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## Working Paper

Assessing the value of future accessions to the WTO Agreement on Government Procurement (GPA): Some new data sources, provisional estimates, and an evaluative framework for individual WTO members considering accession

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**World Trade Organization**  
Economic Research and Statistics Division

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**ASSESSING THE VALUE OF FUTURE ACCESSIONS TO THE WTO  
AGREEMENT ON GOVERNMENT PROCUREMENT (GPA): SOME NEW DATA  
SOURCES, PROVISIONAL ESTIMATES, AND AN EVALUATIVE FRAMEWORK  
FOR INDIVIDUAL WTO MEMBERS CONSIDERING ACCESSION**

by

Robert D. Anderson, Philippe Pelletier, Kodjo Osei-Lah  
and Anna Caroline Müller

World Trade Organization (WTO)

*Manuscript date: 6 October 2011*

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**6 October 2011**

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## Abstract

The WTO Agreement on Government Procurement (GPA) is a plurilateral Agreement, meaning that it comprises only a subset of the full Membership of the WTO. Currently, a number of WTO Members that are not Parties to the Agreement either are actively seeking accession to it, have commitments to accede to the GPA in their respective WTO accession protocols or are, on their own initiative, looking at the potential pros and cons of accession. In this context, there is a need for factual information concerning the potential consequences of GPA accession, and a framework to assess related benefits and costs. Of interest is both the *systemic value of such accessions* – i.e. the value they will add to the extent of market access commitments under the Agreement – and *their potential benefits and costs for individual acceding Parties*.

This Working Paper introduces new sources of information relevant to these topics (principally, the statistical reports that have been circulated recently by GPA Parties) and shows their relevance to and usefulness in assessing the above-noted matters. The Paper presents estimates of the size of potential market access gains from pending and possible future GPA accessions, based on simple extrapolations from the data sources identified. Next, the Paper shows how the same data sources can assist in throwing light on the potential benefits and costs of GPA accession for individual WTO Members/countries contemplating accession. The latter use of the data is developed in the context of a more general discussion of the benefits and costs of GPA accession for individual WTO Members, also drawing on existing literature, qualitative aspects and "insights from the field" (i.e. our own work in advising and conducting seminars for such countries and other WTO Members).

**Keywords:** International trade; market access; government/public procurement; WTO Agreement on Government Procurement (GPA); accessions; size of government procurement markets; liberalization of procurement markets – benefits and costs; good governance.

**JEL Classifications:** F, F1, F13, F19, H, H4, H5, H57.

## Contents

<b>I.</b>	<b>INTRODUCTION.....</b>	<b>4</b>
<b>II.</b>	<b>THE <i>SYSTEMIC IMPORTANCE</i> OF POSSIBLE MARKET ACCESS COMMITMENTS BY ACTUAL/POTENTIAL FUTURE GPA ACCESSION CANDIDATES .....</b>	<b>10</b>
<b>III.</b>	<b>ASSESSING THE BENEFITS AND COSTS OF GPA ACCESSION FOR <i>INDIVIDUAL WTO MEMBERS</i>: A SUGGESTED OVERALL APPROACH, RELEVANCE OF THE GPA STATISTICAL REPORTS AND RELATED OBSERVATIONS.....</b>	<b>16</b>
A.	POTENTIAL BENEFITS OF GPA ACCESSION FOR INDIVIDUAL WTO MEMBERS.....	18
1.	<b>Potential export market gains from access to the other GPA Parties' covered procurement markets .....</b>	<b>18</b>
2.	<b>Enhanced competition and improved governance in the acceding WTO Member's own procurement markets .....</b>	<b>24</b>
3.	<b>Other potential benefits.....</b>	<b>31</b>
B.	THE COSTS OF AND CHALLENGES INVOLVED IN ACCESSION TO THE AGREEMENT .....	32
1.	<b>Direct negotiating costs.....</b>	<b>32</b>
2.	<b>Costs of legislative/institutional adaptation.....</b>	<b>32</b>
3.	<b>Potential adverse impacts on local suppliers .....</b>	<b>34</b>
<b>IV.</b>	<b>CONCLUDING REMARKS .....</b>	<b>37</b>
	<b>REFERENCES.....</b>	<b>39</b>

## I. INTRODUCTION

The WTO Agreement on Government Procurement (GPA) is a plurilateral Agreement, meaning that it comprises only a subset of the full Membership of the WTO.<sup>1</sup> For most WTO Members, participation in the Agreement is entirely optional as they have no pre-existing commitment to join the Agreement. In such cases, the decision to seek accession to the Agreement is one that can be taken on its own merits, based on an assessment of potential benefits and costs in the light of each Member's circumstances. It is true that, increasingly, newly acceding WTO Members may be asked by other Members, at the time of their accession, to also take commitments eventually to join the GPA. However, in this case as well they face a choice that should be guided, as far as possible, by objective information on potential benefits and costs.

The desirability of new sources of information on the benefits and costs of GPA accession is reinforced - and should be informed - by current trends regarding accession to the Agreement. Perhaps surprisingly, the set of WTO Members that have recently acceded to the GPA, are currently negotiating accession, have commitments eventually to seek accession or have indicated that they are, on their own initiative, looking at the potential benefits and costs of accession, is increasingly diverse. To be specific, the GPA accession of Chinese Taipei took effect on 15 July 2009,<sup>2</sup> and that of Armenia took effect on 15 September 2011.<sup>3</sup> Nine other WTO Members have applied for accession to the Agreement: Albania, China, Georgia, Jordan, the Kyrgyz Republic, Moldova, Oman, Panama and (most recently) Ukraine.<sup>4</sup> A further four WTO Members (namely Croatia, the Former Yugoslav Republic of

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<sup>1</sup> Currently, the membership of the Agreement consists of 14 "Parties" which together account for 41 of the WTO's Members. The 14 Parties are: Canada; the European Union, including its 27 member States; Hong Kong, China; Iceland; Israel; Japan; Korea; Liechtenstein; the Kingdom of the Netherlands with respect to Aruba; Norway; Singapore; Switzerland; Chinese Taipei; and the United States. In addition, in September 2011, Armenia became the latest WTO Member to accede to the Agreement, bringing the membership to 15 Parties representing 42 WTO Members (see, further, note 3 below). For a review of the evolution of the Agreement from its inception until recent times, see Anderson and Arrowsmith (2011).

<sup>2</sup> WT/Let/647 of 30 July 2009.

<sup>3</sup> WT/Let/821, dated 13 September 2011.

<sup>4</sup> WTO, Committee on Government Procurement (2010). Work on the accession of China, while obviously a complex and challenging undertaking, is progressing well. China applied for accession to the GPA on 28 December 2007 and its initial offer was circulated to Parties on 7 January 2008. Subsequently, on 9 July 2010, China submitted a revised and improved coverage offer. Important discussions have also been held in the Committee on Government Procurement on relevant aspects of China's legislation and regulations. Overall, the Committee has consistently expressed its strong appreciation for the commitment that China has shown to its accession process, while also calling for further improvements to China's coverage offer and that significant further work remained to be done before the conclusion of China's accession could be foreseen. See WTO, Committee on Government Procurement (2010), paragraphs 21-25, Anderson (2008) and Anderson (2010). Recently, China committed itself to provide, before the end of 2011, a robust revised coverage offer, including

Macedonia, Mongolia and Saudi Arabia) have agreed to provisions in their WTO accession protocols which call for them eventually to seek GPA accession.<sup>5</sup> Furthermore, at least some other WTO Members *without any prior obligation to join the GPA*, including India<sup>6</sup> and Viet Nam,<sup>7</sup> are understood to be evaluating their possible interests in acceding to the Agreement.

In this context, it is of interest to quantify, as far as is possible, the potential benefits of future accessions to the GPA, taking account of the circumstances of different countries. Of interest is both the *systemic value of such accessions* – i.e. the value they will add to the extent of market access commitments under the Agreement – and *their potential benefits and costs for individual acceding Parties*. The former can assist the international community in giving due importance and priority to work related to the Agreement; the latter is what will guide individual WTO Members in assessing their interests in GPA accession.

Until recently, data on the benefits and costs of GPA accession, and even on the extent of the Parties' existing market access commitments, has been limited and, where it existed, patchy. In their 2005 review of the available evidence in this area, Evenett and Hoekman (2005) observed as follows:

"Decisions on whether or not to extend the WTO rules to cover more elements of public procurement should be based, in part, on data and analysis. More information on both policy and outcomes in developing countries is a critical starting point towards identifying the scope and payoffs to binding international rules. The existing literature is rather limited and does not provide enough information to help policymakers identify how best to deal with procurement challenges."

As will be elaborated below, the foregoing observation by Evenett and Hoekman remains *à propos* in many ways. More, and progressively more robust and reliable information of a quantitative nature remains desirable in order to provide a sound basis for policy formulation in this area, at both the multilateral and the national levels.

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coverage of sub-central entities. See United States, White House (2011B). Work on the accession of Jordan is also at an advanced stage. WTO, Committee on Government Procurement (2010), paragraph 26.

<sup>5</sup> WTO, Committee on Government Procurement (2010), paragraph 15.

<sup>6</sup> India became an observer to the Committee on Government Procurement in February 2010. Press reports have indicated that India is inquiring into the possible pros and cons of GPA accession. See, for example, *Financial Express* (India), 2009 and *LiveMint* (India).

<sup>7</sup> Press reports have indicated that Viet Nam was considering the possibility of joining the GPA and that as an initial step; it was also considering the possibility of becoming an observer to the GPA, see, for example, "Việt Nam "chuẩn bị" để tham gia Hiệp định GPA", VTCA (Vietnam), 11 May 2011. Subsequently, more recent media stories have indicated that the issue of GPA accession remains under active consideration in Viet Nam, see, for instance, "Officials Admit it's difficult to expand e-bidding", VietNamNet Bridge (Vietnam), 30 June 2011.

Nonetheless, some potentially very useful additional sources of information, including official WTO sources, have become available since Evenett and Hoekman undertook their review. Of particular relevance is the information available in statistical reports on GPA Parties' operations under the Agreement which have recently been submitted to the Committee on Government Procurement. Specifically, since 2009, statistical reports have been provided to the GPA Committee by the following GPA Parties, covering the years specified: (i) Canada, for the years from 1997 through 2009; (ii) the European Union, from 1996 through 2007; (iii) Hong Kong, China, for 2009; (iv) Japan, from 2004 through 2009; (v) Liechtenstein, for 2008 and 2009; (vi) Norway, from 2006 through 2009; (vii) Singapore, for 2007 and 2008; (viii) Chinese Taipei for 2009 and 2010; and (ix) the United States, for the years 2000 through 2008 (a complete overview of all available statistical reports, including those submitted before 2009, is provided in Box 1).

<b>Box 1. Statistical reports submitted by GPA Parties, 1994-2010</b>															
Key: "✓" in the relevant cell denotes the availability of a report by the Party indicated for the relevant year. Grey shading indicates that this member was not yet a signatory of the GPA for the relevant year. <b>NB: all of the reports mentioned are <i>publically</i> available on the WTO website at:</b> <a href="http://www.wto.org/english/tratop_e/gproc_e/gpstat_e.htm">http://www.wto.org/english/tratop_e/gproc_e/gpstat_e.htm</a> .															
Party	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Canada	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	.
European Union	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	.	.	.
Hong-Kong China		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	.
Iceland						.	.	.	.	.	.	.	.	.	.
Israel	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.
Japan	.	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	.
Korea		.	.	.	.	.	✓	✓	✓	.	.	.	.	.	.
Liechtenstein		.	.	.	.	.	.	.	.	.	.	.	✓	✓	.
the Netherlands with respect to Aruba	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.
Norway	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	.
Singapore		.	.	.	.	.	.	.	.	.	.	✓	✓	.	.
Switzerland	✓	✓	✓	✓	✓	✓	✓	✓	.	.	.	.	.	.	.
Chinese Taipei														✓	✓
United States	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	.	.

While the above-noted reports present some challenges of interpretation and analysis, and the information contained in individual reports is not necessarily comparable in all respects, they nevertheless represent a "treasure-trove" of information on the market access opportunities available under the Agreement. As will be shown below, in combination with other publically available information, they can be used to derive estimates of the market access opportunities to be generated by future accessions to the Agreement, at a systemic



level. They can also be very useful to individual WTO Members in assessing their potential interests in accession to the Agreement.

A key purpose of this Working Paper is to introduce these sources of information and to show their relevance to and usefulness in assessing these matters (i.e. both the systemic value of future GPA accessions and their benefits and costs for individual WTO Members acceding to the Agreement). To this end, the Paper presents a new series of estimates, based on simple extrapolations from existing data, of the size of potential market access gains from pending and possible future GPA accessions. Next, the Paper shows how the new data sources can assist in throwing light on the potential benefits and costs of GPA accession for individual WTO Members/countries contemplating accession. The latter use of the data is developed in the context of a more general discussion of the benefits and costs of GPA accession, also taking account of other relevant literature and sources, qualitative aspects and "insights from the field" (i.e. our own work in advising and conducting seminars for such countries and other WTO Members).

In addition to the above-noted statistical reports of GPA Parties, reference will also be made, in this paper, to miscellaneous other information that has been garnered from a variety of sources. While such information undeniably has limitations, it provides a general check on the reliability and robustness of our estimates. Furthermore, and as shown in Box 2 (below), such information is itself of interest as a source of insight into the growing importance of the markets that are actually or potentially covered by the GPA. Even a cursory look at such data - acknowledging that aspects of it are anecdotal in nature - testifies to the huge and growing significance of procurement markets for the world economy, and therefore for the international trading system.

To be sure, the information set out in this Working Paper represents only a first effort to extract from and synthesize policy-relevant information from the Parties' recent statistical reports. We have no doubt that the methodologies we have used have their limitations, and other approaches may be equally valid. Indeed, as will be evident, some of projections that we develop in this paper represent no more than linear extrapolations or "back-of-the-envelope" estimates.<sup>8</sup> For this reason, our estimates are typically presented as ranges of possible values for the relevant indicators.

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<sup>8</sup> See the discussion of methodologies employed in Part II below.

We believe, nonetheless, that the information and sources that we have identified can be of considerable assistance to policymakers as they confront choices in this area. For example, the estimates that we provide of the size of potential market access gains from future accessions to the Agreement, while undoubtedly subject to discussion and refinement, clearly establish the tremendous significance of such accessions for the overall coverage of the GPA, and for the world economy. The estimate that we derive for the total value of additional market access commitments that would result from GPA accession by the full range of WTO Members considered in this Paper is in the range of \$US 380-970 billion annually. The accession of the five "BRICS" countries – Brazil, China, India, Russia and South Africa – would, by itself, add in the range of \$US 233-596 billion annually to that value.<sup>9</sup> In addition, we expect that the simple methodology that we set out concerning the identification of potential market access opportunities for individual accession candidates and other benefits and costs of GPA accession may be of assistance to WTO Members reflecting on their potential interests in this area.

The findings in this paper are of interest from other perspectives as well. For example, currently, the GPA Parties are in the process of concluding an ongoing negotiation of the text and coverage of the Agreement (see, generally, Anderson and Arrowsmith 2011). An important consideration in this work is that future accessions to the Agreement are likely to be substantially facilitated by adoption of the revised GPA text, when this can be done.<sup>10</sup> Certainly, the analysis in this paper supports this perspective: the gains in market access from future GPA accessions are likely to exceed those from the ongoing negotiations within the existing membership by a substantial margin (see also the related perspective of the Chairman of the WTO Committee on Government Procurement, Nicholas Niggli, as described in Niggli 2011). We hope, as well, that the information, sources and related comments that we provide in this Paper will serve to stimulate thinking and further, more formal, analysis of these and

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<sup>9</sup> It should be emphasized that, of these countries, only one (China) currently is actively seeking accession to the Agreement on Government Procurement. The others have been included only for illustrative purposes, with **no implication that they eventually will or should join the Agreement - a choice that is entirely in their own hands.**

<sup>10</sup> The revised GPA text (see WTO document GPA/W/313, available at: [http://www.wto.org/english/tratop\\_e/gproc\\_e/gproc\\_e.htm](http://www.wto.org/english/tratop_e/gproc_e/gproc_e.htm)) is superior to the existing text in multiple ways, notably in that it provides both improved special and differential treatment provisions for acceding developing countries and greater flexibility for all Parties (developed and developing alike), for example when electronic procurement tools are used. The revised text is ready to be brought into force; however, under an arrangement struck by Parties in 2006, this cannot occur until a mutually satisfactory conclusion has also been reached in the ongoing parallel negotiations on the coverage of the Agreement. See, generally, Anderson and Arrowsmith 2011.

related issues, information and sources.<sup>11</sup>

## **Box 2. General indicators of the size and growth of government procurement markets, and the value of GPA commitments**

### **A. The size of government procurement markets generally**

- In 2002, the total size of the government procurement sector was estimated to be in the range of **15-20% of GDP** across OECD and non-OECD economies (OECD 2002).
- Confirming the continuing reliability of the OECD's estimate of the overall size of government procurement markets, the European Union has evaluated the total amount of government procurement in Europe as € 2,088 billion in 2007. This represents **17% of EU GDP** (European Union 2009).
- The size of government procurement markets in emerging/developing economies is also very substantial. Examples:
  - The Chinese central government has indicated that it alone procures more than **\$US 88 billion in goods and services annually**; and that its sub-central entities' procurement is even more significant (United States, White House 2011A).
  - Another source (the European Union Chamber of Commerce in China 2011) estimates the overall public procurement market in China (including central, sub-central, and other government entities) to be worth approximately **7 trillion RMB (\$US 1.02 trillion), representing 20% of China's GDP**.
  - Total government procurement in India has been estimated to constitute about **30% of Indian GDP, or \$US 347.8 billion in 2008** (Sinha 2009).

### **B. The overall size of GPA market access commitments**

- The aggregate size of market access commitments under the WTO Agreement on Government Procurement has been valued at **\$US 1.6 trillion** in 2008 (Source: Office of the United States Trade Representative, undated). This represents **2.64% of world GDP in that year**.
- The GPA accession of Chinese Taipei, which joined the GPA on 15 July 2009, brought under the Agreement additional procurement opportunities that have been valued at in excess of **\$US 20 billion** annually (Source: Office of the United States Trade Representative 2009). This represents around **5% of Chinese Taipei's GDP**.

### **C. The growth of government procurement markets, including GPA-covered procurement, in recent times**

- The average annual growth rate in the value of China's national government procurement market in the period 1998-2006 has been estimated by a Chinese government source to be at **68.1%** (Source: China, undated).
- According to statistical reports submitted to the Committee on Government Procurement by the European Union, the total value of EU procurement above the thresholds of the relevant Guidelines grew by **297%** in nominal terms to **€ 377bn** in the 10 year period to 2006 (Source: European Communities 2009).
- Similarly, statistical reports submitted to the Committee by the United States indicate that the total value of GPA-covered procurement at the federal level grew by **287%** in nominal terms to **USD 797bn** in the 10 year period to 2007 (Source: United States 2002 and 2009).

<sup>11</sup> A recent paper by Chen and Whalley (2011) looks at the impact of the GPA using a gravity model and some of the data sources considered in this paper.

The remainder of the Paper is structured as follows: Part II provides estimates of the value of possible GPA market access commitments (assuming such are eventually made) by a wide range of current/possible future candidates for accession to the Agreement. These include WTO Members that are currently in the process of negotiating accession to the Agreement, others with outstanding accession commitments, and select Members/countries with no obligation to join the Agreement.<sup>12</sup> The methodology and assumptions used to derive the estimates are also explained in this part of the Paper. Part III outlines an overall approach to assessing the potential benefits and costs arising from accession to the Agreement for individual Parties, drawing on the delineation of such benefits and costs that is set out in Anderson (2008) and, more completely, Anderson and Osei-Lah (2011). In this context, we show how the GPA Parties' statistical reports referred to above can be used directly to shed light on one important potential benefit from accession that is of understandable importance to negotiators – i.e. the magnitude of the Parties' GPA-covered procurements in sectors of interest to the suppliers of particular accession candidates. To round out the discussion, other, in some cases more qualitative, information is adduced regarding other aspects of the potential benefits and costs of accession, drawing upon existing literature and our own experience in the field.

## **II. THE SYSTEMIC IMPORTANCE OF POSSIBLE MARKET ACCESS COMMITMENTS BY ACTUAL/POTENTIAL FUTURE GPA ACCESSION CANDIDATES**

The systemic value of accessions to the Agreement on Government Procurement has, no doubt, many dimensions. Quite apart from market access considerations, we believe that the Agreement serves a very useful purpose in promoting and reinforcing good governance practices.<sup>13</sup> By strengthening competition and promoting value for money in public procurement activities, it can also contribute importantly to the effective management of public resources. In addition, the Agreement promotes convergence in international procurement systems – something which may have value in its own right (see Yukins and Schooner 2007). Furthermore, by entrenching standards of transparency and fair procedures, the Agreement may encourage desirable inbound foreign direct investment (FDI). In our

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<sup>12</sup> **Very clearly, it is for such Members (i.e. those without GPA accession commitments) to decide for themselves if they wish to join the Agreement; this Working Paper is in no way presumptive in this regard and the estimates provided are for illustrative purposes only.**

<sup>13</sup> See section III.A.2, below; see also Anderson (2010).

view, all of these dimensions are significant. As such, they merit both consideration as potential benefits of GPA accession and further scholarly investigation.

As set out in the Introduction to this Paper, this Part provides estimates of one dimension of the systemic value of possible future GPA accessions – namely, the resulting increment in the value of GPA market access commitments. By way of context, it also provides estimates of the overall size of the government procurement sector in acceding or potentially acceding countries. In developing these estimates, it looks at the possibility of accession by a wide range of current and possible future candidates for accession to the Agreement divided into different sub-sets.<sup>14</sup> More specifically, we provide estimates for selected: (i) countries which have applied for GPA accession;<sup>15</sup> (ii) countries with commitments to accede to the GPA in their respective WTO accession protocol;<sup>16</sup> and (iii) a selection of other WTO Members/countries without GPA accession commitments.<sup>17</sup>

As already indicated, the estimates presented in this paper represent only a first effort to extract from and synthesize policy-relevant information from the Parties' recent statistical reports. We have no doubt that the methodologies we have used have their limitations, and other approaches may be equally valid. Indeed, as will be evident, the projections that we present in this section are essentially extrapolations constructed by combining the data that have been submitted by Parties with other relevant information. For this reason, our estimates are typically presented as ranges of possible values for the relevant indicators. We believe, nonetheless, that the information and sources that we have identified can be of considerable assistance to policymakers as they confront choices in this area.

The approach employed is as follows: Our aim was to determine estimates in regard to (i) the size of total government procurement markets in selected WTO Member States, and (ii) the size of the government procurement market likely to be covered initially by the GPA upon those WTO Members' potential accession to the Agreement. Both figures were developed in relation to the most up-to-date statistical data on the GDP of those countries

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<sup>14</sup> These include WTO Members that are currently in the process of negotiating accession to the Agreement, others with outstanding accession commitments, and select Members/countries with no obligation to join the Agreement. Again, the inclusion of such countries in the analysis, for expository purposes, is entirely without prejudice to the views or interests of those countries.

<sup>15</sup> Albania, Armenia, China, Georgia, Jordan, the Kyrgyz Republic, Moldova, Oman, Panama, and Ukraine.

<sup>16</sup> Croatia, the Former Republic of Macedonia (FYROM), Mongolia, and Saudi Arabia.

<sup>17</sup> Argentina, Australia, Brazil, Chile, Colombia, COMESA (as a proxy for those WTO Members that are a part of this grouping), India, Indonesia, Mexico, New Zealand, Peru, Russia, South Africa, Turkey, and Vietnam.

available to us at the time of writing: the GDP figures contained in the World Bank's database for 2008.<sup>18</sup> The following methodology was employed:

- Firstly, in order to be able to determine the approximate size of total government procurement markets, we applied the estimated ratio between GDP and government procurement volumes established by an OECD study<sup>19</sup> for the year 1998, the most recent and reliable estimate available at the time of writing, to those GDP figures. An assumption is made that the proportion of the aggregate size of government procurement markets as a share of the GDP in 2008 approximates that which prevailed in 1998, as estimated by the OECD study (15-20% gross). Importantly, the continuing relevance of the range reported by the OECD is corroborated by a recent report by the European Union that the total value of its government procurement was € 2,088 billion in 2007, representing 17% of EU GDP.<sup>20</sup> The foregoing percentage proportions are applied to the 2008 GDP figures to estimate the total size of government procurement markets.
- Secondly, in order to be able to determine the approximate size of the government procurement market likely to be covered initially by the GPA upon (potential) accession to the Agreement by the selected countries, an attempt was made to estimate the proportion of GDP of government procurement that is *actually covered by the GPA commitments* of two of its largest Parties' economies, the EU and the US. As a starting point, the 2007 GPA statistical reports submitted by those GPA Parties, which currently are the most recent statistical reports available from both Parties for the same year, have been used. These reports imply two different values for the ratio

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<sup>18</sup> Source: World Bank National Accounts data (available at <http://data.worldbank.org/data-catalog>), and OECD National Accounts data files (available at [http://www.oecd.org/topicstatsportal/0,3398,en\\_2825\\_495684\\_1\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/topicstatsportal/0,3398,en_2825_495684_1_1_1_1_1,00.html)). Catalog Sources: World Development Indicators (WDI) (available at <http://data.worldbank.org/indicator/NY.GDP.MKTP.CD>). Subsequently, more recent figures have become available.

<sup>19</sup> This study, which is the latest available comprehensive analysis on this subject, includes a synthesis of the previous analytical studies on the quantification of government procurement markets and examines data covering 130 countries. It estimates various indicators, including detailed ratios of estimated size of covered procurement markets, and of the potentially contestable shares. The main estimates, expressed as a percentage of 1998 GDP data, were: (i) the ratios of total government procurement markets (consumption and investment expenditure) for all levels of government were estimated at 19.96% for OECD countries and at 14.48% for non-OECD countries; (ii) the ratios of potentially contestable government procurement markets were estimated at 7.57% for OECD countries and at 5.1% in non-OECD countries. OECD (2002): *The Size of Government Procurement Markets*.

<sup>20</sup> See EU's statistical report of 2007 (see GPA/94/Add.4, dated 15 July 2010). € 2,088 billion is equivalent to \$US 2,862 billion (€ 1=\$US 1.3705). The exchange rate applied in this paper is derived from the 2007 EU

of GPA-covered procurement to GDP. These ratios are, respectively, 2.5%<sup>21</sup> and 6.4%<sup>22</sup> for 2007.<sup>23</sup>

- At this point, another assumption was made that these ratios approximate the proportion of government procurement markets likely to be covered initially by the GPA for other WTO Members.<sup>24</sup> These empirically observed ratios are then applied to the 2008 GDP figures for our list of current/potential future GPA accession candidates, to generate estimates of the likely value of initial GPA commitments by each of these Parties.

The estimates derived using the foregoing methodology are shown in Table 1 (next page). The total estimated size of the government procurement markets of the current and possible future accession candidates to the Agreement is between \$US 2.3 and 3 trillion annually, representing between 3.8-5% of world GDP for 2008. The portion of these government procurement markets that is likely to be covered by the GPA, as a result from (potential) accessions to the GPA by the countries considered in this Paper, is in the range of \$US 380 to 970 billion annually. The part that is likely to be covered by the GPA by the countries which have already applied for GPA accession is between \$US 121 and 311 billion. The accession of China alone will yield market access gains in the range of \$US 113 and 289 billion. In addition, the countries with outstanding commitments to join the GPA could

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statistical report (see GPA/94/Add.4, dated 15 July 2010). EU GDP for 2007 is \$US 16,959 billion according to World Bank statistics, available from <http://data.worldbank.org/>.

<sup>21</sup> As reported by the EU in its statistical report (see GPA/94/Add.4, of 15 July 2010), the value of EU GPA-covered procurement is estimated to be € 309 billion for 2007. This is equivalent to \$US 424.4 billion, being 2.5% of EU GDP for 2007 (€ 1=\$US 1.3705). EU GDP for 2007 is \$US 16.9 trillion according to World Bank statistics, available from <http://data.worldbank.org/>.

<sup>22</sup> Based on the statistics reported by the US (see GPA/94/Add.1, of 19 February 2009), the total value of US GPA-covered procurement in 2007 is estimated at \$US 905 billion, being 6.4% of US GDP. This figure (\$US 905 billion) comprises the following elements: (i) \$US 797 billion, being the total reported above threshold procurement, including limited tendering (GPA Art. XV) at the Annex 1 level; (ii) \$US 108 billion, i.e. 20% of reported procurement at the Annex 2 level (It appears from the US notifications that the figures reported at the Annex 2 level include both above and below threshold procurement. For purposes of this analysis, an assumed ratio of 20% has been applied to the reported figures to arrive at an estimated figure of GPA-covered procurement (i.e. above threshold procurement net of all derogations); (iii) none of the reported procurement at the Annex 3 level. US GDP for 2007 is \$US 14.06 trillion according to World Bank statistics, available from <http://data.worldbank.org/>.

<sup>23</sup> It should be emphasized that **the methodologies used by the United States and the European Union in deriving their respective estimates are not comparable in all respects. Therefore, in this Paper, no implication is drawn regarding the relative magnitude of the GPA coverage commitments of the US and the EU. Rather, both estimates are given equal weight as proxies for the likely magnitude of the eventual coverage commitments of future acceding Parties.**

<sup>24</sup> This assumption is not without a good basis. In discussions on China's accession to the GPA, the existing Parties have repeatedly stated their expectation that China will eventually offer a range of commitments that is comparable to that of other Parties. See WTO, Committee on Government Procurement (2009) and WTO, Committee on Government Procurement (2010).

add between \$US 14 and 36 billion annually to market access commitments under the Agreement. Finally, it is also very interesting to note that the accession of the "BRICS" countries (Brazil, China, India, Russia and South Africa) alone would bring under the umbrella of the Agreement between \$US 233-596 billion annually of additional market access opportunities.<sup>25</sup> Obviously, these potential gains in the value of WTO market access commitments are very substantial.

**Table 1 - Size of government procurement markets of current/potential GPA accession candidates/other WTO Members/countries**

(Authors' estimates based on methodology noted; all figures are in millions of current \$US)

Potential Accession Candidates	GDP 2008 <sup>26</sup>	Estimated Size of <u>Total</u> GP Market <sup>27</sup>	GP Market Likely to be <u>Covered</u> Initially by the GPA <sup>28</sup>
<b>A - COUNTRIES WHICH HAVE APPLIED FOR GPA ACCESSION</b>			
<b>ALBANIA</b>	12,969	1,945 - 2,594	<b>324 - 830</b>
<b>ARMENIA</b>	11,917	1,788 - 2,383	<b>298 - 763</b>
<b>CHINA</b>	4,521,827	678,274 - 904,365	<b>113,046 - 289,397</b>
<b>GEORGIA</b>	12,795	1,919 - 2,559	<b>320 - 819</b>
<b>JORDAN</b>	22,697	3,405 - 4,539	<b>567 - 1,453</b>
<b>THE KYRGYZ REPUBLIC</b>	5,140	771 - 1,028	<b>129 - 329</b>
<b>MOLDOVA</b>	6,055	908 - 1,211	<b>151 - 388</b>
<b>OMAN</b>	60,299	9,045 - 12,060	<b>1,507 - 3,859</b>
<b>PANAMA</b>	23,184	3,478 - 4,637	<b>580 - 1,484</b>
<b>UKRAINE</b>	180,355	27,053 - 36,071	<b>4,509 - 11,543</b>
<b>SUB-TOTAL</b>	<b>4,857,238</b>	<b>728,586 - 971,448</b>	<b>121,431 - 310,863</b>

<sup>25</sup> As already indicated, of these WTO Members, only one (China) currently is actively seeking accession to the Agreement on Government Procurement. The others have been included only for illustrative purposes, with no implication that they eventually will or should join the Agreement.

<sup>26</sup> Source: World Bank National Accounts data (available at <http://data.worldbank.org/data-catalog>), and OECD National Accounts data files (available at [http://www.oecd.org/topicstatsportal/0,3398,en\\_2825\\_495684\\_1\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/topicstatsportal/0,3398,en_2825_495684_1_1_1_1_1,00.html)). Catalog Sources: World Development Indicators (WDI), (available at <http://data.worldbank.org/indicator/NY.GDP.MKTP.CD>)

<sup>27</sup> Based on OECD finding that government procurement accounts for 15-20 % of GDP. See OECD (2002).

<sup>28</sup> Based on an assumed ratio of GPA-covered procurement to GDP ranging from 2.5% - 6.4%. Justification: this is: (i) the ratio implied by the data reported by the European Union to the WTO for 2007 (2.5% of GDP) (see GPA/94/Add.4, dated 15 July 2010); and (ii) the ratio implied by the data reported by the United States to the WTO for 2007 (6.4 % of GDP) (see GPA/94/Add.1, of 19 February 2009). For more details and relevant caveats, see notes 21, 22 and 23 above.



<b>B - COUNTRIES WITH COMMITMENTS TO JOIN THE GPA IN THEIR RESPECTIVE WTO ACCESSION PROTOCOLS</b>			
<b>CROATIA</b>	69,333	10,400 - 13,867	<b>1,733 - 4,437</b>
<b>THE FORMER REPUBLIC OF MACEDONIA</b>	9,518	1,428 - 1,904	<b>238 - 609</b>
<b>MONGOLIA</b>	5,258	789 - 1,052	<b>131 - 337</b>
<b>SAUDI ARABIA</b>	475,093	71,264 - 95,019	<b>11,877 - 30,406</b>
<b>SUB-TOTAL</b>	<b>559,202</b>	<b>83,880 - 111,840</b>	<b>13,980 - 35,789</b>
<b>C - OTHER COUNTRIES/WTO MEMBERS WITHOUT GPA ACCESSION COMMITMENTS</b>			
(As stated elsewhere, it is for such WTO Members/Countries to determine if they wish to join the Agreement)			
<b>ARGENTINA</b>	326,583	48,987 - 65,317	<b>8,165 - 20,901</b>
<b>AUSTRALIA</b>	1,039,415	155,912 - 207,883	<b>25,985 - 66,523</b>
<b>BRAZIL</b>	1,637,924	245,689 - 327,585	<b>40,948 - 104,827</b>
<b>CHILE</b>	170,850	25,628 - 34,170	<b>4,271 - 10,934</b>
<b>COLOMBIA</b>	242,579	36,387 - 48,516	<b>6,064 - 15,525</b>
<b>COMESA</b>	531,390	79,708 - 106,278	<b>13,285 - 34,009</b>
<b>INDIA</b>	1,214,212	182,132 - 242,842	<b>30,355 - 77,710</b>
<b>INDONESIA</b>	510,502	76,575 - 102,100	<b>12,763 - 32,672</b>
<b>MEXICO</b>	1,089,878	163,482 - 217,976	<b>27,247 - 69,752</b>
<b>NEW ZEALAND</b>	117,817	17,673 - 23,563	<b>2,945 - 7,540</b>
<b>PERU</b>	129,109	19,366 - 25,822	<b>3,228 - 8,263</b>
<b>RUSSIA</b>	1,666,951	250,043 - 333,390	<b>41,674 - 106,685</b>
<b>SOUTH AFRICA</b>	276,451	41,468 - 55,290	<b>6,911 - 17,693</b>
<b>TURKEY</b>	730,337	109,551 - 146,067	<b>18,258 - 46,742</b>
<b>VIETNAM</b>	81,270	12,190 - 16,254	<b>2,032 - 5,201</b>
<b>SUB-TOTAL</b>	<b>9,765,268</b>	<b>1,464,790 - 1,953,054</b>	<b>244,132 - 624,977</b>
<b>GRAND TOTAL</b>	<b>15,181,708</b>	<b>2,277,256 - 3,036,342</b>	<b>379,543 - 971,629</b>

It must be emphasized that the foregoing are intended as "order of magnitude indicators" of the value of future GPA accessions from a systemic point of view, rather than precise estimates. Nonetheless, at a broad level, there are multiple corroborating indications that our estimates are not "out of the ballpark". In particular, the estimates set out above are in line with the broader set of indicators reported in Box 2 (above).

### **III. ASSESSING THE BENEFITS AND COSTS OF GPA ACCESSION FOR INDIVIDUAL WTO MEMBERS: A SUGGESTED OVERALL APPROACH, RELEVANCE OF THE GPA STATISTICAL REPORTS AND RELATED OBSERVATIONS**

As we see it, the potential benefits and costs (advantages and disadvantages) involved in GPA accession are likely to vary from country to country. For example, depending on the prior state of development of the country's procurement system, bringing it into GPA-compliance may be more or less costly in terms of necessary institutional reforms. In addition, acceding WTO Members may differ widely in their capacities to benefit from access to the export markets of other GPA Parties that are covered by the Agreement. Indeed, the underlying reasons for considering accession may vary across countries: some may see the Agreement primarily as a vehicle for achieving export market gains or as an "insurance policy" against the possibility of being excluded from participation in other GPA Parties' procurement markets, through possible protectionist or "buy national" measures; while others may be interested in accession principally as a tool for guiding and reinforcing reforms to their own internal markets. In any case, ultimately, each acceding Member must take responsibility for assessing its own potential interests vis-à-vis the Agreement.

Building on the above perspective, this part of the Paper first identifies a "generic" list of potential benefits and costs from accession to the Agreement (see Box 3, below). The list of such benefits and costs builds on the analysis in Anderson and Osei-Lah (2011) and Anderson (2008). No implication is intended that the benefits and costs for all GPA Parties will be the same; *on the contrary*, our supposition is that the relevance of each of the benefits and costs that we posit must, in all cases, be evaluated against the factual circumstances of the accession candidate, and is likely to vary across particular candidates. To assist in carrying forward this aspect of the analysis, we show how the GPA Parties' statistical reports referred to above can be used directly to shed light on one important potential benefit from accession that is of understandable importance to negotiators – i.e. the magnitude of the Parties' GPA-covered procurements in sectors of interest to the suppliers of particular accession candidates. To round out the discussion, other, in some cases more qualitative, information is adduced regarding each of the potential benefits and costs posited, drawing upon existing literature and our own experience in the field (see also Box 3).

**Box 3. Potential benefits and costs from GPA accession and factors impacting on their magnitude: an overview**

<b>A. Potential Benefits</b>	<b>Relevant factors</b>
1) Export market gains and a safeguard against protectionist or "buy national" measures introduced by other GPA Parties, based on legal guarantees of rights to participate in other GPA Parties' procurement markets.	<ul style="list-style-type: none"> <li>• GPA accession opens up possibilities for export market gains; the actual gains to be achieved also depend on underlying competitiveness of the acceding Party;</li> <li>• The value of legal guarantees of market access rights may itself be increasing with the apparent trend toward "buy national" or other potentially access-limiting measures (see related discussion in part III(A)(1), below).</li> </ul>
2) Enhanced efficiency/value for money in the acceding Party's own procurement markets, through: a) strengthening of competition; b) improved governance/deterrence of corruption; c) locking in of internal reforms and greater coherence across internal regions/sub-central governments.	<ul style="list-style-type: none"> <li>• Possibly the most important set of benefits for some acceding Parties (those with limited internal competition/particular governance challenges);</li> <li>• Some evidence that these gains may exceed 20 or 30 % of the value of covered procurements, depending on related circumstances;</li> <li>• Generally, achievement of these benefits also depends on necessary internal reforms and institution-building (but GPA accession can be a catalyst for these).</li> </ul>
3) Other benefits: a) Ability to influence the terms of other WTO Members' accessions; b) Ability to influence the future evolution of the Agreement.	<ul style="list-style-type: none"> <li>• Potentially a significant consideration for WTO Members with interests in the procurement markets of future accession candidates (e.g. other major emerging economies, beyond China);</li> <li>• Built-in possibilities for review of the Agreement.</li> </ul>
<b>B. Potential costs</b>	<b>Relevant factors</b>
1) Negotiating costs, including necessary internal studies and consultation.	<ul style="list-style-type: none"> <li>• Likely to be small as compared to potential benefits, but still a factor especially for small delegations;</li> <li>• Some possibilities for assistance e.g. from governance-focused organizations.</li> </ul>
2) Costs of necessary legislative/institutional adaptations.	<ul style="list-style-type: none"> <li>• Relevant costs may already have been incurred (i.e. necessary adaptations already made) e.g. due to participation in bilateral or regional agreements incorporating GPA-type provisions, or at the suggestion of development lending organizations.</li> </ul>
3) Impact on local industry/workers.	<ul style="list-style-type: none"> <li>• Strong likelihood that foreign suppliers, when they win a contract, will sub-contract with local firms/workers.</li> <li>• Possible spillover benefits from foreign market entry (e.g. technology transfer).</li> <li>• Possibility of transitional measures/negotiated exclusions from coverage to limit exposure of sensitive sectors.</li> </ul>

A. POTENTIAL BENEFITS OF GPA ACCESSION FOR INDIVIDUAL WTO MEMBERS

**1. Potential export market gains from access to the other GPA Parties' covered procurement markets**

To begin with, an obvious incentive for countries to join the GPA (probably the one that is uppermost in the minds of trade negotiators) is to gain assured access to the procurement markets of other GPA Parties, subject to the terms set out in the Parties' schedules. This puts their suppliers in a much different position from those of non-GPA Parties, which typically lack assured access to other countries' procurement markets and may *well encounter barriers to their participation in those markets.*

The total value of market access opportunities under the GPA has been valued at around \$US 1.6 trillion in 2008.<sup>29</sup> This represents more than 2.5% of world GDP for the same year. According to the statistical reports submitted by GPA Parties,<sup>30</sup> it is estimated that the EU<sup>31</sup> and the US<sup>32</sup> alone provided for approximately 75% of the total value of existing market access opportunities under the GPA, i.e. \$US 1.2 trillion.

While the foregoing provides a very broad and general indication of the market access opportunities potentially available to GPA acceding Parties, the GPA Parties' statistical reports referred to above provide much more detailed and specific information on sectors of potential interest. As an illustration, Table 2 below highlights select market access opportunities under the GPA that could be of interest to potential GPA accession candidates, particularly Asian developing countries. The information is extracted directly from the statistical reports submitted by the US, the EU, and Japan.<sup>33</sup> It focuses on ten specific sectors: namely: (i) construction services; (ii) pharmaceutical products, health services and health-related entities; (iii) computer and related services; (iv) telecommunication services; (v) chemical products; (vi) fuels and petroleum products; (vii) machinery and associated products; (viii) textiles, clothing and footwear; (ix) plastic and rubber products; and (x) wood products. As shown in the Table, the total value of the possible market access opportunities identified therein is estimated at around \$US 676 billion.

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<sup>29</sup> United States, Office of the United States Trade Representative (undated).

<sup>30</sup> GPA Parties' statistical reports are available at [http://www.wto.org/english/tratop\\_e/gproc\\_e/gp\\_gpa\\_e.htm](http://www.wto.org/english/tratop_e/gproc_e/gp_gpa_e.htm).

<sup>31</sup> GPA/94/Add.4, dated 15 July 2010. For more details, see note 21.

<sup>32</sup> GPA/94/Add.1, dated 19 February 2009. For more details, see note 22.

<sup>33</sup> Again, it should be emphasized that the information in the reports has been taken at "face value" – i.e. no effort has been made to verify the information independently.

**Table 2 - Market access opportunities of potential interest to asian developing countries in GPA parties' government procurement markets<sup>34,35</sup>**

<b>Parties</b> <b>Specific Sectors</b>	<b>European Union (2007)</b> <sup>36</sup> <i>(for <u>all covered gov. entities</u>)</i> (€1=\$US 1.3705)	<b>Japan (2008)</b> <sup>37</sup> <i>(except otherwise specified, for <u>central gov. entities only</u>)</i>	<b>United States (2008)</b> <sup>38</sup> <i>(except otherwise specified, for the US Department of Defence (DOD) <u>only</u>)</i>	<b>TOTAL</b>
<b>Construction Services</b>	\$US 125.7 billion	\$US 11 billion <i>(central and sub-central gov. entities only)</i>	\$US 287 billion <sup>39</sup> <i>(central gov. entities only)</i>	\$US 423.7 billion
<b>Pharmaceutical Products, Health Services and --Related Entities</b>	\$US 15.1 billion	\$US 1.46 billion	\$US 120 billion <sup>40</sup>	\$US 136.56 billion
<b>Computer and Related Services</b>	\$US 46.5 billion	\$US 2.1 billion	\$US 1.6 billion	\$US 54.83 billion
<b>Telecommunication Services</b>	\$US 4.1 billion	\$US 531 million		
<b>Chemical Products</b>	\$US 21 billion	\$US 7.2 million	\$US 2.24 billion	\$US 23.25 billion
<b>Fuels and Petroleum Products</b>	\$US 4.5 billion	-	\$US 12.3 billion	\$US 16.8 billion
<b>Machinery and Associated Products</b>	\$US 14 billion	\$US 329 million	\$US 518 million	\$US 14.85 billion
<b>Textile, Clothing and Footwear</b>	\$US 4.4 billion	\$US 19 million	-	\$US 4.42 billion
<b>Plastic and Rubber Products</b>	\$US 903 million	\$US 3 million	\$US 53 million	\$US 959 million
<b>Wood Products</b>	\$US 195 million	\$US 62 million	-	\$US 257 million
<b>TOTAL</b>	<b>\$US 236.4 billion</b>	<b>\$US 15.51 billion</b>	<b>\$US 423.71 billion</b>	<b><u>\$US 675.63 billion</u></b>

<sup>34</sup> It is recalled that the methodologies used by the European Union, Japan, and the United States in their statistical reports to derive their respective estimates may not be directly comparable in all respects.

<sup>35</sup> In this Table, where the value of a specific sector has not been clearly identified in a Party's statistical report, the entry has been left blank. This does not necessary mean that such Party does not cover the specified sector.

<sup>36</sup> GPA/94/Add.4, dated 15 July 2010.

<sup>37</sup> GPA/102/Add.2, dated 29 January 2010. The reported value was expressed Special Drawing Rights (SDRs) and has been converted to US dollars. The estimate may be affected by variations in exchange rates and related problems of conversion.

<sup>38</sup> GPA/102/Add.3 of 15 July 2010.

<sup>39</sup> This comprises total above threshold procurement at the Annex 1 level, including limited tendering (Art. XV), which is reported on separately.

<sup>40</sup> The US has reported in its statistical reports that the (total) general expenditures, by function, of the 37 States that it covers under the GPA in 2008 were \$US 40 billion for hospitals, and \$US 50 billion for health. Similarly, the value of goods/services covered by the GPA and procured by the US Department of Health and Human Services in 2008 was estimated at around \$US 30 billion.

The above figures provide concrete indications of the size of market access opportunities that are available to acceding Parties under the GPA, with reference to particular sectors of interest. Identifying the extent of such opportunities is, however, only one step in the evaluation of the potential gains from GPA accession, in the sense of export market opportunities, for individual WTO Members. An important related question concerns the extent of the potential market that is likely to be captured by individual acceding Parties – i.e. the expected market penetration rate. Less information is available on this point than would be desirable, but a recent study by the European Commission finds that direct cross-border procurement accounts for 1.6% of awards or roughly 3.5 % of the total value of contract awards published in its centralized procurement website in the period from 2006 to 2009. This figure rises to 16.9% when indirect cross-border procurement is taken into account, and overall to 29.9%, taking into account the additional effect of imports by local agents and distributors (European Commission 2011).

The foregoing suggest that the possibilities for actual export sales resulting from GPA accession are indeed very significant. For example, a success rate of 3.5 % with respect to the market access opportunities identified in Table 2 would translate into \$US 20 billion annually in export market sales. As one indication that the prospect of such sales is realistic, recently, an official of Chinese Taipei, which joined the GPA only in July 2009, reported that local companies had already secured foreign procurement contracts worth approximately US\$ 491 million at the end of 2010 (TaiwanHeadlines 2010).

Consistent with the above-mentioned findings of the EU study, the value of the agreement in terms of market access gains should be seen *not* merely in terms of cross-border sales by foreign-based companies but also, very much, in terms of the sales of foreign-affiliated firms located within the territories of GPA Parties. Such sales are not reflected in traditional export statistics or market penetration rates; however, the guarantees embodied in the GPA cover such sales, as well. In particular, Article IV(2)(a) of the Agreement states as follows:

- "2. With respect to all laws, regulations, procedures and practices regarding government procurement covered by this Agreement, each Party shall ensure:
  - (a) that its entities shall not treat a locally-established supplier less favourably than another locally-established supplier on the basis of degree of foreign affiliation or ownership".

The foregoing shows clearly that the market access benefit of the GPA should not be construed solely in terms of traditional exports, but of treaty-protected rights of market participation by foreign-affiliated suppliers located in the territories of GPA Parties.

The importance of market participation by foreign-affiliated firms in GPA Parties' procurement markets is also reflected in a 2004 EU study of its internal procurement market (European Communities Directorate-General for the Internal Market 2004). The EU study had three main findings with regard to cross-border procurement. First, when both direct and indirect cross-border procurement<sup>41</sup> were considered, there was a high level of participation in the EU procurement market by foreign suppliers.<sup>42</sup> Secondly, foreign firms were quite active in domestic procurement markets, and participated predominantly (but not solely) through indirect cross-border procurement activities.<sup>43</sup> Thirdly, bid success rates<sup>44</sup> were broadly comparable and did not vary excessively as between domestic and foreign suppliers.<sup>45</sup> The overall lessons to be drawn from this study would seem to be as follows: first, in a significant proportion of cases, foreign suppliers have deemed it necessary to establish a presence in domestic procurement markets in which they have an interest. Second, foreign suppliers have been very active in responding to procurement opportunities arising in the domestic markets of interest. Third, the success rates of domestic and foreign suppliers have been broadly comparable. These results are broadly corroborated by a subsequent, 2011 EU study. According to this later study, taking into consideration all forms of participation - including direct and indirect cross-border procurement, and the activities of local importers and distributors, the level of foreign participation is a not insignificant 30% by value of covered procurement contracts (European Commission 2011).

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<sup>41</sup> As noted in the study, direct cross-border procurement involves a foreign supplier bidding from its home base for procurement contracts in the domestic market of another country. Indirect cross-border procurement involves a foreign supplier bidding in the domestic market through a subsidiary located in the domestic market; in the context of the EU, this also includes the foreign supplier bidding through its subsidiary based in one EU member State for procurement opportunities in another EU member State.

<sup>42</sup> Some 46% of firms engaged in cross-border procurement according to this definition.

<sup>43</sup> While domestic firms had a dominant share in terms of number of bids submitted (67%), of the remainder submitted by foreign suppliers, 30% represented indirect cross-border procurement, with only 3% representing direct cross-border procurement. This study also showed that foreign firms or their subsidiaries were quite active in responding to procurement opportunities, being up to 50% more active in this regard through indirect cross-border procurement than their domestic counterparts. Due, however, to the generally low level of direct cross-border procurement, the overall rate for foreign procurement activity (direct and indirect cross-border procurement) drops to a third of the level of bids by domestic firms.

<sup>44</sup> In this paper, "bid success rate" refers to the proportion of submitted bids that result in contract awards.

<sup>45</sup> Foreign suppliers were slightly more successful when engaged in indirect cross-border procurement (35%), compared with domestic suppliers (30%), but were slightly less successful when they engaged in direct cross-border procurement (25%).

A third point to be made is of particular significance for emerging economies that are contemplating GPA accession. It is that the penetration rates that are observed *when (as at present) the lowest-cost producers lack explicit rights to participate in the relevant markets* tell us little about the situation that will obtain when they are free to compete.<sup>46</sup> Rather, the likely eventually success rate of each country's suppliers in selling into GPA-covered public procurement markets should be evaluated in light of available information concerning their respective competitiveness in international markets generally.

A further, also very important, point to be made concerning the value of the market access guarantees embodied in the GPA relates to the changing world environment, in particular the *increased propensity for countries to adopt "buy-national" policies relating to their public procurements that has been observed in the wake of the recent economic crisis*. A major case in point which received significant attention in the international community during the crisis is the "Buy American" provisions that were contained in the 2009 US stimulus legislation, the American Recovery and Reinvestment Act of 2009 (Pub. Law 111-5).<sup>47</sup> Subsequently, according to the website of the "Global Trade Alert" ("GTA"), an independent organization that monitors trade policy developments internationally, more than 40 such measures have been adopted or proposed in multiple countries including Australia, Botswana, Brazil, Canada, China, France, India, Kazakhstan, Korea, Spain, the Ukraine and the United States. The implication of this development is that, where exporters based in non-GPA Parties may not, in the past, have been actively excluded from some GPA Parties' markets, they can no longer rely on this situation.

Indeed, the story of the Buy American provisions in the US stimulus legislation provides a concrete illustration of the benefits of the GPA in maintaining the market access rights of suppliers located in GPA Parties. The US legislation addressed the potential for conflict with US international trade commitments, including the GPA, by including a further provision stipulating that "This section shall be applied in a manner consistent with United States obligations under international agreements" (see section 604(k) and section 1605(d) of the legislation, respectively). In this way, *the market access rights of GPA Parties with*

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<sup>46</sup> This observation is analogous to a point that is routinely made in the economics of competition law, in which it is sometimes referred to as the "Cellophane Paradox" (see Anderson and Heimler 2007).

<sup>47</sup> In fact, the legislation embodied two new "Buy American" requirements, one relating to the procurement of iron, steel, and manufactured goods for construction and related projects concerning public buildings and works (section 1605 of the legislation) and the other involving the procurement of specified items of clothing or equipment for the Department of Homeland Security (section 604).



*respect to procurements covered by the Agreement were shielded from the Buy American provisions, by virtue of their participation in the GPA* (see also World Trade Organization 2009, page 42). Needless to say, this "saving provision" did not protect countries not party to the GPA or bilateral/similar free trade agreements providing comparable rights.

Further to the above, it should be noted that some GPA Parties, including the United States, already actively police their public procurement markets to ensure that their markets are effectively closed to suppliers from countries that are not GPA Parties or otherwise enjoy similar benefits, for example through statutory exemptions or participation in preferential agreements incorporating government procurement commitments (Yukins and Schooner 2007, refer to this as a "walled garden" approach).

In contrast, some other GPA Parties, for example the European Union, have, for the most part and until now, generally avoided taking measures to actively seal their markets in this way. Recently, however, the EU has floated the possibility of implementing a new legal regime that would actively limit access to its public procurement markets by suppliers from countries that are not parties to the GPA or bilateral/regional agreements providing similar rights.<sup>48</sup> From the EU's perspective, the aim of this initiative is to help establish a better degree of reciprocity and increase leverage for negotiating access to the procurement markets of third countries. Clearly, to the extent that the EU proceeds with such an initiative, it will also have the effect of enhancing the intrinsic value of the market access rights that are enjoyed by GPA Parties' suppliers, which could shield them from any such market closing. WTO Members lacking such rights would be more effectively excluded from the very large public procurement markets of the EU and its member states.

Important further evidence of the trade effects of the GPA is provided in a new study by Chen and Whalley (2011), which looks at the impact of the GPA using a formal gravity model and various data sources, including some of the sources highlighted in this paper. In the words of Chen and Whalley (2011):

"Results suggest that GPA membership has a positive impact on trade in both goods and services between parties as well as on outward foreign affiliate service sales. The number of GPA parties has a small marginal negative effect on trade in goods. Service exports also increase slightly with more parties participating in the GPA. The growth of government procurement contracts above the threshold under the GPA also fosters service imports, exports and outward foreign affiliate sales."

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<sup>48</sup> More information on this consultation is available here: [http://ec.europa.eu/internal\\_market/consultations/2011/access\\_EU\\_public\\_procurement\\_en.htm](http://ec.europa.eu/internal_market/consultations/2011/access_EU_public_procurement_en.htm).

In addition to corroborating the general findings of the present working paper, the results reported by Chen and Whalley (2011) are illustrative of the uses to which the new data sources that we have identified can be put.

## **2. Enhanced competition and improved governance in the acceding WTO Member's own procurement markets**

A second major potential benefit or incentive for countries to join the GPA, which is perhaps less important from the standpoint of trade negotiators but very likely is at least as significant from an economic welfare standpoint, relates to the possibility of realizing enhanced competition (including international competition) and improved governance in the acceding country's own procurement markets, and the potential this entails for achieving better value for money for governments and citizens in their own national procurements. To appreciate the potential scope and extent of these gains, it is important to distinguish two sources of inefficiency in national procurement systems, namely: (i) a lack of effective competition in bidding markets; and (ii) concerns related to corruption, or a lack of good governance. While these two concerns are inter-related and sometimes merge, analytically, promoting effective competition between potential suppliers and preventing corruption on the part of public officials are separable challenges, at least to a degree (Anderson, Kovacic and Müller 2011; Jenny 2005). This section of the Paper considers each of these aspects, in turn.

Before delving into these matters individually, however, it is appropriate to address a possible objection concerning both aspects of the asserted benefits of GPA accession – i.e. promotion of competition and good governance – that is often voiced in our technical assistance seminars and related activities. This is, in effect, that countries can achieve these benefits on their own, without joining the GPA, and, therefore, that they should not be counted as "benefits resulting from GPA accession".

The answer to this objection is that, yes, at least in theory, countries can achieve these benefits on their own. There is nothing to prevent WTO Members from, on their own initiative, eliminating barriers to competition, including international competition, and eradicating corrupt practices from their procurement systems. Indeed, we do not suppose that these objectives can be realized solely through participation in any international agreement. Moreover, even where countries take the step of joining the GPA, ongoing attention will certainly be needed to these issues at the national level. The real question is *whether the GPA accession process, and continuing participation in the Agreement, can stimulate or reinforce*

*the necessary domestic reforms, and introduce a degree of ongoing monitoring that helps in maintaining a "clean" and competitive procurement system.*

In our view, the answer to this question - i.e. whether GPA accession can assist countries in realizing the benefits of pro-competitive, transparency-enhancing internal reforms - is an emphatic "yes". The experience of many countries suggests that participation in international agreements can facilitate or make possible domestic reforms and market opening – whether in public procurement or other economic sectors - that countries would find difficult to achieve through unilateral action alone. It does this in part by providing an inducement (the expected export market gains discussed above) that can compensate, at least partially for the political "pain" that market opening can entail (see, to cite just two current examples from the public procurement field, Choi 2003, and Lo 2011). This mechanism is by no means limited to the public procurement field; rather, it is analogous to the general role of the WTO in empowering countries to implement market-opening reforms that are in any case to their own benefit, by providing the added incentive of access to foreign markets, (see, e.g. Jackson 2000). This mechanism may, indeed, have particular significance in the field of public procurement given the political significance which is attached to procurement policy in many countries. Even beyond this general mechanism, however, *there are also very specific ways in which GPA accession can assist countries in realizing the benefits of a competitive and corruption-free procurement system (again, we say "assist" rather than "ensure")*. Some of these are enumerated below (see also Anderson, Kovacic and Müller 2011).

**(a) How the GPA promotes competition in internal procurement markets**

Accession to the Agreement on Government Procurement promotes competition in at least three main ways. First, the various provisions of the Agreement relating to the provision of information to potential suppliers, contract awards, qualification of suppliers and other elements of the procurement process provide a framework to ensure transparency and non-discriminatory conditions of competition between suppliers. Second, the GPA provides a vehicle for the progressive opening of Parties' markets to international competition through legally-enforceable provisions on non-discrimination which apply to procurements that are "covered" by the Agreement. Third, the GPA's provisions relating to the establishment of domestic review procedures and (though much less frequently used) access to the WTO's

dispute settlement mechanism provide important tools to enforce Parties' commitments regarding fair and non-discriminatory conditions of competition and to address related abuses.

The usefulness of the GPA in facilitating increased competition in domestic procurement markets is illustrated by the experience of Korea, for which the GPA entered into force on 1 January 1997. On this point, a Korean scholar, Choi (2003) who studied Korea's experience in its GPA accession, concludes as follows: "Korea's accession to the GPA has brought [about] improvement in the competitive nature and efficiency of the government procurement market, and has not resulted in any significant increase in import penetration".<sup>49</sup>

**(b) How the GPA can help to deter corruption in national procurement systems**

While the GPA can, in its totality, be viewed as a "good governance" measure (see Lamy 2010), specific channels can also be identified through which the Agreement promotes good governance and deters corruption. To some extent, these overlap with the channels through which it promotes competition. They include, at a minimum: (i) the general and specific transparency provisions of the Agreement; (ii) the domestic review provisions of the Agreement, which require all Parties to put in place mechanisms to ensure independent, objective review of supplier complaints; and (iii) a new provision in the revised GPA text that imposes a specific requirement on GPA Parties to avoid conflicts of interest and corrupt practices.

Commenting on the full array of transparency-ensuring measures embodied in the GPA, Arrowsmith (2011) states as follows:

"[The] concept of transparency in public procurement – whether supporting open markets, integrity or other procurement goals such as accountability and value for money – can be seen to have four main aspects... These aspects are (i) ensuring adequate publicity for contract opportunities; (ii) ensuring public availability and knowledge of the rules governing award procedures; (iii) providing the basis for a rules-based procurement system, by limiting the discretionary power of procurement authorities; and (iv) providing opportunities for interested parties to verify that the rules have been followed and to enforce them."

The GPA contains specific rules addressing each of these elements.

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<sup>49</sup> See Choi (2003). It should be emphasized that Choi's findings (i.e. an increase in the intensity of competition with minimal additional import penetration) are *not* mutually inconsistent: as recognized by the economic theory of contestability, an increase in the intensity of competition (with resulting improvements in prices and

Concerning the specific element of domestic review, the significance of this tool for the global fight against corruption has, in our view, been under-appreciated in the international community. Article XVIII of the revised GPA text requires, *inter alia*, that:

"1. Each Party shall provide a timely, effective, transparent and non-discriminatory administrative or judicial review procedure through which a supplier may challenge:

- (a) a breach of the Agreement; or
- (b) where the supplier does not have a right to challenge directly a breach of the Agreement under the domestic law of a Party, a failure to comply with a Party's measures implementing this Agreement,

arising in the context of a covered procurement, in which the supplier has, or has had, an interest. The procedural rules for all challenges shall be in writing and made generally available."

Space constraints preclude a detailed review, in this Paper, of the operation and significance of the above requirement (see, for a thoughtful review, Zhang 2011). However, the benefits of such review systems as a tool of good governance and anti-corruption measure should not be under-rated. Domestic review (or "bid challenge" or "remedy") systems provide a low-cost and effective means of systemic oversight. The genius of such systems is that they rely upon and harness the self-interest of the persons with the most direct and tangible reasons to bring a complaint, namely suppliers who feel they have been wrongly excluded or unfairly treated in relation to a particular procurement (Schooner 2011).

In addition to its transparency rules and provisions on domestic review, the revised GPA text contains a new and innovative provision relevant to good governance and anti-corruption efforts, namely a binding and explicit treaty requirement that procurement be carried out in a manner that avoids conflicts of interest and prevents corrupt practices.<sup>50</sup> The pertinent provision reads as follows:

"Conduct of Procurement

4. A procuring entity shall conduct covered procurement in a transparent and impartial manner that:

- (a) ...
- (b) avoids conflicts of interest; and
- (c) prevents corrupt practices."

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the quality of products and services) can well occur without a change in actual market shares, where impediments to potential competition are removed.

<sup>50</sup> See provisionally agreed revised GPA text (GPA/W/313 and GPA/W/313.Corr.1), Article V:4(b) and (c).

Arrowsmith's (2011) comments, again, are pertinent here:

"Transparency rules similar to those of the GPA are included in many procurement systems with the specific aim of addressing corruption. Further, the fact that such rules are included in the GPA can have an impact in preventing corruption in Parties to the Agreement and the fact that GPA accession can help states implement such rules against domestic vested interests and lock them into their systems means that *in practice* the GPA can assist states in addressing the problem of corruption. Reducing corruption can itself enhance the GPA's unarguable objective of liberalization of markets. Nevertheless, up to now, addressing conflicts of interest and corruption was not *per se* an objective of the GPA, even as a means of promoting market access, but merely one consequence of it. The new provision and recital, however, recognize not only that conflicts of interest and corruption may impact upon access to markets but also suggest that the GPA aims to address corruption quite apart from any impact on market access – in particular, to ensure more efficient and effective management of resources and to improve the general functioning of Parties' economies."

In other words, with the development of the revised GPA text, the Agreement has been re-framed to respond directly to current concerns regarding good governance and effective management of public resources, in addition to its core role in maintaining open markets. This is indeed a significant development in the framework of the WTO, which hitherto has largely avoided direct engagement in corruption and public governance concerns, although clearly the general transparency provisions of the WTO Agreements have always been relevant to those issues.

**(c) Quantifying the "internal" benefit of a competitive and transparent procurement system**

With regard to the magnitude of these benefits, case histories and examples that illustrate the gains from implementation of transparent and competitive government procurement regimes are fewer and less well documented than would be ideal. Nonetheless, the situation appears to be improving with recent studies, including an important recent analysis by the European Commission of the performance and impact of the EU procurement regime (European Commission 2011). This study provides useful insights on the gains arising from the implementation of the EU Procurement Directives (see also Box 4, below). The report finds, for instance, that, in addition to qualitative benefits flowing from improved governance, implementation of the Directives yielded savings for governments and citizens of four times the associated cost outlay - i.e., savings of approximately € 20bn in return for a total cost of € 5bn in 2009 (European Commission 2011).

#### **Box 4. Insights from the 2011 EU procurement market study report**

The 2011 EU procurement market study report shows that liberalization can deliver significant efficiency gains across the wider domestic procurement market. These are achieved through improved transparency, non-discrimination, greater legal certainty and enhanced competition. Overall, the EU procurement regime is reported to have generated **savings equivalent to four times its total costs** - notably, some € 20bn savings in return for a total cost outlay of €5bn.

The study also notes that while foreign participation in EU procurement markets via direct cross-border procurement is only 3.5% by value, the figure rises to 16.9% when indirect cross-border procurement is taken into account, and overall to 29.9%, taking into account the additional effect of imports by local agents and distributors.

The EU example highlights that the potential benefits of market opening can be achieved without necessarily displacing or overrunning the domestic supply base. This arises, first, from the substantial market protection that already exists for domestic suppliers through exclusion of significant segments of public sector procurement from the full force of international competition, thanks to threshold effects, specific exclusions and structural factors. In the case of the EU, a full 80% of public procurement falls outside the purview of the Directives. Second, even with regard to the segment opened to full international competition, domestic suppliers continue to maintain a sizable market share - not through protection - but via homebase advantage factors, such as proximity, reduced costs, limited exchange rate risk, better understanding of the home market and regulatory regime, and other factors that contribute to their own competitiveness. This, for instance, seems to corroborate Korea's experience following its accession to the GPA (Choi, 2003).<sup>51</sup> Third, the report also notes that not only are SMEs not unduly disadvantaged by liberalization, but, on the contrary they have been quite successful, winning some 60% by number and 34% by value of contracts.

The EU regime also seems to have spurred - or, at least, contributed to - a growing trend towards increased use of practical procurement tools, techniques and strategies, such as framework contracts, joint purchasing arrangements and e-procurement, with a view to improving efficiencies/value for money achievement. Finally, there are emerging trends signalling the potential use of public procurement to achieve wider - so-called horizontal - policy objectives, among them environmental sustainability, social responsibility and innovation.

To be sure, variations exist across EU Member States, and there are potential areas of concern with some of the developments - for instance, the possibility of downstream market closure arising from excessive use of framework arrangements. Nonetheless, overall, the report concludes that the Directives continue to have relevance and deliver on their objectives, including sizable savings to the public purse.

**Source:** European Commission (2011).

Such other examples as are available confirm that the gains from procurement liberalization can be substantial. A few such examples, taken from an OECD survey, are collected in Box 5 (below). The examples referred to therein suggest that some developing countries have realized substantial savings to their public treasuries through the implementation of more transparent and competitive government procurement regimes.<sup>52</sup>

<sup>51</sup> See also section III.A.2(a) above and section III.B.3 below.

<sup>52</sup> Evenett and Hoekman (2005) point out that the details regarding the precise policy changes that led to the savings reported in Box 5 are not entirely clear. We nonetheless report them "for what they are worth".

**Box 5. Examples of cost-savings in developing countries based on the implementation of more transparent and competitive procurement systems, from an OECD study**

A 2003 OECD study of the benefits of transparent and competitive procurement processes refers to the following examples of benefits achieved:

- In **Bangladesh**, a substantial reduction in electricity prices due to the introduction of transparent and competitive procurement procedures.
- A saving of 47 per cent in the procurement of certain military goods in **Columbia** through the improvement of transparency and procurement procedures.
- A 43 per cent saving in the cost of purchasing medicines in **Guatemala**, due to the introduction of more transparent and competitive procurement procedures and the elimination of any tender specifications that favour a particular tender.
- A substantial reduction in the budget for expenditures on pharmaceuticals in **Nicaragua**, due to the establishment of a transparent procurement agency accompanied by the effective implementation of an essential drug list.
- In **Pakistan**, a saving of more than Rs 187 million (\$US 3.1m) for the Karachi Water and Sewerage Board through the introduction of an open and transparent bidding process.

**Source:** OECD (2003).

Further examples of the potential impact of procurement practices on policy outcomes are provided by two recent studies relating to the pharmaceuticals procurement sector, a \$ 750bn global market (World Health Organization 2009). According to the World Bank, pharmaceutical procurement "has been particularly prone to poor governance", leading to an adverse impact on health services delivery and ultimately on aid effectiveness. An initiative by the World Bank to turn this situation around involves improving capacities, transparency and accountability in the relevant public procurement regimes (The World Bank 2011). In a similar vein, a recent study of medicine pricing, which is cited in the 2010 World Health Report, found that, in Africa, European and Western Pacific Regions, governments paid an average 34-44% more than necessary for medicines (Cameron et al. 2009, cited in World Health Report 2010). On the other hand, good procurement practices - notably, through transparent and competitive tendering procedures - can help to lower prices by 28-42% while maintaining quality standards (see Box 6, below).

**Box 6: Insights from a recent study on the effects of competition and good procurement practices on pharmaceutical pricing in emerging markets**

This 2011 study, released by the US National Bureau of Economic Research, examines the determinants of prices for originator and generic drugs across a significant number of countries. It mainly focuses on drugs to treat HIV/AIDS, TB and malaria in middle and low income countries. The study analyses the effect on drug prices when the drugs are sold via the retail pharmacy channel versus via tendered procurement by NGOs such as the Global Fund and the Clinton Foundation.

The research paper shows that tendered procurement attracts multi-national generic suppliers and significantly reduces prices for originators and generics, compared to prices to retail pharmacies. Specifically, it finds that **"The evidence from HIV/AIDS, TB and malaria drugs shows that procurement mechanisms lower originator and generic prices by 42 per cent and 28 per cent, respectively, compared to their retail pharmacy prices."**

**Source:** Danzon, Mulcahy and Towse (2011)



A further important example of cost savings due to international competition in public procurement markets comes from China. According to the Chinese Ministry of Commerce (MOFCOM), during the period of the Seventh to the Ninth Five Year Plans (1985–2000), the rate of savings achieved through procurement of mechanical and electronic products using international tendering was on the order of: 16.95% of 18 billion Yuan (1985–1990); 15.5% of 48 billion Yuan (1991–1995); and 16.8% of 223.6 billion Yuan (1996–2000) (China, undated).

As Anderson, Kovacic and Müller have noted, another important corroborating source of information regarding the benefits of competition in public procurement markets which is sometimes overlooked is provided by evidence of *higher* costs to public treasuries that arise when competition is suppressed, for example through collusive tendering. In this regard, collusion in public procurement markets has been conservatively estimated to raise prices on the order of 20% or more above competitive levels. The benefit of introducing competition where it has not previously existed might be expected to be of a comparable magnitude (Anderson, Kovacic and Müller, 2011).

### **3. Other potential benefits**

Apart from the above-noted principal benefits of GPA accession, several other possible advantages may be noted. First, by introducing binding requirements relating to transparency and the procurement process that apply to sub-central in addition to central government entities, GPA accession may help to facilitate internal policy coordination and harmonization within countries. Second, GPA membership may be seen as an international "stamp of approval" that might encourage inbound foreign direct investment in entities desirous of participating in construction and other public procurements. Third, accession to the Agreement provides an opportunity to participate in and influence its future evolution. Like the existing GPA, it is expected that the revised text of the Agreement, when it is formally adopted, would include a built-in agenda for future negotiations to improve the Agreement.<sup>53</sup>

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<sup>53</sup> See, for instance, WTO, Committee on Government Procurement (2010), paragraph 35.

## B. THE COSTS OF AND CHALLENGES INVOLVED IN ACCESSION TO THE AGREEMENT

Regarding the potential costs or challenges involved in GPA accession, these would seem to be of three major kinds: first, the direct costs of preparing an offer and negotiating with the existing Parties; second, institutional costs relating to the implementation of the GPA's requirements regarding, for example, the transparency of procurement procedures, the implementation of an independent domestic review ("bid challenge") system, and so forth; and third, costs relating to the adjustment of domestic firms to competition from foreign entities based in other GPA Parties, including possible employment and other effects.

### 1. Direct negotiating costs

With respect to the first element (negotiating costs and challenges), these clearly will vary across accession candidates. Certainly, these may well be higher in the case of WTO Members with federal as compared to unitary governmental structures. Even apart from this, these costs may be significant in the case of a country of the size and scale of China or Saudi Arabia. Conversely, negotiating costs may be smaller (though proportionately, perhaps, still significant) for much smaller countries such as Armenia and Moldova. In such circumstances, supportive governance institutes and other intergovernmental organizations can play a very useful role in facilitating a country's preparations for accession.<sup>54</sup> In any case, such costs are a normal part of participation in the WTO and it would be disappointing if countries were deterred from accession through such costs alone.

### 2. Costs of legislative/institutional adaptation

Regarding the second element of costs/challenges (institutional adjustment or implementation costs), these are, of course, likely to be greater or lesser in relation to the degree to which the acceding country has already engaged in the institutional reforms necessary to fulfil the GPA's requirements. In this regard, the authors' experience in carrying out the WTO Secretariat's technical assistance programme leads us to believe that a growing number of Members and observers have now implemented reforms to their national legislation and procurement policies that make them potentially ready, either now or a later stage, to consider (and be considered for) accession to the Agreement. The main factors underlying this trend appear to be: (i) a growing awareness of the importance of procurement

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<sup>54</sup> SIGMA, a governance institute affiliated with the OECD and the European Union, has played an important role in preparatory work related to the accession of Armenia. For further information about SIGMA and its activities see [www.sigmaweb.org](http://www.sigmaweb.org).

policies as an aspect of governance with implications for development and the welfare of citizens; (ii) reforms to national procurement systems that have been implemented to facilitate the use of such systems in relation to assistance provided by multilateral development banks and other organizations, with a view to making more effective use of such assistance;<sup>55</sup> and (iii) reforms driven by countries' participation in regional trade agreements that require adherence to GPA-style disciplines (of which there are an increasing number, see Anderson, Müller, Osei-Lah, Pardo De Leon, and Pelletier 2011).

In this regard, it is important to note that Article V of the provisionally agreed revised text (GPA/W/313 and GPA/W/313.Corr.1), which spells out types of S&D that are available to developing countries under the GPA, is already being applied to pending accessions to the GPA, even though this text as a whole has not yet entered into force.<sup>56</sup> In Article V, additional flexibilities and transitional measures have been provided for developing countries that accede to the Agreement, and the circumstances in which such measures will be available have been more clearly spelled out. The transitional measures that are available, subject to negotiations, include: (i) price preferences; (ii) offsets;<sup>57</sup> (iii) phased-in addition of specific entities and sectors; and (iv) thresholds that are initially set higher than their permanent level. Provision has also been made for delaying the application of any specific obligation contained in the Agreement, other than the requirement to provide equivalent treatment to the goods, services and suppliers of all other Parties to the Agreement, for a period of five years following accession to the Agreement for LDCs, or up to three years for other developing countries. These periods can be extended by decision of the Committee on Government Procurement, on request by the country concerned. As a result, developing countries do not have to face the entire cost of legislative and institutional adaptation immediately upon accession, but can implement any GPA compliant reform process step-by-step over a longer, but pre-defined period of time (see, for a more detailed analysis, Müller 2011).

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<sup>55</sup> This is a key objective of the so-called Paris Declaration of 2005 and the Accra Agenda for Action of 2008. Additional information on these initiatives is available on the website of the OECD (<http://www.oecd.org>).

<sup>56</sup> GPA negotiators have already indicated that they intend to use the revised text as the basis for ongoing consultations and other work relating to the accession of new parties. See Report (2006) of the WTO Committee on Government Procurement to the General Council (GPA/89, 11 December 2006), paragraph 21. It should be noted that Article IV of the previous version of the revised text (GPA/W/297) on S&Ds has been renumbered as Article V in the latest version of the revised GPA (GPA/W/313 and GPA/W/313.Corr.1), without any changes in content.

<sup>57</sup> In the provisionally agreed revised GPA, offsets are defined as "any condition or undertaking that encourages local development or improves a Party's balance-of-payments accounts, such as the use of domestic content, the licensing of technology, investment, counter-trade, and similar actions or requirements" (Article I(k)).

Furthermore, the flexibilities are negotiated in the accession process of any individual developing country and therefore not applied as across-the board scheme, but rather as tailor-made exception to the general GPA rules depending on the needs of the individual developing countries acceding to the GPA. Thus, any acceding developing country is provided with the opportunity to identify those reform measures most costly, and negotiate e.g. the delayed implementation of those measures as most needed in the specific situation of the given country.

A further very important point to note is that, *even apart from the specific provisions relating to accession to the Agreement by developing countries (i.e., Article V), the revised GPA text, when it has come into force, will facilitate the necessary institutional adaptations in other, more general ways.* Indeed, a key thrust of the revised text is to provide more flexibility to *all* GPA Parties (developed and developing alike), for example with respect to minimum time periods for advertising intended procurements when electronic tools are used (Anderson and Arrowsmith, 2011). No doubt this consideration, also, lies behind the very clear preference that potential accession candidates have for acceding to the revised as opposed to the existing GPA text. For example, press reports have indicated that India is willing *only* to consider joining the revised text (which is not yet in force), and certainly not the existing GPA (see, e.g., *LiveMint* (India) 2011 and, for more general discussion of India's potential interests, Chakravarthy and Dawar 2011).

### **3. Potential adverse impacts on local suppliers**

Concerning the third aspect of costs (firm adjustment and economy-wide effects), this, too, is an important issue that merits careful consideration by potential GPA accession candidates, in the light of their particular circumstances. In particular, we are *not* suggesting that such costs simply be ignored or discounted in a formulaic fashion. We would, nonetheless, make the following observations based on our experience in helping countries to reflect on this question, which may be of assistance in framing the required analysis.

To begin with, we would note that it is a mistake to equate the simple fact that, under a non-discriminatory procurement regime, some contracts may be won by offshore suppliers, with a loss of employment equal to the value of such contracts. Rather, even where a contract is nominally "won" by a foreign supplier, there may well be important benefits for

the local economy.<sup>58</sup> Such benefits may be of two types: first, in many cases, foreign contractors will find it convenient to enter into sub-contracts with local firms to fulfil aspects of the contract, particularly labour-intensive aspects.<sup>59</sup> Second, the participation of foreign firms in the market (whether with or without the involvement of local sub-contractors) can result in a transfer of technology to the host country that will ultimately strengthen the competitiveness of locally-based firms.<sup>60</sup>

In addition, and has been noted separately by Anderson and Osei-Lah (2011), there are other reasons for believing that participation by foreign suppliers in national procurement markets is unlikely to displace the role of local firms. For example, in many developing country markets, foreign firms are likely to target mainly segments of relevant procurement markets that local firms are unlikely to be in a position to supply, and vice-versa. For instance, an analysis of contracts awarded in 2008 under the rules of the African Development Bank revealed that suppliers from regional member countries (RMCs) won 88% in terms of number of contracts for 43% by value of contracts awarded, while suppliers from non-regional member countries won 55% by value on 12% in number of contracts (African Development Bank 2009). Equally interestingly, the average value of contracts won by non-RMC suppliers (2.54 million Units of Account (UA) for goods and UA 15.27 million for works or construction services) was in excess of 20 times that of the average values won by RMC suppliers (respectively UA 112,953 and UA 675,156); with respect to other services, the gap was much narrower at only 3 times higher (UA 475,877 for non-RMC suppliers compared with UA 158,340).<sup>61</sup>

As noted above, in the market segments in which foreign suppliers participate, local suppliers often benefit from sub-contracts with those suppliers. Moreover, it should be recalled that none of the countries whose procurement practices are referred to in the preceding paragraph is currently a Party to the GPA. Rather, foreign penetration is occurring in these countries independently of the GPA, whether due to: (i) the requirements of

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<sup>58</sup> Thanks are expressed to Professor Steven Schooner for bringing home the significance of this point to us.

<sup>59</sup> This point has been referred to by Professor Steven Schooner as the "beach-head" effect. See Schooner (2005).

<sup>60</sup> To economists, these are known as "spill-over" effects. See, generally, Saggi (2002). Summarizing recent empirical plant-level studies in addition to relevant theoretical contributions, this article finds that, at the aggregate level, the evidence clearly supports the view that foreign direct investment has a positive effect on economic growth in the host country.

<sup>61</sup> This analysis is based on procurement statistics data available from the website of the African Development Bank (<http://afdb.org>). See African Development Bank 2009. According to this data, total value of contracts

development assistance providers; (ii) autonomous liberalization; and/or (iii) the necessity to seek out foreign suppliers to meet specific needs. In this context, and given the relatively high thresholds that typically apply under the GPA (e.g. in the case of the EU, a full 80% of total public procurement falls outside the purview of the GPA (European Union 2009) and the flexibilities that are potentially available to developing countries under the revised text, GPA accession is likely to pose much less of a threat to local employment in African countries than is commonly pictured.

Another factor potentially ameliorating concerns regarding any adverse impact on local employment is the availability of transitional measures, or special and differential treatment, for developing countries that join the Agreement. As pointed out above, the new special and differential treatment provisions of the GPA provide for tailor-made solutions to the specific problems of any acceding country. These needs may include the necessity to avoid shocks to the economy resulting from a sudden liberalization of procurement markets. The revised text provides tools to avoid such shocks in that it allows developing countries to gradually lower thresholds and add entities to coverage lists, so that a transition time with higher market protection levels is available. A further interest of developing countries might be to promote specific, promising national industries or to pursue social and other policies for national welfare reasons. Again, the revised text provides relevant mechanisms by making it possible to negotiate targeted price preference programmes and offsets (Müller 2011).

The foregoing (relatively optimistic) picture of the likely effects of GPA accession for many (not necessarily all) developing countries is generally corroborated by the main published analyses of the experience of particular acceding countries of which we are aware. For example, and as already noted, Choi (2003), who studied Korea's experience in its GPA accession which took effect at the beginning of 1997, concluded that Korea's accession brought about important improvements in the intensity of competition, governance and efficiency of Korea's government procurement markets, *without* resulting in a significant increase in import penetration.<sup>62</sup> On the basis of these findings, Choi suggests that "other developing countries [might] consider the possibility of acceding to the GPA in coming years" (Choi 2003).

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awarded in 2008 was UA 1,394.82 million, of which RMC suppliers won UA 605.72m, non RMC suppliers UA 773.33 million and others UA 15.77 million.

<sup>62</sup> As explained in note 49 above, Choi's findings (i.e. an increase in the intensity of competition with minimal additional import penetration) are *not* mutually inconsistent.

In a similar vein, Chinese Taipei, which joined the GPA in July 2009, is reported to have enjoyed mainly positive effects from its GPA accession and not to have experienced significant adverse effects, at least thus far. In summing up its experience, an eminent Chinese Taipei scholar (Lo 2011) observes as follows:

"From a practical perspective, Chinese Taipei was fortunate to bring about a number of beneficial outcomes [as a result of] its accession to the GPA. The commitment of accession to the GPA has led to the reform of the government procurement regime of Chinese Taipei... Although accession to the GPA poses a challenge to domestic suppliers, the impact has not been that serious, but the gains are apparent... It also provides domestic industries with opportunities to participate in the procurement markets in other signatories."

Further to the latter aspect (and as noted above), in 2010 an official of Chinese Taipei, which joined the GPA only in July 2009, reported that local companies had already secured foreign procurement contracts worth approximately US\$ 491 million at the end of 2010 (TaiwanHeadlines 2010).

#### **IV. CONCLUDING REMARKS**

This paper has sought to introduce new sources of information on the benefits of GPA accession and to show their relevance to and usefulness in assessing both the systemic value of future GPA accessions and their benefits and costs for individual acceding countries. To this end, the Paper has presented a new series of estimates, based on extrapolations from existing data, of the size of potential market access gains from pending and possible future GPA accessions. In addition, the Paper has shown how the new data sources can assist in throwing light on the potential benefits and costs of GPA accession for individual WTO Members/countries contemplating accession. The latter use of the data is developed in the context of a more general discussion of the benefits and costs of GPA accession, also taking account of other relevant literature, qualitative aspects and "insights from the field" (i.e. our own work in advising and conducting seminars for potential accession candidates and other WTO Members).

As has been emphasized throughout, the information set out in this Working Paper represents only a first effort to extract from and synthesize policy-relevant information from the Parties' recent statistical reports. We believe, nonetheless, that the information and sources that we have identified can be of considerable assistance to policymakers as they confront choices in this area. For example, our estimates of the size of potential market access gains from future accessions to the Agreement, while undoubtedly subject to

discussion and refinement, clearly establish the significance of such accessions for the overall coverage of the GPA, and for the world economy.

The estimate we derive for the total value of additional market access commitments that would result from GPA accession by the full range of WTO Members considered in this Paper is in the range of \$US 380-970 billion annually. The accession of the five "BRICS" countries – Brazil, China, India, Russia and South Africa – would, by itself, add in the range of \$US 233-596 billion annually to the value of market access commitments under the Agreement.<sup>63</sup> In addition, the simple methodology that we set out concerning the identification of potential market access opportunities for particular accession candidates may be of considerable benefit to WTO Members assessing their potential interests in this area. We hope, as well, that the information, sources and related comments that we provide in this Paper will serve to stimulate thinking and further analysis of these and related issues, information and sources.

The information and analysis in this Paper has other implications, as well. As noted in the Introduction, the GPA Parties are currently in the process of concluding the ongoing renegotiation of the text and coverage of the Agreement. An important consideration underlying this project is the goal of encouraging more WTO Members - especially developing and emerging economies - to join the GPA. To this end, the revised GPA contains important features that are designed to make it attractive to such economies (improved special and differential treatment provisions and greater flexibility for all Parties with respect to the procedural aspects of procurement covered by the Agreement). The analysis in this paper underlines the importance of moving ahead with this project: the gains from bringing such countries into the Agreement are going to be huge.

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<sup>63</sup> As already indicated in above notes 9 and 25, of these WTO Members, only one (China) currently is actively seeking accession to the Agreement on Government Procurement. The others have been included only for illustrative purposes, with no implication that they eventually will or should join the Agreement.



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