



# 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.





# International Trade in CRES...

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 (ev. 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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