

**Introduction to the Conference “Trade in Services in South Asia: Opportunities and Risks in Liberalization”, organized by the IPS and FES, Cinnamon Grand, 4 April 2007**

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Hon. G.L Peiris, Minister of Export Development and International Trade, Prof. Buddhadasa Hewavitharana, Chairman, IPS, Ms. Astrid Becker, Resident Director, Friedrich Ebert Stiftung, Colombo, distinguished participants from South Asian countries, local participants, members of the media, ladies and gentlemen.

I join FES Resident Director, Astrid Becker in welcoming all of you to this two day seminar on “**Trade in Services in South Asia: Opportunities and Risks in Liberalization**” jointly organized by the IPS and FES, Colombo. We are honoured to have with us the Minister of Export Development and International Trade, Prof. G.L. Peiris as our Chief Guest.

Although we are in neighbouring countries, I know that for some of the foreign delegates coming to Colombo it means breaking rest, long transit times in airports, and above all long hours of travelling. I hope the jet fatigue is over and you are fresh for an intense two days serious discussion on the concerned topic. Colombo has a lot to offer you, so please make use of your free time to visit some places that may be of interest to you. Our staff in the main desk as well as the hotel staff will be ready to assist you in this regard.

The IPS is pleased to host this conference with Friedrich Ebert Stiftung especially at a time when we have to take stock on where the South Asian nations stand vis-à-vis a key issue like services in the WTO. This is not the first collaborative programme between the IPS and FES. Our association in organizing such joint events goes long back and last year we organized a conference on ‘South Asia in the WTO’ and in 2005 we organized a seminar on South Asia in the context of a quota free trading regime for the textiles and clothing sector. I would like to record my thanks to the FES, in particular, Astrid Becker, for all the financial support provided to host this conference.

### **Historical Developments**

Eleven years after services were included in the multilateral trading system, the WTO’s General Agreement on Trade in Services (GATS) remains an unfinished project. Given the arguably low level of liberalization attained so far, it continues to arouse scepticism among its original proponents, as well as deep concern among others with regard to the policy orientation of its provisions. In the context of international negotiations, the GATS was the result of a knotty process of political *quid pro quos* that catapulted services into a major component of the Uruguay Round negotiations. By and large, major services providers in the US and Europe acted as *the apostles* for WTO rules and for a process that would lead to global trade expansion in the sector. Their counterparts in developing countries were confused, and their development concerns – omnipresent in the process – were ultimately left appallingly vague. The absence of data, commercial insecurity and a crippling perception of an unfavourably tilted playing field prevailed in

development circles throughout the negotiations. Broad public policy issues remained off the negotiating table. Difficult tensions – arising, for instance, from the fundamentally different approaches of diverse public law traditions to the role of the State in the provision of certain services – permeated the discussions. The eight years of talks to design the GATS represented a hugely rich, creative and analytical effort, characterised by complexity, technicality and a high degree of politisation.

In the past few years – as we move into the liberalization phase mandated as a built-in-agenda in the GATS – policy-makers in developing countries, academics, civil society analysts and advocacy organizations have had time to think and reflect over the potential implications of liberalization of services. Although it remains an unfinished project, it is now widely accepted that exposing the services sector to the “fresh winds of international competition” has the potential to unleash significant economy-wide gains. In this context let us look at some of the contemporary concerns in the context of our region.

### **Fresh Look at Liberalization of Services**

The liberalization of trade in goods involves predominantly “at the border” measures of tariff reduction, while barriers to trade in services on the other hand involves “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 increasing 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, regional and bilateral initiatives. But the trade in services is nowhere close to that of services proportion to the GDP. Under the GATS, 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. I am not sure whether such a report was submitted to the 14th SAARC Summit, which is on in its final day today in New Delhi.

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 service 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 minimizing 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. It is in this context that we decided to hold this conference on “Trade in Services in South Asia: Opportunities and Risks of Liberalization”. Indeed, a comprehensive policy analysis of the implications of trade in services for sustainable development, and of the policy spaces available for implementing public policies, is still missing in South Asia. We hope that this conference would lead to an overall result of South Asia having a better idea of her different interests in liberalization of services, and as a result help policy makers to approach negotiations in a more productive and useful manner.

In sum, the conference intends to take stock of the emerging situation and each country’s latest position in the WTO negotiations based on the presentations and discussions. We will have an open forum for discussion with the audience of policymakers, researchers, private sector participants and civil society organizations with the aim of also enhancing trade policy capacity building in the region. We plan to publish the proceedings of the conference in due course.

With that brief introduction of the conference, let me once again extend a warm welcome to all of you and wish our foreign delegates a pleasant stay in Sri Lanka.

I thank you.