

Foreword

Despite the striking growth in services exports from some parts of India and the remarkable dynamism of the liberalized telecommunications sector in South Asia, the gains for the South Asian region from international integration are small so far, compared to the unexploited opportunities. But there are also significant challenges. Exposing previously “non-tradable” sectors to international competition could imply changes in income distribution and adjustment costs, fears of which could lead to the persistence of protection at home and abroad. Also, some of the smaller and poorer countries and regions within countries may be no better equipped to engage in services trade than they were in merchandise trade and hence there is a danger of further marginalization. Thus, a vital question for the policy makers and the development community is: *How can South Asian countries secure the benefits from the internationalization of services without painful disruption and widening inequalities?*

To a large extent, South Asian countries can liberalize their markets and strengthen their regulatory institutions unilaterally. But, international cooperation has a role, though not necessarily along the traditional lines. Most countries in the region are participants in multilateral services negotiations in the context of the WTO's General Agreement on Trade in Services (GATS). These negotiations have so far produced disappointing results, both in terms of improved access for the regions' services exports and in terms of encouraging reform within the region beyond levels undertaken unilaterally by each country.

At the same time, South Asia remains the least integrated region in the world, both in goods as well as in services trade. Barriers to intra-regional trade are even more restrictive in services than in goods,

resulting in missed opportunities for mutually beneficial trade. Most regional agreements now have a services dimension, and negotiations have focused on simulating goods-like preferential liberalization, mostly unsuccessfully. Experiences in other regions of the world suggest that the elimination of explicit barriers to trade in services may be legislatively simpler and economically more desirable on a "Most Favored Nation" (MFN) or non-preferential basis. However, cooperation on services infrastructure and regulation may be more easily accomplished in the regional context with proximate countries at a similar level of development and with a similar institutional inheritance.

While international negotiations can be harnessed to deliver much needed reform, there is also a danger that premature liberalization or putting policy in the straightjacket of international commitments could produce outcomes that are antithetical to development. South Asian policy makers and trade negotiators need to be fully informed about the opportunities for expanding trade in services (unilaterally, regionally, and multilaterally) as well as the domestic pre-conditions for successful services liberalization.

Unfortunately, policy reform in services has not been informed by serious economic analysis, which is itself constrained by a paucity of data on the evolution of policy, market structures, and sector performance. The reliance on anecdotal evidence and casual policy analysis has led to demonstrably poor policy choices. One aspect of poor policy choice is the segmentation of regional services markets, which has inhibited investment and curtailed competition. Another is the failure to ensure in some cases that reforms in services, including liberalization, improve not just overall economic performance but also improve access to services for the poor and remote.

The need for country ownership of policy research is perhaps greatest in the sensitive area of trade policy reform where the pontifications of international organizations are often greeted with skepticism. The Institute of Policy Studies of Sri Lanka has for many years played an outstanding role in galvanizing regional expertise to produce better and more credible research. It shares with the Friedrich-Ebert-Stiftung a tradition of stimulating socio-political dialog among different

stakeholders, which is indispensable to creating broad-based support for reform.

This volume, the result of a collaboration between these two remarkable institutions, is an important contribution to the limited literature of services reform in South Asia. The mosaic of perspectives on the opportunities and risks of liberalization from each country in the region is bound together by an insightful introduction. These contributions will deepen the discussion on services reform in each country. The juxtaposition of country studies offers each an opportunity to learn from the experience of others. The volume should also provoke much-needed debate on the political feasibility and economic desirability of a more integrated regional market for services.

May 2008

Aaditya Mattoo

Lead Economist

Development Research Group

The World Bank

Washington D.C.