58
Bulgaria	20,726	12,366	12,403	31	53	62
Croatia	18,156	18,081	20,426	55	62	59
FYROM	n.a	1,975	3,452	n.a.	45	53
Romania	38,299	35,533	34,027	29	39	53
FRY **	n.a	15,285	15,113	n.a	33	36

* GDP at purchasers' prices; ** GDP estimates for FRY are very tentative.

Source: World Bank, *World Development Indicators, 2001*; for FRY, Popovic and Jovicic, 2001

The growth of the service sector as a share of GDP was especially pronounced in Bulgaria and Romania, both of which were previously centrally planned economies, and to a lesser extent Albania, by comparison to the countries which were part of former socialist Yugoslavia. But it is important to keep in mind that the roughly doubling of the share of the service sector in a country like Bulgaria came mostly during a period of sharp declines in GDP (1990-1995). Both industrial and agricultural output fell a great deal during this period in Bulgaria. Output of the services sector seems to have declined by less. We can only offer some hypotheses on why: perhaps it was because of increased in private sector activity (e.g., internal trade) or the increased recording of such activity; or services prices increased relatively by more, by comparison to manufacturing—because they had been previously artificially suppressed; perhaps, also, the continued state monopolies in the service sectors did not curtail output by as much. This is certainly an area in which additional investigation would yield interesting insights on the overall role of service sector performance during the transition.

By 2000, the share of the service sectors in all the countries except Albania and FR Yugoslavia was in the 50 percent range, which is lower than that in high income countries such as France, the UK, and the US, which are in the 70 percent range.³ But their share is comparable to the share of the service sector in GDP in other countries of CEE such as the Czech Republic (53 percent), Slovenia (58 percent) and Hungary (60 percent). The main exception is Albania, where, at 21 percent of GDP, the service sector appears to be significantly underdeveloped, even taking into account Albania's relatively low level of income. One possible explanation may be that the share of services is significantly underestimated because it involves mainly informal sector activities which are not adequately captured in official statistics.

There are no systematic data collected on the output composition of the service sector. Based on the information available however, it would appear that the main service sectors are retail trade, construction, transport and, in a number of countries, e.g., Croatia, tourism. At the same time in all countries with exception of FR Yugoslavia, financial sector services were becoming increasingly important in recent periods.⁴

³ FR Yugoslavia's data on services are especially suspect. See Popovic and Jovicic, 2001, p.21

⁴ Periodic financial crises however, such in Croatia over the last several years and in Bulgaria earlier, resulted in temporary reductions in the share of banking and finance in GDP.

TRADE IN SERVICES

During the last decade, international trade in services increased very substantially for all seven countries. Sometimes the increases were from very low levels, e.g., Albania, FYR Macedonia. In other cases, e.g., Bulgaria, Croatia, export receipts from the service sector were substantial to begin with and increased further over the decade (Table 2).

Table 2: Trade in Services in the Balkans in million US\$

	1992	1995	1996	1999	2000*
Albania					
Exports	19	94	123	253	321
Imports	87	98	134	152	159
BiH					
Exports	n.a.	229	322	552	460
Imports	n.a.	252	396	228	196
Bulgaria					
Exports	1070	1431	1366	1758	2128
Imports	1165	1278	1246	1470	1660
Croatia					
Exports	2,286	2,455	3,297	3,723	4,084
Imports	1,148	1,410	1,717	2,098	1,827
FYROM					
Exports	60	185	154	252	298
Imports	30	385	309	323	358
Romania					
Exports	659	1476	1552	1320	1315
Imports	446	1801	1924	1759	1747
FRY					
Exports	n.a.	259	688	471	624
Imports	n.a.	141	277	243	293
Total					
Exports	4094	6129	7502	8349	9230
Imports	2876	5365	6003	6273	6240

* For Albania and Romania 2000 was estimated on the assumption that the growth over 1999 is the same as for 1996-1999.

Source For Albania, Bulgaria and Romania WTO, Trade Tables, 2001, for the other four countries see footnote 1

The composition of trade in services is shown in Tables 3 and 3a. Unfortunately data are available only for five of the seven countries (excluding Bosnia and Herzegovina and FR Yugoslavia) and only for selected years. They show that two sectors, transport, and travel and tourism services, are by far the most important in practically all the countries. In Albania for example travel and tourism accounts for over 80 percent of total service earnings, while in Bulgaria and Croatia it accounts for over 50 percent. Transport services account for more than 30 percent in Bulgaria, FYR Macedonia and Romania and for a substantial share of Croatia's exports as well.

Table 3: The Composition of Services Trade in the Balkans in million US dollars.

	Albania			Bulgaria			Croatia			FYROM			Romania		
	1990	1995	1999	1990	1995	1999	1990	1995	1999	1990	1995	1999	1990	1995	1999
Services trade (Total)															
Exports	32	94	253	837	1431	1758		2455	3747		227	610	1476	1340	
Imports	29	98	152	573	1278	1476		1410	2124		308	787	1801	1759	
Transport services															
Exports	6.	18	16	230	494	521		707	484		87	307	471	534	
Imports	8	60	90	243	530	647		393	400		152	515	604	570	
Travel and tourism services															
Exports	4	65	211	320	472	930		1349	2493		37	106	590	252	
Imports	4	7	12	189	195	524		421	751		32	103	697	402	
Communication services															
Exports		8	24			29					31		66	92	
Imports		9	19			25					11		28	83	
Construction services															
Exports						35					11		137	33	
Imports						12					11		20	9	
Computer and Information															
Exports			2								1		2.0	24	
Imports											1		2.0	25	
Insurance services															
Exports	0.70	0	0	25.6	0	10			25		2	34	30	22	
Imports	0.85	21	30			27			27		47	57	24	37	
Financial services															
Exports		1.3	1			16					1		50	34	
Imports		0.6	1			39					2		72	59	
Other business services															
Exports	21.0	1.3	0	261	464	215		398	745		53	162	87	280	
Imports	20.6	0.6	0	141	551	195		595	946		60	110	321	428	
Royalties and licence fees															
Exports											2		3	4	
Imports											3		8	38	
Cultural and Recreational															
Exports											2		40	65	
Imports											1		25	108	

Note. The table excludes government services. The data for the totals for some countries and years differ very slightly from those in Table 2 due to differences in sources

Source: International Monetary Fund, *International Financial Statistics*, 2001

Table 3a: The Composition of Services Trade in the Balkans (in percent)

	Albania			Bulgaria			Croatia			FYROM			Romania		
	1990	1995	1999	1990	1995	1999	1990	1995	1999	1990	1995	1999	1990	1995	1999
Transport services															
Exports	20.0	19.1	5.8	27.5	34.5	30.2		28.8	13.0			38.4	50.5	31.8	40.0
Imports	26.3	61.6	58.7	40.5	41.5	44.3		27.9	19.1			48.2	65.5	33.2	32.4
Travel and tourism services															
Exports	11.1	69.3	82.0	38.2	33.0	54.0		55.0	67.0			16.3	17.4	40.0	19.0
Imports		6.5	8.0	31.5	15.3	36.0		29.9	35.8			10.2	13.1	38.3	22.5
Communication services															
Exports		8.0	9.0			1.6						13.5		4.4	6.9
Imports		9.2	12.5			1.7						2.0		2.0	4.7
Construction services															
Exports			2.1									5.0		9.5	2.5
Imports			0.8									3.3		1.1	1.5
Computer and Information															
Exports		0.8	0.8									0.5		0.1	1.8
Imports												0.3		0.1	1.4
Financial and Insurance services															
Exports	2.2	1.4	0.3	3.1		1.6						1.4	5.6	5.4	4.2
Imports	2.9	22.1	20.0	4.5		4.5						15.7	7.3	5.4	5.4
Other business services															
Exports	66.7	1.4		31.2	32.5	12.6		16.2	20.0			23.1	26.6	5.8	20.5
Imports	70.8	0.6		23.5	43.2	13.5		42.2	41.1			19.0	14.1	18.0	24.0
Royalties and licence fees															
Exports												1.0		0.2	0.3
Imports												0.9		0.4	2.1
Cultural and Recreational ser.															
Exports												0.8		2.8	4.8
Imports												0.4		1.5	6.0

Source: See Table 3

Despite the problems caused by the conflicts in the region the overall growth rate of the export of services averaged around 9 percent per annum in the last decade, which is substantially higher than the rate of growth of merchandise exports (Table 4). A note of caution is appropriate at this stage regarding the data. As noted earlier data on services trade are generally weak. In the case of the Balkans there are also significant weaknesses and distortions in the data for merchandise trade. The conflicts and sanctions imposed on FR Yugoslavia, the Greek embargo on FYR Macedonia, the weak customs administration throughout the region, all contributed to a large underground economy, much smuggling and diversion of trade from normal channels, leading to underestimating merchandise exports. Nevertheless, it would appear that despite these problems with the data, it would be difficult to reach any conclusion other than, for these countries, services exports have been growing rapidly, despite the problems created by the conflicts in the region.

Table 4: Trade in the Balkans—Merchandise Trade—Annual Growth Rates in percent

Countries	1992—1995		1992—2000		1995—2000	
	Exports	Imports	Exports	Imports	Exports	Imports
Albania	43.0	7.9	17.6	8.9	4.5	9.5
BiH	-44.5	14.3	10.1	26.7	66.0	34.8
Croatia	0.3	20.6	-0.1	7.1	-0.3	-0.2
FYROM	0.1	1.9	1.2	7.1	1.8	3.9
FRY	-30.4	-26	-2.7	0.9	18.9	21.5
Bulgaria	14.6	10.2	3.6	5.4	-2.4	2.6
Romania	20.6	17.9	10.9	9.6	4.3	4.8
Total	6.5	11.1	4.6	7.4	3.4	5.3

Services Trade—Annual Growth Rates in percent

Countries	1992—1995		1992—2000		1995—2000	
	Exports	Imports	Exports	Imports	Exports	Imports
Albania	70.4	4.0	44.8	8.3	27.8	10.1
BiH	n.a.	n.a.	n.a.	n.a.	15.0	-4.9
Croatia*	2.4	7.1	8.6	6.9	10.7	9.7
FYROM	45.5	24.3	22.2	36.3	10.0	-1.4
FRY	n.a.	n.a.	n.a.	n.a.	19.2	15.8
Bulgaria	10.1	3.1	8.9	4.5	8.2	5.3
Romania	30.8	59.2	9.0	18.6	-2.5	-0.6
Total*	11.2	20.0	8.9	9.0	8.5	3.0

* The 'total' growth rates for 1992-1995 and 1992-2000 include Albania, Croatia, FYR Macedonia, Bulgaria and Romania. For 1995-2000 the 'total' growth rates include all seven countries

Source For Services, see Table 2, for Merchandise Trade, WTO, Trade Tables, 2001

Service imports also grew during this period at about the same pace as exports. But growth was uneven. Some countries (Albania, FYR Macedonia, Romania) whose imports of services were very small at the beginning of the nineties, showed large increases at first, which were not sustained later. Only Bulgaria and Croatia sustained steady import growth throughout the period.

Data on the composition of service imports are also only available for five countries (i.e., excluding Bosnia and Herzegovina and FR Yugoslavia). Tables 3 and 3a also suggest that travel (business and personal) and transport services are of importance

for all five countries. In addition, 'other' business services imports are important to all except Albania. At the same time there is evidence that payments for financial services are on the increase in both Croatia and FYR Macedonia (Jurlin and Galinec, 2001; Daskalov et. al 2001), on account of the increased presence of foreign banks in the two countries.

The large growth of service exports relative to merchandise exports, even if the latter are underestimated, possibly more than exports of services, means that earnings from services are becoming of greater significance over time as a proportion of total foreign exchange earnings from goods and services for all the countries (Table 5). The share of services earnings from exports relative to total earnings from the exports of goods and services is highest in Albania and Croatia and lowest in Romania and FYR Macedonia.

Table 5: Share of Services in Total Earnings and Payments for Goods and Services in the Balkans 1992-2000 in percent

	1992		1995		2000	
	Exports	Imports	Exports	Imports	Exports	Imports
Albania	34.6	13.8	31.4	12.5	55.6	12.9
BiH	n.a.	n.a.	n.a.	n.a.	38.5	8.0
Bulgaria	23.1	21.6	21.0	18.4	31.0	20.4
Croatia	33.2	20.3	34.6	15.1	47.2	23.4
FYROM	4.7	2.4	13.3	18.2	18.4	17.1
Romania	12.7	6.6	15.7	14.9	12.6	11.8
FRY	n.a.	n.a.	24.2	9.1	24.4	7.31
Total	9.7	12.2	23.3	16.0	38.0	14.6

Source See Table 4.

POLICIES THAT AFFECT TRADE IN SERVICES

International trade in services is affected by a variety of domestic policies, often of a regulatory nature which frequently are not designed to discriminate between domestic and foreign service providers, but simply to regulate the price or the provision of a certain service. The establishment for example of a public monopoly in railway service *de facto* results in the exclusion of both domestic and foreign competition. Similarly, the regulation of the electricity tariffs charged by a private utility may affect the provision of services by the utility whether it is domestic or foreign owned. On the other hand certain laws and regulations may explicitly discriminate against foreign service providers: For example the provision of certain types of insurance services may be reserved completely to domestic firms; or there is a legally imposed maximum foreign equity share participation in firms in certain sectors. In some cases, the establishment of a public monopoly in the provision of a service, e.g., in telecommunications may only be broken by opening up to foreign competition, or a joint venture, as domestic private sector suppliers may not be in a position to compete.

As noted above, the efficiency of the provision of these services is an important factor in determining the overall productivity of an economy and its competitiveness abroad. In the context of transition economies in particular, it has been argued that provision of services by the public utilities is a major determinant of the rate of

investment in new ventures which itself plays a key role in the overall restructuring and growth of these economies.

It is beyond the scope of this preliminary survey to examine systematically and in detail the many and varied policies undertaken by the seven Balkan countries that affect the efficiency and effectiveness of their service sectors—some of which may directly or indirectly inhibit trade in services. We may be able to note a few generalizations regarding the liberalization and restructuring of some of their service sectors based on existing information. We will, however, review in a systematic fashion the commitments which a number of these countries have made regarding policies affecting their services trade in the context of the GATS. Four of the countries reviewed (Albania, Bulgaria, Croatia and Romania) are already WTO members, while the other three are applying to accede. FYR Macedonia is sufficiently along its accession process to have given an indication of its policies affecting trade in services in its proposed 'offer' on services made in early 2001.

The commitments countries make on trade in services in the context of the GATS are legally binding, as are all WTO commitments. This means that their policies must be at least as liberal as the commitments made. But they could in actuality be even more liberal than the policies implied by the WTO commitment, as the commitments reflect a minimum standard of liberalization. This is possibly the case in some countries, but it is not usual practice. Typically countries' commitments are in line with their actual practice. This is very likely to be the case for recently acceding WTO members such as Albania and Croatia or acceding ones like FYR Macedonia. On the other hand, Bulgaria and Romania which acceded to the WTO earlier on, may have taken subsequent unilateral steps to liberalize their regimes, which may not be reflected in their GATS commitments.

General

Just as in merchandise trade, there are two sets of policies and institutions that affect services trade in any country: those that affect its policies on imports of services and those on exports. Because of concerns about the potentially deleterious effects of government controls and other interventions that limit imports of services (and, to a more limited extent, consumption abroad), or discriminate between domestic and foreign providers, most attention has in the past focused on these policies, while little attention has been paid to issues related to exports of services. This is unfortunate, as services exports, as was seen earlier, play or have the potential to play an important role in some of these economies.

Policies and Institutions Affecting Service Exports or Earnings

We start our analysis with a brief review of the state of play in two service sectors of export importance to these countries: tourism and road transport. Tourism is of actual importance to Albania, Bulgaria and Croatia and of potential importance to practically all the countries.

During the last decade, the earnings from tourism services in all the countries in the region have been obviously very adversely affected by the internal strife and armed hostilities in several countries in the region. Indirectly, instability in the region has also adversely affected tourism even in Bulgaria which was not directly involved in these conflicts. In some countries, (Bosnia and Herzegovina, Croatia, FR Yugoslavia) the conflicts resulted in physical damage to the tourism infrastructure, including hotels and road and other transport.

The main challenge faced by all the countries in the region in the tourist sector is the need to restore and develop the hotel infrastructure and related services as well as the transport network needed to support the tourist sector. This is especially the case in the Western Balkans which face large needs to develop adequate road and air transport facilities.

The transport sector is of importance to most of the countries in the region. Earnings from transit fees for road transport are of actual or potential importance to Croatia, FR Yugoslavia, and FYR Macedonia because they are situated in through trucking routes to Europe for Bulgaria and Turkey. Bulgaria has a large trucking fleet as well as earns transit fees.⁵ The revenues from this source are far below the potential for these countries for a variety of reasons: the conflicts in all the countries, delays at border crossings and the damage to the road infrastructure caused by NATO bombing in FR Yugoslavia have all resulted in traffic being diverted to other routes.⁶ The problems at border crossings are themselves the result of many institutional weaknesses: there are weaknesses and corruption in customs administration; there are problems and delays in securing the necessary permits and other documentation for through traffic; and there are some physical infrastructure inadequacies at the crossing points themselves. To realize the potential from this sector, both peace and stability as well as substantial investments and institution building are required.

Policies and Institutions Affecting Service Imports or Payments

The availability of information regarding policies and institutions affecting service imports varies significantly among the seven countries. There is far less information available for the two countries (Bosnia and Herzegovina, FR Yugoslavia) which are at early stages of negotiations to accede to the WTO. In the case of the other five countries there are data based on the commitments, actual or proposed (in the case of FYR Macedonia) in the context of GATS. The situation in these countries based on these data is analyzed in detail below. Even in their case, however, there are differences: the detail available in the GATS commitments for Bulgaria and Romania may have been superseded by further liberalization of their service sectors which these two countries have not yet 'bound' in the GATS; and in FYR Macedonia, it is unclear whether the 'offer' on which the analysis is based reflects what is actually the situation at present or what it will be at some time in the future when the commitments involved in the WTO

⁵ River transport is also of importance to FR Yugoslavia; but it too has been damaged, due to the damage in bridges of the Danube which have not been rebuilt.

⁶ See FR Yugoslavia, 2001. There are also problems involving air and rail transport.

accession have to be implemented. In what follows we offer some general observations about the overall state of play affecting trade in the service sectors of all of these countries and some details on the two countries, Bosnia and Herzegovina and FR Yugoslavia, on which no GATS related information is available.

First, the general impression is that in all countries, the services sectors are not encumbered by serious restrictions regarding market access and national treatment. Croatia's and Albania's regimes promise to be the most open, especially when the latter's WTO commitments are fully implemented, followed closely by FYR Macedonia's regime, assuming of course the latter's 'offer' is also fully implemented. The regimes in Bulgaria and Romania appear to be less open—although, both have taken advantage of the WTO agreements on financial services and telecommunications to liberalize these sectors significantly. Bosnia and Herzegovina has also taken certain important steps to liberalize its service sectors and its regime is probably at least as open and non-discriminatory as that of Bulgaria and Romania. With FR Yugoslavia, it is hard to say because its policies following the demise of the Milosevic regime are all in the process of re-evaluation. But it is clear that the government's intention is to take significant liberalizing steps in the future. Overall, it would appear that these countries' service sectors are probably more open than the service sectors of developing countries at similar levels of per capita income (see below).

Second, while the regimes may be relatively open and non-discriminatory, there are still many vestiges of government control and ownership of important service providers: railways and most of the energy sector utilities are typically public monopolies. Telecommunications is also publicly owned in Bosnia and Herzegovina and its government's approval is required for a foreign service provider. Insurance services are still publicly operated FYR Macedonia and FR Yugoslavia. A lot of the continued public sector ownership in these sectors reflects the slow speed in which privatization and market reforms in general have proceeded in these countries. Characteristically the EBRD, with few exceptions, gives very low marks to all the countries in practically all aspects of market reform in which it makes ratings (privatization, governance and enterprise restructuring, competition policy).⁷

⁷ See EBRD, 2001.

Box 1

Bosnia and Herzegovina is working on liberalization of its services-related legislation. Services can be freely provided within the territory of Bosnia and Herzegovina; and Bosnia and Herzegovina's natural and legal persons can purchase foreign services abroad without restrictions. Existing state level legislation prohibits discriminatory measures and restrictions of market access and national treatment for all types of services. Moreover, the law on Foreign Trade policy and specific service sector legislation prohibits monopolies or monopolistic entities. But *de facto* government monopolies exist in telecommunications (in which foreign providers have to work through a government entity in providing fixed telephony services), energy, the railways sector and in some public utility services. The insurance sector has also not been liberalized. Privatization, however, is anticipated in several of these sectors (Mesinovic et al, 2002).

At the same time, there are no restrictions that apply to the international transfer of payments for goods and services. And incentives to encourage investments in service sectors do not discriminate between foreign and domestic investments, as foreign investors enjoy the same property rights as citizens and legal entities of Bosnia and Herzegovina. Limitations on the participation of foreign capital exist only in the arms and public information sectors. And in insurance, a foreign company needs to establish a subsidiary rather than operate through a representative.

The biggest challenge facing Bosnia and Herzegovina in this and other areas results from its model of governance which involves a high degree of political and administrative decentralization. In many service sectors there is both state and entity level regulation. In this context, it is important to ensure that the overall openness at the state level is not compromised by a lot of regulation at the local level.

Box 2

FR Yugoslavia's trade in services was severely affected by the trade blockades of the 1990's and the NATO bombing. While it was traditionally a net exporter of services, primarily construction and transport, the surplus in the services account shrunk to almost zero at the end of the decade. The transport sector was severely affected by lack of maintenance and physical destruction. Half the maritime fleet was sold to cover debt arrears in foreign harbors where the ships were forced to stay during the sanctions; in railways there is great obsolescence of rolling stock which causes operational and safety problems; the financial services sector has been severely undermined by the policies of the previous regime and requires very substantial rehabilitation and restructuring. Existing policies affecting foreign direct investment include limitations of entry in particular sectors, and a series of administrative reviews. These policies are all under review with a view towards simplification and rationalization (Popovic and Jovicic, 2001).

The GATS Commitments

The GATS involves commitments signatory members make regarding the access to their markets for tradeable services (Article XVI) and to the way foreign service providers are treated relative to nationals (Article XVII). The commitments are divided in two parts. The first part specifies cross-industry/sector commitments (general, or so called 'horizontal' commitments), which are broad conditions and restrictions applicable across all industries. The second part defines in detail industry/sector specific commitments.

The industry/sector specific part of the commitments (called 'schedules') consists of a matrix whereby commitments are made regarding market access and national treatment in each service industry/sector and in relation to four "modes of supply". The four modes of supply are:

- (a) *Cross border*, wherein a service provider mails, electronically transmits, or otherwise transports a service across national borders;
- (b) *Consumption abroad*, wherein a consumer, such as tourist or student, travels across national borders to consume a service;
- (c) *Commercial presence*, wherein a service supplier establishes a foreign based corporation, joint venture, partnership, or other establishment, to supply services to foreign persons; and
- (d) *Presence of natural persons*, wherein an individual, functioning alone or in the employ of a service provider, travels abroad to deliver a service.

For each sector and each mode of supply, countries may offer one of two types of commitments. A 'full commitment' which implies no restriction regarding either market access or national treatment, creates the most liberal trading environment. The second type of commitment, 'a partial commitment', communicates the restrictions on market access or national treatment which the country commits to maintain. These restrictions are 'bound', meaning that they cannot become more burdensome in the future. The absence of a commitment is indicated by the concept of 'unbound', which means that the country reserves the right to impose any and all types of restrictions on market access or national treatment in the sector involved.

Industry/specific commitments should be understood by reference to the general, cross sector commitments. For example, if an accounting firm wanted to establish commercial presence in a foreign country, that is to set up an office that provides accounting services, it would need to consider both the industry/sector specific limitations the country has imposed in the sector/industry as well as the cross industry/general restrictions.

General Commitments

In general, the five Balkan countries which have made or are planning to make WTO commitments, are relatively liberal by comparison to other countries at similar levels of economic development. This is especially true for Albania, Croatia and FYR Macedonia, and to a lesser extent for Bulgaria and Romania. Table 6 shows the overall commitments these countries have made (or are planning to make) and compares them to different groups of countries, developed or developing. The table uses the methodology developed by Hoekman (1996) to measure frequency, coverage and degree of commitment across all the sectors in which countries can make commitments under the GATS. It should be stressed again that this methodology gives only a general

impression of the commitments countries have made and does not purport to measure the restrictive ness of the different regimes.⁸

The table shows that on the whole, the five Balkan countries compare favorably in terms of their overall GATS commitments with other countries at similar levels of development. Indeed the three countries with the most extensive commitments (Albania, Croatia and FYR Macedonia) have made a range of commitments which is comparable to that made by developed country members of the WTO. A variety of reasons may have played a role in these three countries' commitments: the lack of extended vested interests in the service sectors, the desire for association with the EU and pressure by WTO members during the accession process, may all have played a role. By contrast Bulgaria and Romania, which entered the WTO earlier (the former without going through the accession negotiation process), have made substantially fewer commitments (though as noted earlier, that does not necessarily signify the presence of more restrictive regimes).

Again looking at their overall commitments, the five countries tend to have made more commitments regarding national treatment rather than market access, a tendency common to practically all countries; and, as in other countries, there were far less commitments for the provision of services through 'mode four', presence of natural persons, than for the other three modes of supply.

At the cross-sectoral level some of the most common exceptions to liberalization involve limits on real estate ownership by foreign nationals and firms, restrictions on capital account transactions as well limits on foreign investment in existing firms as opposed to 'greenfield' investments which are typically unencumbered. For example, in Bulgaria capital account transactions' require authorization by the Bulgarian Central Bank; in Bulgaria and Romania, foreign investment participation in privatization is unbound, implying that foreign investor participation in privatization may be decided on a case by case basis.

Sectoral Level Commitments

The sectors in which the five countries made the least commitments are health, recreational and transport services; while extensive commitments for liberal access have been made on construction, distribution, tourism and travel, financial, business and communication services (with the exception of postal). The commitments at the sectoral level are summarized in Table 7 and discussed below.

⁸ There are 155 non-overlapping sectors, four modes of supply and two types of commitments (market access and national treatment) resulting in 1240 cells for each member. If there are no restrictions, then a value of '1' is assigned to each cell; if there is an indication of 'unbound', meaning no commitment has been made, a value of zero is assigned; if there is a commitment with exceptions, a value of '0.5' is assigned to the respective cell.

Table 6: Commitments by Balkan and Other Countries and Groups—In number of Commitments and as a percent of Maximum Possible

No of Service Sectors	X Four Modes		Albania		Bulgaria		Croatia		FYROM		Romania		5 Balkan countries		High inc. Countries		Low/mid inc. countries		EU		USA		Canada		Japan	
	No	%	no	%	no	%	no	%	no	%	no	%	no	%	no	%	no	%	no	%	no	%	no	%	no	%
155	620	100	345.5	56	208	34	354.5	57	319	52	176	28	280	45	293.4	47	102	16	392	63	384	62	352	57	408	66

Source: For Balkans, own calculations, based on WTO GATS Commitment Schedules, actual or proposed, for others, Hoekman, 1996

Table 7: Sectoral coverage of specific commitments of the Balkan states under the GATS

	no of sectors. X 4 Modes		Albania		Bulgaria		Croatia		FYROM		Romania		5 Balkan countries		
	no	%	no	%	no	%	no	%	no	%	no	%	no	%	
1. Business services	46	184	100	105	57	80.5	44	122.5	67	112.5	61	37	20	91.5	50
2. Communication services	25	100	100	63	63	42.5	43	56	56	56	56	59.5	60	55	55
3. Construction services	5	20	100	17.5	88	8.5	43	12.5	63	12.0	60	10.0	63	12.1	61
4. Distribution services	5	20	100	12.0	60	8.5	43	14.0	70	10.0	50	10.5	53	11.0	55
5. Educational services	5	20	100	12.5	63	8.5	43	12.5	63	9.5	48	0.0	0	8.6	43
6. Environmental services	4	16	100	14.0	88	10.0	63	9.0	57	6.0	38	3.5	22	8.5	53
7. Financial services	17	68	100	47.5	70	21	31	42.5	63	34.0	50	33	49	35.6	52
8. Health and related services	4	16	100	5.5	34	2.5	16	7.5	47	1.5	9	0.0	0	3.4	13.6
9. Tourism and travel services	4	16	100	10.5	66	4.0	25	13.0	81	6.5	41	9.5	60	8.7	54
10. Recreational/cult/sport ser	5	20	100	13.0	65	2.5	63	8.5	43	6.0	30	0.0	0	6.0	30
11. Transport services	35	140	100	45	32	19.5	14	56.5	40	65	46	13	9	39.8	28
Total	155	620	100	345.5	56	208	34	354.5	57	319	52	176	28	280	45

Source: see Table 6

- **Business Services**, include a wide range of services such as legal, accounting, auditing, bookkeeping, engineering and construction, advertising, etc. (for details see Annex, Table A-1). All involve inputs that are critical to productivity and export competitiveness in an era of globalization. Most business firms provide services through foreign based affiliates, though architectural and advertising firms may also provide services through cross border transactions. Some of the more important domestic policies that affect the operations of affiliates in this sector include limitations on international payments, mobility of persons, professional certification as well as nationality of personnel. As in most cases, Albania, Croatia and FYR Macedonia appear to have made the most extensive commitments in these areas, in many cases at least as many as developed countries; while Bulgaria and Romania are lagging behind. Indeed Romania's commitments are comparable to the level of commitments made by low income countries. All countries, however, tend to be more restrictive regarding traditional business services and less so regarding more modern technology services (e.g., computer services).
- **Communication Services**. Countries appear to maintain substantial restrictions on postal services (with the exception of Albania and to some extent FYR Macedonia). In telecommunications, by and large, restrictions appear to be less pervasive, with mobile telecommunications—a new technology sector, again being the most open (see Table A-2).

- **Construction and Engineering Services.** This sector includes the activities of construction firms involving building, civil works, installation and assembly, repairs, etc. The most extensive commitments in the sector have been made by Albania—which only imposes limits on the provision of such services by natural persons. The other four countries have identical commitments, which in addition to limiting natural persons, impose partial limitations regarding right of establishment (Table A-3).
- **Distribution Services.** In this sector, which includes such activities as wholesale and retail trade, and franchising, Croatia appears substantially more open than the other four countries, with Bulgaria and FYR Macedonia the least liberal. Romania, appears quite open, with the exception of franchising which is unbound (Table A-4).
- **Education Services.** The sector involves provision of such services at the primary, secondary, and higher education level, adult and other education. This is a sector in which high income, developed countries have made few commitments themselves, essentially retaining the right to control the access to their education system. By contrast, Albania, Bulgaria (with the exception of higher education), Croatia and FYR Macedonia are relatively open; on the other hand, in Romania's case the whole sector is unbound (Table A-5).
- **Environmental Services.** The sector includes the provision of local services in sewage and refuse disposal, sanitation and similar services. These services, typically provided by local governments in most jurisdictions, are quite open to foreign suppliers in the case of Albania. In Romania the whole sector is again 'unbound', with the other countries in between (Table A-6).
- **Financial Services.** Because of their importance to the functioning of market economies, policies affecting financial services were subjected to a separate and more detailed analysis.

There are three types of financial services: those related to banking, insurance and 'other', mostly related to the operation of capital markets. Banking and insurance are important to all economies. The 'other' services, primarily to those economies with more developed and deeper financial systems. Within banking, policies sometimes differ regarding deposits and lending and within insurance, regarding life insurance and non-life insurance services. As regards the 'other' financial sectors, these include policies regarding leasing, guarantees, money brokering, asset management and the like. In practically all these subsectors it is, in principle, possible to engage in transactions involving the provision of services through cross border supply, and to perhaps more limited extent, through consumption abroad. But by far the most important mode of service provision is through commercial presence (see Mattoo, 1999); and as regards the limitations regarding to the provision of services through mode 'four', there is little in this sector that is different from others. Thus, the key to how liberal the service regime in this sector is what kind of limitations exist on the operations of foreign banks, insurance companies and to a smaller extent, firms operating in 'other' financial transactions.

The results of the analysis are presented in Table 8, whose structure is based on Mattoo, (1999). The Table shows that overall, the five Balkan countries have relatively open financial sectors (see also Table A-11).

As regards insurance, Albania has made full commitments on all three modes; and Croatia's and Romania's limitations on the important aspect of commercial presence, are only regarding the legal form of the foreign insurance provider. Bulgaria and FYR Macedonia, on the other hand have limitations on the maximum foreign equity permissible in insurance companies; and all countries, except Albania, have some type of limitation on the somewhat less important aspects of cross border and consumption abroad (Table 8).

In the banking and 'other' financial sector, none of the countries have any limitations on the commercial presence of foreign banks or other foreign service providers, except regarding the legal form of the entities providing the service. At the same time, countries have different kinds of restrictions on banking and other financial services involving cross border supply and/or consumption abroad. With respect to banking Romania has made the greatest number of commitments while Bulgaria the least (see Table A-11). Both Bulgaria and FYR Macedonia maintain limitations on foreign equity participation in the sector. With respect to other financial services such as asset management, financial trading, money broking, etc. Albania and Croatia have made more commitments than the other countries.

- **Health Related and Social Services.** In this sector, which involves the provision of hospital and other human health services as well as social services, few WTO members have made extensive commitments. Among the five Balkan countries, Albania, again has made the most, while Romania has made none, with the commitments by the other countries in between (Table A-7).
- **Recreational, cultural and sport services.** In this diverse sector which includes the provision of entertainment services as well as news agency, library, museum and sporting services, commitments by governments are also quite diverse: Albania and Croatia, have made substantial commitments to opening news agency services, a sector which is unbound in Bulgaria and Romania; Bulgaria and Croatia have opened the entertainment service sector, while FYR Macedonia and Romania have kept it unbound; and no country, except Albania, has made any commitments in the libraries, archives and museums subsector (Table A-8).
- **Tourism and Travel Related Services.** This sector includes the supply of hotel, restaurant, travel agency and tourist guide services by foreigners. It is extremely important as an actual or potential source of foreign exchange earnings for the five countries. This is reflected in the countries' commitments which involve substantially liberal access to the sector by foreign suppliers (Table A-9), with the exception of Bulgaria, and to some extent FYR Macedonia.

Table 8: Market access commitments actual or proposed of five Balkan countries on financial services under GATS

Sector	Full commitments On first three Modes	Commitments on cross border supply (mode 1)		Commitments on consumption abroad (mode 2)		Commitments on Commercial presence (mode 3)			
		Full	Limited	Full	Limited	Full or ltns only on the legal form	Limitations on only no. of suppliers	only foreign equity	both no. of ssrs & foreign equity
Insurance	Albania,					Albania, Croatia Romania		Bulgaria FYROM	
a) Life insurance	Albania,	Albania	Croatia, FYROM	Albania	Croatia				
b) Non life insurance	Albania	Albania	Croatia, FYROM	Albania	Croatia				
c) Other	Albania	Albania, Croatia	Bulgaria, Romania FYROM.	Albania, Croatia	FYROM, Romania.				
Banking						Albania, Croatia Bulgaria, Romania FYROM			
a) Deposits		Romania		Albania, FYROM	Croatia, Romania	Albania, Croatia Bulgaria, Romania FYROM			
b) Lending		Romania, Croatia		Albania, Croatia Romania		Albania, Croatia Bulgaria, Romania FYROM			
Other financial serv.			Albania, Croatia Romania	Albania, Croatia	Romania	Albania, Croatia FYROM, Romania Bulgaria			

Source: see Table 6

- **Transport Services.** As noted earlier this is an important sector for many of the countries in the region. For some, because they are located on major overland transit routes (Croatia, FYR Macedonia, FR Yugoslavia); for others such as Bulgaria (trucking) and Croatia (ship building) because they have developed a substantial capacity related to the sector. Transport services include air and maritime transport, road transportation (passenger and freight), rail transportation (passenger and freight), other transportation, such as through pipelines, auxiliary freight services, such as warehousing and the arrangement of transportation of freight and cargo, and other auxiliary services

Overall, the five Balkan states have made somewhat less commitments for opening up these sectors to foreign competition relative to other service sectors even though they are on the whole more open than developed and high income countries and far more open than low income ones (Table A-10). As in the other sectors, Bulgaria and Romania have made the fewest commitments while Croatia and FYR Macedonia have made the most.

It should be recognized that some of these commitments are less meaningful than others: FYR Macedonia, a country with no access to the sea, has made extensive commitments to liberal maritime transport. On the other hand, and for reasons which are unclear to us, 'space' transport services are completely unbound in all the countries except FYR Macedonia.

Regarding the important land transportation sub sector, which comprises both cross-border transactions and sales by affiliates, there are limitations to commercial presence, such as investment barriers, nationality requirements and establishment restrictions which affect the ability of transportation service providers to enter most markets.⁹ Bulgaria undertakes only commitments on maintenance and repair of road transport equipment. Albania does not include rail transport services in its schedule.

Freight forwarders and customs brokers are subject to specific licensing requirements. Customs brokers are also often subject to nationality restrictions. Finally, all cabotage for the five countries is reserved for domestic providers.

Summary

The overall picture that emerges from this analysis, is that while on the whole, policies towards imports of services in the Balkans are relatively liberal—especially by comparison to countries at similar levels of development, there are substantial differences both between countries and between sectors. At the country level, there is a basic distinction between countries that are members of the WTO and have made bound commitments (or preliminary offers) regarding access to their service sectors and those that have not (Bosnia and Herzegovina and FR Yugoslavia). The absence of WTO commitments does not in and of itself imply that the country's regime is restrictive. The

⁹ In addition, land transportation service providers are affected by the lack of standardization of operational rules and regulations, which was not addressed under the GATS.

presence of the commitment on the other hand is an important guarantee to foreign service suppliers regarding the stability of access and the security of investments in that country—an important determinant of foreign direct investment.

Among the countries that are WTO members, there are differences between Bulgaria and Romania, who became members earlier and those which have either become members very recently (Albania and Croatia) or are in the process of acceding (FYR Macedonia). The former have, on the whole, made fewer commitments than the latter. The reasons for this may be related to the fact that developed country members (the US and EU in particular) are placing greater demands to liberalize on countries that are currently acceding than they had on those that acceded in earlier periods (Bulgaria, 1996) or countries that become WTO members at its inception (Romania). The lack of formal commitment in the WTO may not reflect an overall restrictive policy. But a WTO commitment is, as noted above, an important signal to foreign investors; and, for this reason, it may be useful for both Bulgaria and Romania to review their service sector commitments with a view to increasing them in the context of the ongoing WTO service sector negotiations.

As regards sectoral liberalization, it is worth noting that the very important financial sector, appears to be quite open in the countries for which there is information. On the other hand, substantial limitations appear to be present in the transport services sector, another sector of importance for trade in general and regional trade and integration in particular.

SOME REGIONAL ISSUES

The MOU on Trade Liberalization and Facilitation signed by the seven countries in June 2001 calls for the signatory countries to ‘include in the Free Trade Agreements a clause foreseeing the future liberalization of trade services, in accordance with GATS Article V’.¹⁰ The latter in turn states *inter alia* that ‘This agreement shall not prevent any of its Members from being a party to or entering an agreement liberalizing trade in services between or among parties to such an agreement, provided that such an agreement: (a) has substantial sectoral coverage—understood in terms of number sectors, volume of trade affected and modes of supply; (b) provides for the absence or elimination of substantially all discrimination understood in the sense of Article XII, between or among the parties in the sectors covered under subparagraph (a).’¹¹ The question that needs to be explored then, concerns the implications of the above analysis for the future implementation of the provision of the MOU regarding trade in services.

The first point to note in this regard is that there are no data available which would inform policy makers in the Balkan countries on the direction of their trade in services. The information on trade in services, weak as it is, pertains to global aggregates and does not include a breakdown of services transactions as between the countries in the region and their regional trade partners or the rest of the world. There is no information

¹⁰ Stability Pact, 2001, paragraph 6.

¹¹ WTO, 1999, p.289.

for example, on the amount of financial service payments or transport receipts by country of origin or destination. Thus, the information base for any regional policy in this area is essentially non-existent and would need to be developed.

Second, there is practically no experience with the implementation of this provision of GATS in other preferential arrangements among countries at a similar level of development. Perhaps the only viable operating entity implementing this article in a systematic fashion is the European Union in the context of the implementation of regulations which create a single market for all EU member transactions.

Third, it should be noted that the GATS Article V provisions are very similar to those of Article XXIV of GATT in calling for 'substantially all' coverage of sectors and transactions. Again, as there has been very limited implementation of Article V, the interpretation of what constitutes 'substantially all' in practice is unclear. But it clearly does not mean the provision of discriminatory liberalization in a few sectors or modes of supply.

More fundamentally, the economic justification for providing preferential treatment between and among countries of the Balkans in substantially all service sectors can be questioned. Unlike merchandise trade where preferences can be given in a transparent and simple manner, for example through the progressive elimination of tariffs, preferences in services have to be implemented in most instances through differential rules and licensing arrangements. This in turn gives rise to non-transparent processes opening up opportunities for rent seeking and corruption. And the overall wisdom of providing preferences to regional partners, e.g., in commercial presence, is open to question: why for example should there be a different and perhaps less stringent treatment regarding equity participation from a regional partner in an insurance venture than from a partner outside the region? And what would the effect of such discrimination be on the inflow of foreign direct investment from developed countries, which all the countries in the region seek?

When embarking upon a liberalization of the service sectors in the region, it is important to keep in mind the precedents the EU is establishing in concluding Stabilization Association Agreements (SAAs) with countries in the region. These agreements are the centerpiece which will define international trade relations between the EU and the Western Balkans for the next decade and will provide the basis for future integration of these countries into the European structures.¹² Two such agreements have been concluded so far: with Croatia and FYR Macedonia. It is instructive that in both cases the agreements do not call for preferential treatment of EU service providers or vice versa. Instead they commit the participants to provide each other with MFN and national treatment. Of course to some extent these commitments may go beyond what some of these governments have agreed to do in specific sectors on a multilateral basis in the WTO. But the point is that the commitments are not preferential as such.

¹² For a discussion of these agreements see Michalopoulos, 2001.

There would appear to be two areas in which regional cooperation related to services trade could nonetheless be fruitful: first, there may be a number of institutions or policy areas in which harmonization of regional policies or rules could be beneficial to trade and development. Examples of this may be found in various utilities, transportation, customs procedures and other such areas where region wide liberalization and the establishment of common policies may be beneficial to all countries. These policies could be adopted on an MFN basis but de facto yield the greatest benefits to regional partners. Another area of regional collaboration derives from the desire of all these countries to align their policies to EU structures. The EU does have an operating system of preferences in services trade for its members. One way in which the Balkan countries could collaborate is in systematically aligning their policies with each other at the same time as they will be moving their policies towards those of the EU in the context of negotiations for accession (Bulgaria and Romania) or the Stabilization and Association Agreements the other countries in the Balkans are signing with the EU. It would mean in a sense the extension of MFN and national treatment to each other, perhaps even in sectors where the countries are not prepared to make such commitments to all countries through the WTO negotiations.

CONCLUSIONS AND RECOMMENDATIONS

The findings of this review of services trade in the Balkans should be considered as preliminary and the conclusions as tentative. The information basis for the analysis is simply quite limited. Thus, the first main recommendation is for the undertaking of more intensive analysis at the country level to develop detailed data on both trends in the service sectors (in the aggregate, and by sector), trade in services (in the aggregate, by sector and by mode of supply) and, more fundamentally, government policies affecting trade in services. There is little doubt however, that both the services sector is becoming more important in these countries' economies and that trade in services is growing more rapidly than merchandise trade, and thus is becoming an increasingly important dimension of the integration of the Balkan economies in world trade.

The information about government policies on services is somewhat better for countries that have recently acceded or are well along in the process of accession to the WTO. What is known about these countries' policies is also encouraging: the policies of Albania, Croatia and FYR Macedonia appear quite open in a number of important sectors, such as banking and finance, both by comparison to other countries at similar levels of income and by comparison to all WTO members.

For Bulgaria and Romania the policy situation is somewhat less clear: these countries have undertaken fewer WTO commitments than other members acceding more recently; but it is unclear whether at the same time they have liberalized the services sectors unilaterally. There is a great need for better information on these countries' policies. In any case, these countries need to review their policies in the context of the ongoing WTO services negotiations and bring their commitments more in line with their actual practice as well as consider additional liberalization where appropriate.

In all countries there are probably further opportunities for liberalization in some sectors e.g., transport; to strengthen the effectiveness of regulatory agencies, so as to safeguard competition and increase the credibility of service providers (i.e., to ensure that they do not promise more than they can deliver); and to reduce the degree to which governments are locked into agreements with one foreign service provider.

For Bosnia and Herzegovina and FR Yugoslavia, there is an even greater need to have a systematic review and evaluation of their policies on trade in services. Both economies, and in particular FR Yugoslavia, have only recently emerged from a period of isolation which was damaging to their services industry. This review of policies has to be undertaken in the context of their overall evaluation of their market policies and orientation, as well as, in the context of their accession to the WTO, which will require them to make explicit commitments regarding market access and national treatment of foreign service providers. In connection with these two countries, future accession to the WTO will undoubtedly be very helpful because the commitments they will have to make in GATS will both help improve the overall policy framework as well as lend credibility to the stability and durability of the policy reforms undertaken.

While there are substantial opportunities for further liberalization of the services trade on an MFN basis in the multilateral setting off the WTO, a number of serious issues would arise and need to be addressed in connection with the establishment of regional preferential trade arrangements in services: the informational base is even weaker than for trade in services in general; there is little international experience with such agreements; the legal requirements for establishing such arrangements are no less stringent than for merchandise trade; and there are serious dangers that the administration of discriminatory regimes and regulations will result in increased opaqueness and rent seeking, as well as possible adverse repercussions on the inflow of foreign capital. At the same time there may be a number of areas in which regional co-operation on an MFN basis can prove beneficial to the economies in the region.

APPENDIX

Table A-1: Number of Specific Commitments in Business services

	No. of Sectors X 4		Modes		Albania		Bulgaria		Croatia		FYROM		Romania		5 Balkan countries		High In. countries		Low & mid income c.		
	no	%	no	%	No	%	no	%	no	%	no	%	no	%	no	%	no	%	no	%	
Business Services																					
A. Professional services	11	44	100	31.5	72	18.5	42	30.5	69			12.5	28	23.5	53						
B. Computer related services	5	20	100	17.5	88	17.5	88	17.5	88			17.5	88	16.5	83	13.5	68	4.2	21		
C. Research and development services	3	12	100	0.0	0.0	3.5	29	10.5	88			0.0	0	4.9	41	4.1	34	1.0	0.3		
D. Real estate services	2	8	100	0.0	0.0	0.0	0	3.0	38			0.0	0	1.6	20	3.5	44	0.3	4		
E. Rental/leasing with no operators	5	20	100	3.5	18	0.0	0	17.5	88			0.0	0	6.6	33	9.5	48	1.3	7		
F. Other business services (A+F) professional & other business services	20	80	100	52.5	66	41.0	51	43.5	54			7.0	9	38.6	48						
Total (A+B+C+D+E+F)	46	184	100	105	57	80.5	44	122.5	67	112.5	61	37	20	91.5	50	65.3	53	13.2	11		

Source see Table 6 For FYROM, details are suppressed to maintain confidentiality

Table A-2: Number of Specific commitments in Communication services

	no of serv.		No of ser X m.s(4)		Albania		Bulgaria		Croatia		FYROM		Romania		5 Balkan countries		High Inc. count.		Low & mid. inc.coun.		
	no	%	no	%	No	%	no	%	no	%	no	%	no	%	no	%	no	%	no	%	
Communication Services																					
A. Postal services	1	4	100	3.5	88	0.0	0	0.0	0			0.0	0	1.2	30	1.3	33	0.6	15		
B. Courier services	1	4	100	3.5	88	0.0	0	3.5	88			0.0	0	1.6	40	n.a	n.a	n.a	n.a		
C. Telecommunication services	15	60	100	49	82	35.5	59	49.0	82	49.0	82	49.0	82	46.3	77	20.2	40	6.3	11		
mobile services	1	4	100	3.5	88	3.5	88	3.5	88			3.5	88	3.5	88	n.a		n.a			
D. Audiovisual services	6	24	100	0.0	0	0.0	0	0.0	0			0.0	0	0	0						
E. Other	1	4	100	3.5	88	3.5	88	0.0	0			3.5	88	2.1	53						
Total	25	100	100	63	63	42.5	43	56	56	56	56	59.5	60	55	55						

Source see Table 6

Table A-3: Number of Specific Commitments in Construction and Related Engineering Services

	No. of Sectors	X4 Modes		Albania		Bulgaria		Croatia		FYROM		Romania		5 Balkan countries		High Inc. countries		Low/mid. inc.count	
		no	%	no	%	no	%	no	%	no	%	no	%	no	%	no	%	no	%
Construct.& Rel. Engineering																			
A. General construction work for buildings	1	4	100	3.5	88	2	50	2.5	63			2.5	63	2.6	65				
B General construction work for civil engineering	1	4	100	3.5	88	2	50	2.5	63			2.5	63	2.6	65				
C. Installation & assembly work	1	4	100	3.5	88	2	50	2.5	63			2.5	63	2.8	70				
D Building completion & finishing work	1	4	100	3.5	88	2.5	63	2.5	63			2.5	63	2.9	73				
E. Other	1	4	100	3.5	88	0.0	0	2.5	63			0.0	63	1.2	30				
Total	5	20	100	17.5	88	8.5	43	12.5	63	12	60	10.0	63	12.1	61	11.2	56	3.3	17

Source see Table 6

Table A-4: Number of specific commitments in Distribution Services

	No. of Sectors	X 4 Modes		Albania		Bulgaria		Croatia		FYROM		Romania		5 Balkan countries		High Inc. countries		Low/mid. inc.coun.	
		no	%	no	%	no	%	no	%	no	%	no	%	no	%	no	%	no	%
Distribution Services																			
A. Commission agents' services	1	4	100	3	75	2.5	63	3.5	88			3.5	88	3	75				
B Wholesale trade services	1	4	100	3	75	2	50	3.5	88			3.5	88	2.9	73	2.3	58	0.25	6
C. Retailing services	1	4	100	2.5	63	2	50	3.5	88			3.5	88	2.8	70	2.2	55	0.4	10
D Franchising	1	4	100	3.5	88	2	50	3.5	88			0.0	0	2.3	58				
E Other	1	4	100	0.0	0	0.0	0	0	0			0.0	0	0.0	0				
Total	5	20	100	12	60	8.5	43	14	70	10	50	10.5	53	11	55				

Source see Table 6

Table A-5: Number of Commitments in Education Services

	No. of Sectors	X 4 Modes		Albania		Bulgaria		Croatia		FYROM		Romania		5 Balkan countries		High Inc. countries		Low/mid. inc.coun.	
		no	%	no	%	no	%	no	%	no	%	no	%	no	%	no	%	no	%
Education Services																			
Primary education services	1	4	100	2.5	63	2.5	63	2.5	63			0.0	0	1.7	43				
Secondary education services	1	4	100	3	75	2.5	63	3.5	88			0.0	0	2.3	58				
Higher Education services	1	4	100	3.5	88	0.0	0	3.5	88			0.0	0	2.1	53				
Adult education services	1	4	100	3.5	88	3.5	88	3	75			0.0	0	2.5	63				
Other education services	1	4	100	0.0	0	0.0	0	0.0	0			0.0	0	0.0	0				
Total	5	20	100	12.5	63	8.5	43	12.5	63	9.5	48	0.0	0	8.6	43	4.7	23.5	1.3	6.5

Source see Table 6

Table A-6: Number of Commitments in Environmental services

	No. of Sectors	X 4 Modes		Albania		Bulgaria		Croatia		FYROM		Romania		5 Balkan countries		High Inc. countries		Low/mid. inc.coun.	
		no	%	no	%	no	%	no	%	no	%	no	%	no	%	no	%	no	%
Environmental Services																			
A. Sewage services	1	4	100	3.5	88	2.5	63	2	50			0.0	0	2	50				
B. Refuse disposal services	1	4	100	3.5	88	2.5	63	2	50			0.0	0	2	50				
C. Sanitation and similar services	1	4	100	3.5	88	2.5	63	2	50			0.0	0	2	50				
D. Other	1	4	100	3.5	88	2.5	63	3	75			3.5	88	2.5	63				
Total	4	16	100	14	88	10	63	9	57	6	38	3.5	22	8.5	53				

Source see Table 6

Table A-7: Number of Commitments in Health Related and Social Services

	No. of Sectors	X 4 Modes		Albania		Bulgaria		Croatia		FYROM		Romania		5 Balkan countries		High Income countries		Low/mid. inc.coun.	
		no	%	no	%	no	%	no	%	no	%	no	%	no	%	no	%	no	%
Health Related and Social Services																			
A. Hospital services	1	4	100	2.5	63	0.0	0	2.5	63			0.0	0	1	25				
B. Other human health services	1	4	100	3	75	0.0	0	2.5	63			0.0	0	1.1	28				
C. Social services	1	4	100	0.0	0	2.5	63	2.5	63			0.0	0	1.3	33				
D. Other	1	4	100	0.0	0	0.0	0	0.0	0			0.0	0	0	0				
Total	4	16	100	5.5	34	2.5	16	7.5	47	1.5	9	0.0	0	3.4	13.6	5.0	31	1.9	12

Source: see Table 6

Table A-8: Number of Commitments in Recreational, Cultural and Sporting Services

	No. of Sectors	X 4 Modes		Albania		Bulgaria		Croatia		FYROM		Romania		5 Balkan countries		High Income countries		Low/mid. inc. coun.	
		no	%	no	%	no	%	no	%	no	%	no	%	no	%	no	%	no	%
Recreational/Cultural/Sport																			
A. Entertainment services	1	4	100	1.5	38	2.5	63	2.5	63			0.0	0	1.3	33				
B. News agency services	1	4	100	3.5	88	0.0	0	3.5	88			0.0	0	1.9	48				
C. Libraries/archives/museums/	1	4	100	3.5	88	0.0	0	0.0	0			0.0	0	0.7	14				
D. Sporting & other recreational	1	4	100	1	25	0.0	0	2.5	63			0.0	0	1.4	35				
E. Other	1	4	100	3.5	88	0.0	0	0.0	0			0.0	0	0.7	14				
Total	5	20	100	13	65	2.5	63	8.5	43	6	30	0	0	6	30	13.3	28	4.6	10

Source: see Table 6

Table A-9: Number of Commitments in Tourism and Travel Related Services

	No.of Sectors	X 4 Modes		Albania		Bulgaria		Croatia		FYROM		Romania		5 Balkan countries		High Income countries		Low/mid. inc. coun.	
		no	%	no	%	no	%	no	%	no	%	no	%	no	%	no	%	no	%
Tourism and Travel Related																			
A. Hotels and restaurants	1	4	100	3.5	88	2	50	2.5	63			2.5	63	2.6	65	2.8	70	2.8	70
B. Travel agencies/tour operators	1	4	100	3.5	88	2	50	3.5	88			3.5	88	3	75				
C. Tourist guide services	1	4	100	3.5	88	0.0	0	3.5	88			3.5	88	2.4	60				
D. Other	1	4	100	0.0	0	0.0	0	3.5	88			0.0	0	0.7	18				
Total	4	16	100	10.5	66	4	25	13	81	6.5	41	9.5	60	8.7	54				

Source see Table 6

Table A-10: Number of Specific Commitments in Transport Services

	No.of Sectors	X 4 Modes		Albania		Bulgaria		Croatia		FYROM		Romania		5 Balkan countries		High Inc. countries		Low/mid. inc coun.	
		no	%	no	%	no	%	no	%	no	%	no	%	no	%	no	%	no	%
Transport Services																			
A. Maritime transport services	6	24	100	14.0	58	0.0	0	15.5	65			0.0	0	8.9	37				
B. Internal waterways transport	6	24	100	0.0	0	0.0	0	0.0	0			0.0	0	4.2	18				
Water Transport (A+B)	12	48	100	14.0	30	0.0	0	15.5	30	36.0	75	0.0	0	13.1	27	4.4	9.2	3.0	6
C. Air transport services	5	20	100	3.5	18	6.0	30	9	45	5.0	25	8.0	40	6.3	32	3.7	19	1.5	8
D. Space transport	1	4	100	0.0	0	0.0	0	0.0	0			0.0	0	0.5	12.5				
E. Rail transport services	5	20	100	0.0	0	2.5	13	5.0	25			0.0	0	3	15				
F. Road transport services	5	20	100	14.5	73	2.5	13	10.5	53			5.0	25	13	65				
Land Transport (E+F)	10	40	100	14.5	36	5	13	15.5	39	25	63	5.0	13	13	33	9.4	24	2.3	6
G. Pipeline transport	2	8	100	0.0	0	0.0	0	7.0	88			0.0	0	2.4	30				
H. Services auxiliary to all modes of transport	4	16	100	13	81	8.5	53	9.5	60			0.0	0	7.5	47				
I. Other transport services	1	4	100	0.0	0	0.0	0	0.0	0			0.0	0	0	0				
Auxiliary Transport (H+I)	5	20	100	13	65	8.5	43	9.5	48			0.0	0	7.5	38	5.1	26	1.3	7
Total (A+B+E+F+H+I)*	32	128	100	45	35	19.5	15	49.5	39	57.5	45	13	10	36.9	29	22.6	18	8.1	6
Total	35	140	100	45	32	19.5	14	56.5	40	65	46	13	9	39.8	28				

Source see Table 6

Table A-11: Number of Specific Commitments in Financial Services

	No. of Sectors	X 4 Modes		Albania		Bulgaria		Croatia		FYROM		Romania		5 Balkan countries		High inc. countries		Low/mid. inc. coun	
		no	%	no	%	no	%	no	%	no	%	no	%	no	%	no	%	no	%
Financial Services																			
A. All insurance and related services	4	16	100	13.5	84	6.0	38	12.5	78			5.0	31	8	53				
B Banking & other financial services	12	48	100	34.0	71	15.0	31	30.0	63			28.0	58	27	69				
i) Banking	2	8	100	5.0	63	2	25	5.5	69			6.5	81						
ii) Other financial services	10	40	100	29.0	73	13	33	24.5	61			21.5	54						
Total (A+B)	16	64	100	47.5	74	21	33	42.5	66			33.0	52	35.5	56	31.3	52	12.4	20.6
C. Other	1	4	100																
Total	17	68	100	47.5	70	21	31	42.5	63	34.0	50	33	49	35.5	52				

Source see Table 6

Notes.

Insurance services include Life insurance services, Non life insurance services, reinsurance services, services' auxiliary to insurance(broking)

Banking include all kinds of lending and deposit services.

Other financial services include non-bank financial intermediaries such as financial leasing, all payments and money transmission services, guarantees, financial trading ,money broking, asset management , advisory financial services, settlement and clearing services, financial information services.

The "other" financial services might be provided by Banks and/or other private financial institutions

Other (C) include any kind of financial service that it might be provided in a state but is not included in the classification list of the WTO.

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