

Services Diagnostic and Needs Assessment Study

EXECUTIVE SUMMARY

Authors:

Malcolm Bosworth
Dr. Ray Trewin
Dr. Adam McCarty
Gregore Lopez
Jane Drake-Brockman

Project Manager:

Ms Karen Fominas, ANU Enterprise

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The views expressed in this report are those of the authors, and not necessarily those of the ASEAN Secretariat and/or the Australian Government.

Liberalisation in services is fundamental to the realisation of the AEC, which is planned to be achieved by 2015. ASEAN leaders have taken this firm decision, and services liberalisation and related domestic reforms are to be implemented by then. Hence, the real challenge to achieving the AEC is not one of negotiating trade commitments 'on-paper' under AFAS, even though this continues with the 8th package under way, but rather ensuring that all AMS engage in real or 'on-the-ground' liberalisation to remove barriers to services trade in time for the AEC to be in place from 2015. Seen in this correct context, future AFAS trade negotiations are really about the extent to which AMS agree to bind their actual measures in the form of ASEAN commitments, in particular the extent to which they are prepared to remove 'binding overhang' from commitments. Thus, such 'on-paper' commitments and associated trade negotiations are really a sideshow to achieving the AEC and services trade liberalisation, one that often unfortunately captures most attention.

Liberalisation of services trade will require promoting much greater awareness among stakeholders, including officials and especially the private sector, of its significant wider economic gains to all individual AMS and ASEAN as a whole. Key to these gains will be the adoption of an appropriate regulatory environment, strong institutions, supportive infrastructure, and enhanced policy coordination and coherence, especially in the less developed AMS. Substantial key and effective capacity building throughout AMS across a broad and diverse range of relevant areas is needed to achieve the goal. To be successful, any needs assessment of capacity constraints must be approached broadly to include building a domestic consensus among stakeholders in favour of liberalisation that recognises the overriding national interest. This includes helping to coalesce interests in favour of trade and investment openness, such as exporters of goods and services, which both depend on accessing efficient service inputs for international competitiveness. Building a domestic consensus on trade-related reforms is always difficult, and is always likely to be incomplete and include trade-offs, since there will be losers as well as winners from such liberalisation. Hence, achieving any such consensus among stakeholders may also include, for example some form of compensation or structural adjustment assistance for losers that will still see a net benefit economy-wide. Unless there are losers, implicitly there would be no or minimal economic gains as it would imply that the current protected situation is economically efficient; most unlikely if protection is significant. Building a coalescence of interests will become increasingly critical in moving forward to meet AEC goals as more difficult areas of liberalisation and associated reforms are inevitably encountered.

The need to coalesce the interests in each AMS in favour of trade-related reforms applies even though their senior politicians and AEC officials are said to recognise the benefits of liberalisation, for two reasons. First, while this high level commitment may exist, it does not seem from the field work to be gaining traction among key decision makers in capitals (i.e. outside the AEC negotiations). Second, resistance to liberalisation when the overall economic benefits are clear is itself symptomatic that governments are putting the loser's interests from such reforms ahead of those of the winners, and hence the overall economy generally. This is often based on the mistaken belief that such losses can be avoided by somehow 'dressing up' or messaging the reforms while still achieving the benefits. However, slowing down the reforms to minimise the losses also delays realization of the national economic benefits, which as already indicated, will be minimal if there are insignificant losers.

Seen against this background, the key objectives of the SDNAS as set out in the consultants' proposal and the Inception Report are to:

- (i) identify and examine capacity obstacles or bottlenecks to promoting a detailed awareness of the economic benefits of services (and investment) liberalisation among stakeholders in all AMS, including to greater integration, and the roll these can play in promoting the region's economic performance;
- (ii) detail for each country their associated capacity building needs; and
- (iii) develop how these can most effectively be met and delivered.

The SDNAS has comprehensively assessed services constraints and determined the technical assistance and capacity building needs required to liberalise trade in services across individual AMS and ASEAN regionally. This was undertaken systematically, drawing on comprehensive in-country consultants studies based on extensive fieldwork interviews for each AMS, covering selected sectors and key stakeholders, and coordinated by the lead consultants using a structured interview questionnaire and standard framework. The studies identified significant cross-cutting or economy-wide issues (apply across all sectors), confirming international experience that these were overwhelmingly the main obstacles to services liberalisation. The SDNAS has also examined several selected sectors (logistics, healthcare, tourism, telecoms, and professional) to ascertain the importance of sectoral issues and/or the feasibility and desirability of delivering technical assistance and capacity building sectorally. The country reports found that cross-cutting issues were best tackled using non-sectoral technical assistance and capacity building, although the SDNAS has recommended some assistance projects at the sectoral level, which tend to be an integrated collection of a number of key cross-cutting (or totally sector-wide) issues.

Key cross-cutting issues included an appropriate regulatory environment, strong institutions, enhanced policy coordination and coherence, greater transparency and awareness by stakeholders of significant wider gains from services liberalisation. A key aspect of services liberalisation is that the constraints tend to be embedded in complex 'behind-the-border' regulation meeting a mix of legitimate and protection goals that can only be sensibly reformed as part of domestic micro-economic reform, including trade liberalisation. International evidence has clearly demonstrated that services trade liberalisation requires unilateral domestic reforms, and cannot be eliminated by negotiating trade agreements.

The issues/constraints to varying degrees have much in common across all AMS. CLMV members are starting from a lower base reflecting their stage of economic development and a lack of relevant previous technical assistance and capacity building, despite much activity by agencies such as ADB, APEC (excluding CLM countries which are non-members) and ERIA in the general services area. The technical assistance and capacity building activities proposed in the SNDAS have been designed with this in mind.

An important recommendation of the SNDAS is the need to re-balance much of the technical assistance and capacity building activities away from being directed at servicing the AFAS trade negotiations and focusing on 'on-paper' liberalisation, towards efforts to build transparency and fundamental support for services trade liberalisation and related reforms in AMS so as to achieve the necessary 'on-the-ground' changes to achieve the AEC.

The SDNAS proposes an integrated work plan of programs and projects consisting of chains of activities and specific methods of delivery to address those priority service liberalisation needs selected using a strategically structured approach and an analytic framework for prioritisation that takes into account those projects already undertaken. The strategic schema used in arriving at the recommended technical assistance and capacity building projects is made up of three key 'umbrellas' identified in terms of maximising economic welfare (namely, Raising awareness; Developing strategies and planning; and Strengthening the evidence base), as were groups of projects within comprehensive and diversified clusters of activities (e.g. Policy analysis; Role of services; and Organisations for dialogue) under these key 'umbrellas'. Some programs that may have fitted into this schema, such as negotiated liberalisation, were not implicitly included as much capacity building has already been undertaken on related activities and projects, though correctly structured capacity building should benefit all approaches to liberalisation. The analytic framework was then used to select priority activities under all of the umbrellas and to assess suggested priority projects within these activities (both using the analytic framework rules) to arrive at a representative and diversified sample of priority projects that also took into account the linkages between these projects in favouring projects that were necessary before others could be undertaken (e.g. statistical information and regulatory stock takes) and to obtain full value from projects once they were undertaken (e.g. raising awareness).

An overall plan of the work is suggested, including detailed project templates with program work plans that are integrated into the overall management plan covering the key 'umbrellas' and activity clusters, required resources, technical assistance and capacity building delivery modes and so on, to implement the SDNAS. Types of capacity building delivery modes that are included in these project templates include research/policy reports, seminars/workshops, training courses, training of trainers, development of resource centres/knowledge platforms, study tours and dialogue/dissemination mechanisms.