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**Services liberalisation in preferential trade agreements and under the GATS**

**Implications for regional integration agendas and development space in southern Africa**



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# Aim and Overview

## Aim:

To examine the growing literature and debates surrounding the services aspects of regional integration agreements

## Overview:

- Importance of the services sector in development
- Trade in services and the GATS
- Services aspects of regional integration agreements in a developing country context
- Implications for integration agendas and trade negotiations in southern Africa

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## The importance of the services sector in development

- Regional integration in southern Africa long seen as a vehicle for development through industrialisation
- But has been increasing and renewed recognition of importance of a growing and efficient services sector in development
- Consequence of
  - importance of service sector as direct contributor to GDP and employment
  - growing services trade
  - importance in supporting manufacturing production and trade

# • • The importance of the services sector in development

## Debate:

- Services sector itself as the engine of growth and development?
  - Sheehan (2008): constraints on development through industrialisation; recent experiences of China (strategy shift) & India (growth largely based on services sector)
  - Dasgupta & Singh (2006): “premature deindustrialisation”, jobless manufacturing growth, faster growth in services; replacing vs complementing manufacturing
  - Bell and Madula (2001): manufacturing “still matters a good deal”
- Services sector as supporter and facilitator of manufacturing production and trade
  - ICT and producer services growth as a source of development (Nordas, 2001)
  - role in production networks and fragmented trade: potential benefits in a developing country regional integration context (Nordas *et al.*, 2000; Haddad, 2007; Arndt, 2004)

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## Trade in services and the GATS

- Implications of services liberalisation by southern African countries (regional or multilateral) need careful analysis
- Benefits often simply assumed
- Consequences of hasty or poorly-sequenced liberalisation may be severe both for services sector and macroeconomy

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## Trade in services and the GATS

Services liberalisation recognised as more complicated than goods liberalisation:

- Proximity often required between producer and consumer (consumer, producer or capital must move); leads to the GATS modes of supply:
  - Mode 1: cross-border supply
  - Mode 2: consumption abroad
  - Mode 3: commercial presence
  - Mode 4: presence of natural persons
- Barriers largely NTBs often deeply embedded into national policy frameworks (eg regulations & laws)
- Thus greater complexities and sensitivities

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# Trade in services and the GATS

- GATS shortcomings (Steenkamp, 2003)
- Concerns in the developing country context
  - Neo-mercantilism
  - Strong pressure brought to bear based on commercial interests of developed countries
  - Closing of development policy space (Wade, 2003; Fryer *et al.*, 2005)
- Some southern African cases:
  - Mauritius (Dabee, 2000): limited liberalisation consistent with development objectives and Mauritius' strengths
  - Lesotho (Manduna, 2005): institutional capacity constraints, weakness of private sector, technical assistance needed, flexibility to pursue development goals
  - South Africa (Mene, 2008)
- Article V of GATS and services provisions in regional trade agreements (Stephenson, 2002)

## Services aspects of regional integration agreements

- Are the benefits of services liberalisation greater, or likely to be better harnessed, in a regional context?
- Could the costs or risks be less?
- If liberalisation is desirable, then will regional services liberalisation inhibit or facilitate multilateral liberalisation?
- Do the answers to these questions differ for North-South and South-South regional agreements?



# Services aspects of regional integration agreements

Economic analysis of preferences in the services context (Mattoo and Fink, 2002):

- Less chance of trade diversion
- Increased competition, economies of scale, potential knowledge spillovers
- Agglomeration versus spreading out of firms
- More efficient bargaining
- Regulatory cooperation
- Sequencing important
- Regionalism and learning-by-doing

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# Services aspects of regional integration agreements

Some regional experiences:

- Latin American RIAs (Stephenson, 2002)
  - Largely South-South
  - Depth compared to GATS (Hoekman, 2006)
    - Disciplines: national treatment, market access often general obligations in RIAs (are not in GATS)
    - Sectoral coverage: GATS positive list approach; many RIAs negative list (more transparent)
    - Tend to go further than GATS; will this be extended to multilateral setting?

# Services aspects of regional integration agreements

Some regional experiences cont:

- SADC and the EPAs
  - North-South
  - Key objections and concerns (TWN, 2008)
    - Extent and speed of commitments sought
    - MFN clause (extend to EU preferences given even other developing countries; against spirit of Enabling Clause)
    - Standstill clause (stricter than WTO?)
    - Infant industry clause criticised
    - Time needed to build capacity (institutional, negotiating)
    - Interference with SSA regional integration agenda and divisions caused
    - Export taxes
- Intra-EU services liberalisation (time and speed!)

# • : Implications for integration agendas in the region

- SADC's options range from restricting services liberalisation offers to the multilateral setting, to a full range of negotiations – multilateral, intra-SADC, SADC-EPA etc.
- Caution is urged due to the implications of haste and/or poor sequencing
- Properly informed research and debate focused on development theory and experience elsewhere needed
- Analysis of studies such as Jansen (2006a,b)
- Do not neglect building capacity for an appropriate industrial policy (Wade, 2003; Chang, 2005)

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