

Trade-led Growth in Times of Crisis
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A Pan-Asian Services Market: An Idea Whose Time has
Come?

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A Pan-Asian Services Market as a Countercyclical Policy Measure

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Some Basic Statistics

- In 2009 (World Bank projections):
 - Developing country growth to fall to 1.2% from 5.9% in 2008
 - ex-China and India, DC growth to shrink by an average 1.9%
 - Net capital flows also declined, though not as much as feared earlier; overall FDI flows to drop by 30% over 2008
 - Global trade volumes are expected to decrease 10% on average
- Trade may not have triggered the crisis, but has been an important vector of transmission of the crisis
- But could also help in charting recovery if open trade regime is maintained
 - New research shows that multilateral disciplines seem to be generally working, though protectionist green shoots evident³

Impact of Crisis on Asia

- Unusually adversely affected, given fundamentals
 - Openness of region magnified the impact of the trade channel of transmission of crisis
- Equally rapid initial indications of recovery
 - Resurgence of financial flows helped stock markets rise 40% in the quarter following March 2009
 - No change in underlying conditions – liquidity inflow into high-beta regional markets with positive growth prospects
- What should be done to get back to the earlier high growth path
 - The region is poor and needs to sustain growth momentum

Government Response to Crisis

- Reactive: Provision of fiscal and financial stimulus
- Attempts to enhance domestic consumption (infrastructure, FMCG and social sector spending rise)
- Also, hoping for return of exports as saviour
 - High intra-regional trade is not in final products (vertical)
- But can business-as-usual policies help?
- Proactive action: Invest, open up and integrate services markets within the region (soft infrastructure)
 - Will create an alternative source of consumer demand and trade
 - Will have the positive externality of boosting efficiency and competitiveness of traditional sectors of economic activity

Services in Asian Economies

- Share in GDP
 - Though the region has some of the most dynamic economies in the world, share of services in GDP low at 50% on average
 - Domestic focus, state controlled sectors
- Other than the very high income countries, share of employment in services low at 40% of the population
- Limited regional trade in commercial services
 - Since focus mainly on services that serve trade and transportation sectors (imp for export-led growth model)
 - Lack of indigenous services MNCs in other commercial services that are also the more dynamic sub-sectors
- Boost services as Countercyclical policy for Asia

Integrating Asian Services Markets

- Services growth engine - Scope and Gains
 - Why EAS? – critical mass of demand not existing in smaller sub-regional groupings
 - Efficiency gains – scale economies of sectoral specialisation, in both tradable and non-tradable sectors
 - Efficient operation of key commercial services (infrastructure services as finance, ICT, business and professional services) would benefit internal as well as external suppliers and facilitate economic activity across sectors
- Also easier to coordinate regulations in a contiguous region with cultural similarities
 - Without regulatory coordination the services market development/integration will not work

Example: Telecom (tradable) sector

- ICT important for enhancing global competitiveness
- Asian performance in telecom sector is good, but digital divide continues to grow
- But opportunities exist, both in increasing subscriber base and enhancing quality in heavily-penetrated countries
 - Eg. broadband penetration
- Set rules of the game (regulations, governance and licensing/management initiatives) before opening up?
 - Competition issues: centralised coordination vs decentralised laissez faire – mixed view on efficacy of both (price vs penetration), but trade and innovation better in the latter system

Example: Non-tradable sectors

- Viz. Healthcare and education
- Possibility to use the diversified/differentiated consumer demand structure in the region
 - Domestic sectors: Benefit from the larger catalyst effect of the larger union
 - Intra-regional Trade: Also ICT-enabled potential for commercial exchanges increase over time as sub-sectoral specialisations get entrenched

Creating a Single Asian Service Market

- Success calls for coordination of demand, policy initiatives and creation of supporting/related technologies/services
- Not only market access, but regulatory cooperation
- Use of home grown solutions and innovative best practices in standards/regulations
 - Extend existing MRAs
 - Evolve regulatory recognition mechanisms if harmonisation not feasible
 - Accreditation and arbitration mechanisms are also important
 - Enforcement agencies at the regional level for ensuring compliance

Mode of Integration

- Formalised agreement or informal cooperation model
- Integrate the infrastructure services to begin with
 - Unilateral non-preferential reforms work best (eg. goods trade)
- Need to focus on business imperatives to promote faster integration in the region - EU-style institutional integration may not work
- 1997 crisis encouraged financial sector cooperation through CMI; this crisis can jump-start development of a single regional market in services



Thank You