

Concept Note
on the proposed Institute of Policy Studies of Sri Lanka (IPS) and Friedrich Ebert
Stiftung, (FES), Colombo conference
on
Trade in Services in South Asia: Opportunities and Risks in
Liberalization

Background

The liberalization of services between countries is a relatively new phenomenon. While multilateral liberalization of trade in goods has taken place for the last half century, service liberalization began only in 1994 with the end of the Uruguay Round. Coupled with the novelty of services liberalization is the complexity involved in this process. The liberalization of trade in goods involves predominantly “at the border” measures of tariff reduction, barriers to trade in services on the other hand involve “behind the border” measures of government policy and regulation. The latter is therefore far more complex both in implementation and in understanding the multiple effects that result from liberalization. Liberalization of trade in services is also an information intensive process, and in most South Asian nations data and information is a constraint at the best of times. Given this backdrop, the implications of liberalizing trade in services in South Asia have been poorly understood. However with economic development, services play an increasingly important role in the economy, and therefore depriving this sector of the benefits of liberalization comes with an escalating opportunity cost. Therefore it is essential that South Asian countries consider the liberalization of services in a serious manner. A thorough examination is needed of both the offensive opportunities that arise and the challenges that will be faced domestically as a result of liberalization.

Services have taken on an increasingly important role in South Asian economies, overtaking industries and agriculture as the largest contributor to GDP in most of them. For instance in Sri Lanka services contribute 57.1 per cent of GDP and the figures for India, Pakistan and Bangladesh are 53.8 per cent, 53.3 per cent and 51.5 per cent respectively. Many services have great underlying importance for the performance of the economy as a whole. Increased efficiency in sectors such as telecommunication, transport and finance will resonate throughout the economy improving performance in agricultural

and industrial sectors as well. Liberalization could improve both access and efficiency of these service sectors, reducing their cost and increasing quality. Human development could also be positively affected through services such as health and education. Though these sectors are usually the realm of state supply, there are avenues for liberalization as well. Therefore there is potentially a significant poverty impact of service liberalization.

South Asian countries have already liberalized their service sectors to a certain extent through unilateral, multilateral and regional initiatives. Under the General Agreement on Trade in Services (GATS) in the WTO, most South Asian nations (other than Bhutan) have made commitments. Further commitments are forthcoming under regional and bilateral arrangements such as BIMST-EC (including Bangladesh, India, Bhutan, Nepal and Sri Lanka) and the Comprehensive Economic Partnership Agreement (CEPA) between India and Sri Lanka. Trade in services is also expected to find its way into the SAFTA framework. The SAFTA Ministerial Council meeting held in Dhaka in April 2006 assigned the Committee of Experts (CoE) to produce a report studying the feasibility of incorporating services in the SAFTA framework and to provide recommendations before October 2006. Service liberalization in each of these forums (multilateral, bilateral and regional) necessitates a different approach and brings with it different challenges and opportunities. Despite the temporary glitch in the Doha round of the WTO, South Asia will certainly have to face up to the prospects of service liberalization in other forums.

Key Issues

Prior to embarking on these negotiations, it is essential that a country has a strong grasp of its own offensive and defensive interests. This responsibility lies not just with the state. Research input from academics and civil society will play a critical role in helping state negotiators get a deeper and broader understanding of their own nation's interests. Multi-sectoral dialogue and debate with key stakeholders is essential in identifying these interests. It is important to identify the interests of consumers, exporters, domestic producers and to balance these interests such that a positive impact is felt overall. Being developing nations and LDCs, South Asia needs to be wary of the impact of liberalization

on the poor. Given the fact that factor markets are imperfect, liberalization could result in medium to long term unemployment in certain uncompetitive sectors. It is important to strike a compromise between the medium term hazards of increased unemployment and the longer term benefits of increased competitiveness. Domestic regulation is another critical issue for developing nations. South Asia has historically been plagued with over-regulation, however what is required is effective regulation. This is particularly important in the services sector where the “good” cannot be inspected prior to consumption. Regulation is even more important in services like health and education, which have important social impacts, and services like telecommunication and finance which have important economic impacts. An effective but un-cumbersome regulatory regime is an essential pre-requisite for liberalization, and is therefore a key research area. It is also important to highlight data issues. Negotiations in service liberalization are a data intensive exercise, and in South Asia data shortage is a significant constraint on effective liberalization. Research is required to identify the scope for collaboration and cooperation in this regard within South Asia.

Sector Specific Issues

Trade in services has been seen largely as an offensive interest of developed nations attempting to break into regulated developing country markets. However the status quo is shifting, with developing nations harnessing significant offensive interests in services as well, particularly in Mode 4. It is important to identify particular sectors where strong offensive interests exist, and to identify the direct and indirect benefits these could bring. When considering domestic liberalization, defensive interests need to be considered along with the benefits of liberalization. Defensive interests include sectors where livelihoods of the poor are affected, emerging sectors and sectors requiring independence from reliance on foreign supply. These need to be balanced against the benefits for consumers of increased competition, including lower prices, higher quality and greater choice. Multiplier effects and the underlying impact on the rest of the economy of improved service delivery will also need to be examined.

Objectives

It is clear that the liberalization of services has profound impacts, both positive and negative. A country would be successful if it is able to reap the benefits of liberalization whilst controlling and suppressing the harmful effects that could result. This is not an easy task, and a great deal of research, thought, dialogue and debate needs to go into this process. In this context it is an opportune moment to hold a conference on “Trade in Services in South Asia: Opportunities and Risks of Liberalization”. The resulting resource papers would serve as key inputs for negotiators. Furthermore, the conference would serve as a forum for other stakeholders in civil society, government, academia and the private sector to debate contending views on this dynamic subject. The overall result would see South Asia having a better idea of her different interests in liberalization of services, and as a result helping policy makers approach negotiations in a more productive and useful manner.