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Investing in Indonesia's Institutions
for Innovative and Sustainable Development

Services Knowledge Platform to Facilitate Deeper Integration in Services Trade

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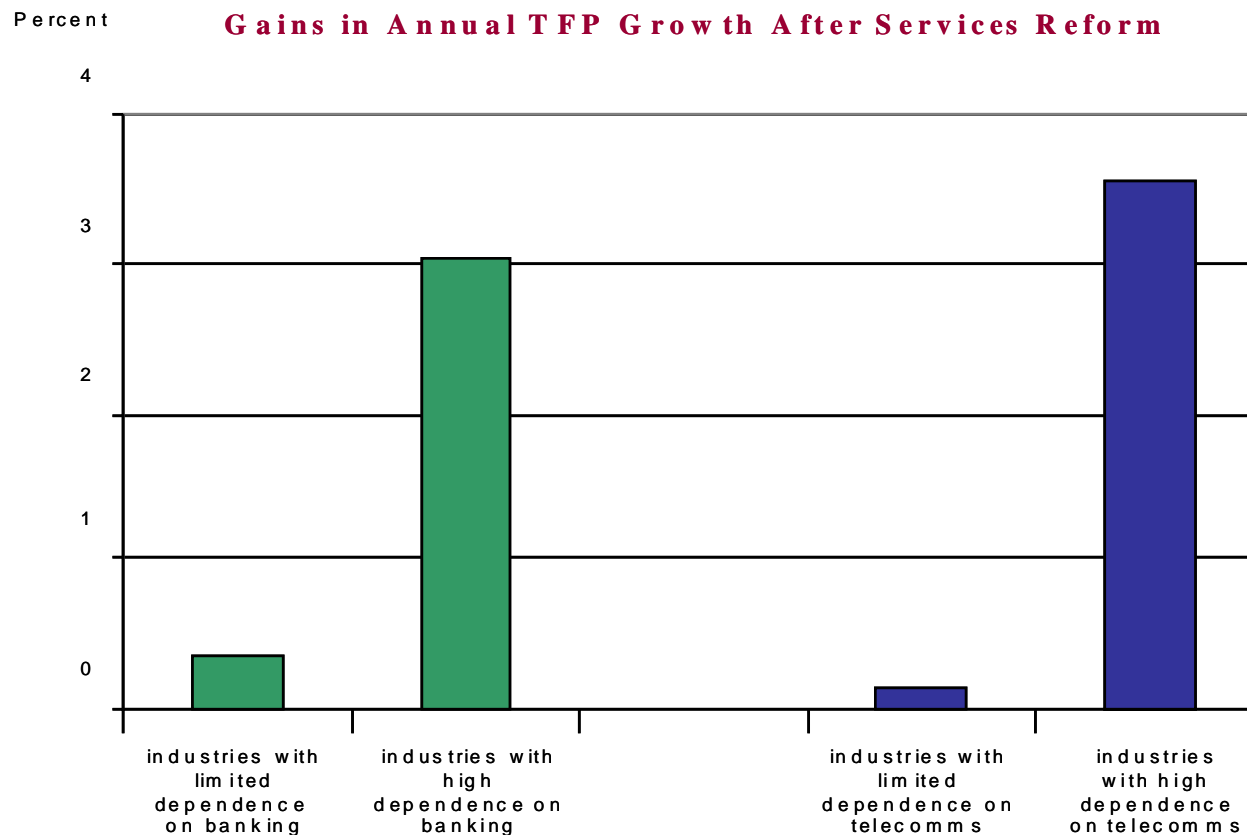
Presentation at Policy Group Meeting of ILO/EU Project
Jakarta, July 12th 2012

Synopsis of my talk

- ▶ Despite potential benefits of opening up services for competition, there is a wide variation of restrictiveness across countries and across services sector
- ▶ Range of policies/regulation are still restrictive for services trade
 - ▶ There are typically non-tariff like instruments and often imposed by different agencies
 - ▶ Difficult to address by multilateral or preferential services agreement as these agreements tend only to “lock in” subset of policies that had already been implemented unilaterally
- ▶ Success in integrating services would depend on involvement of key stakeholders
 - ▶ Understanding the political economy
 - ▶ Setting up complementary policies to address market failures
- ▶ Services knowledge platform can help facilitate the process of integrating domestic services sectors with the global market place

The evidence: services reform can promote better performance in manufacturing industries

Evidence from Indian manufacturing sector suggest that services reform not only boosted services exports but also promote downstream manufacturing



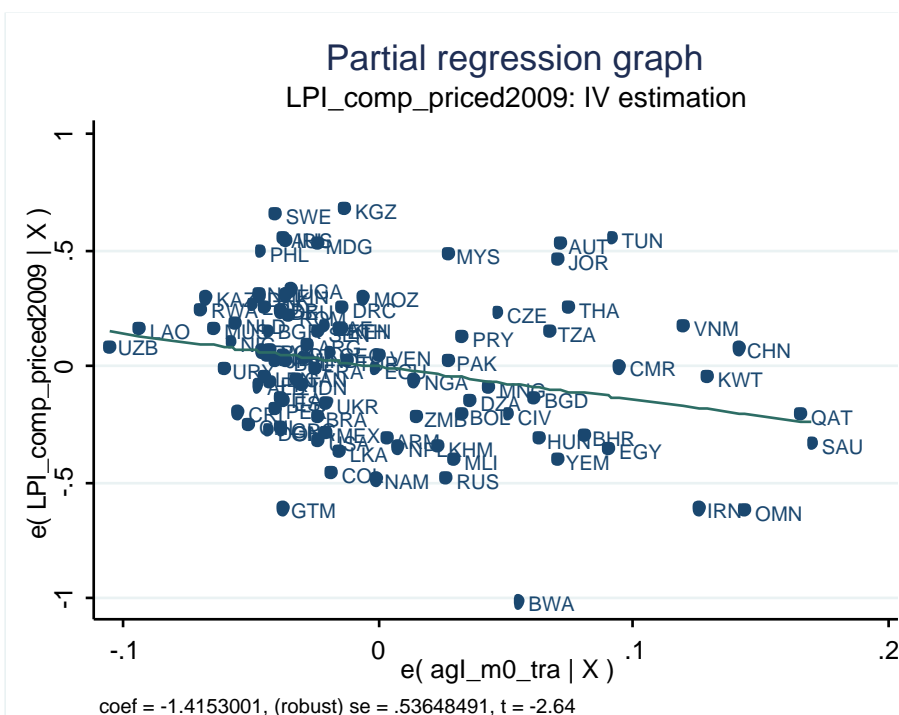
Source: Arnold, Javorcik, Lipscomb and Mattoo (2010).



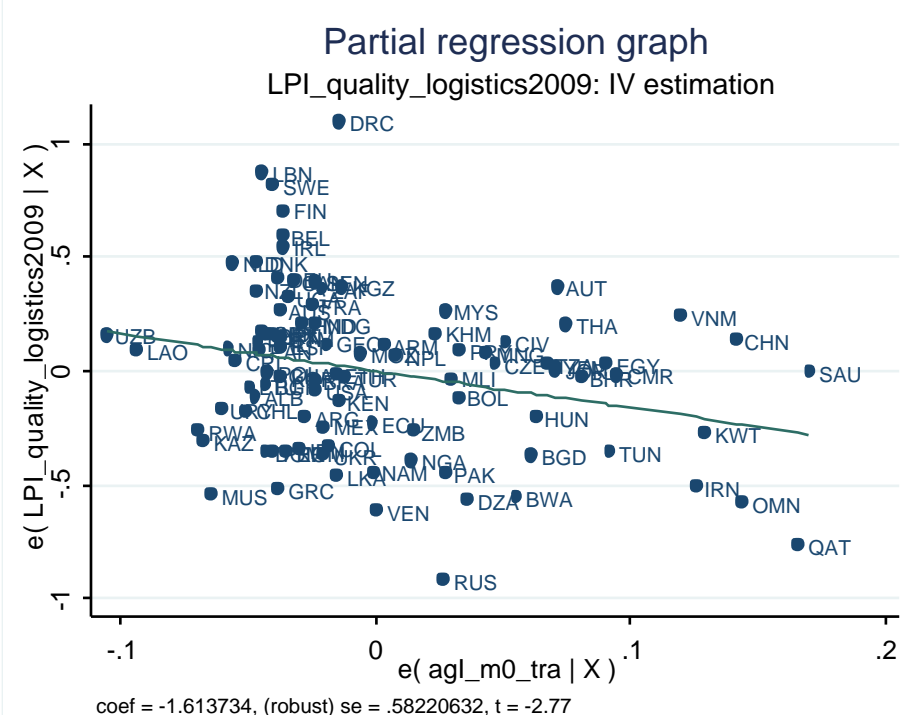
The evidence: services reform can facilitate trade

Restrictive transport policies are associated with more expensive and poor logistics quality

Availability of competitively priced logistics services



Quality of logistics services



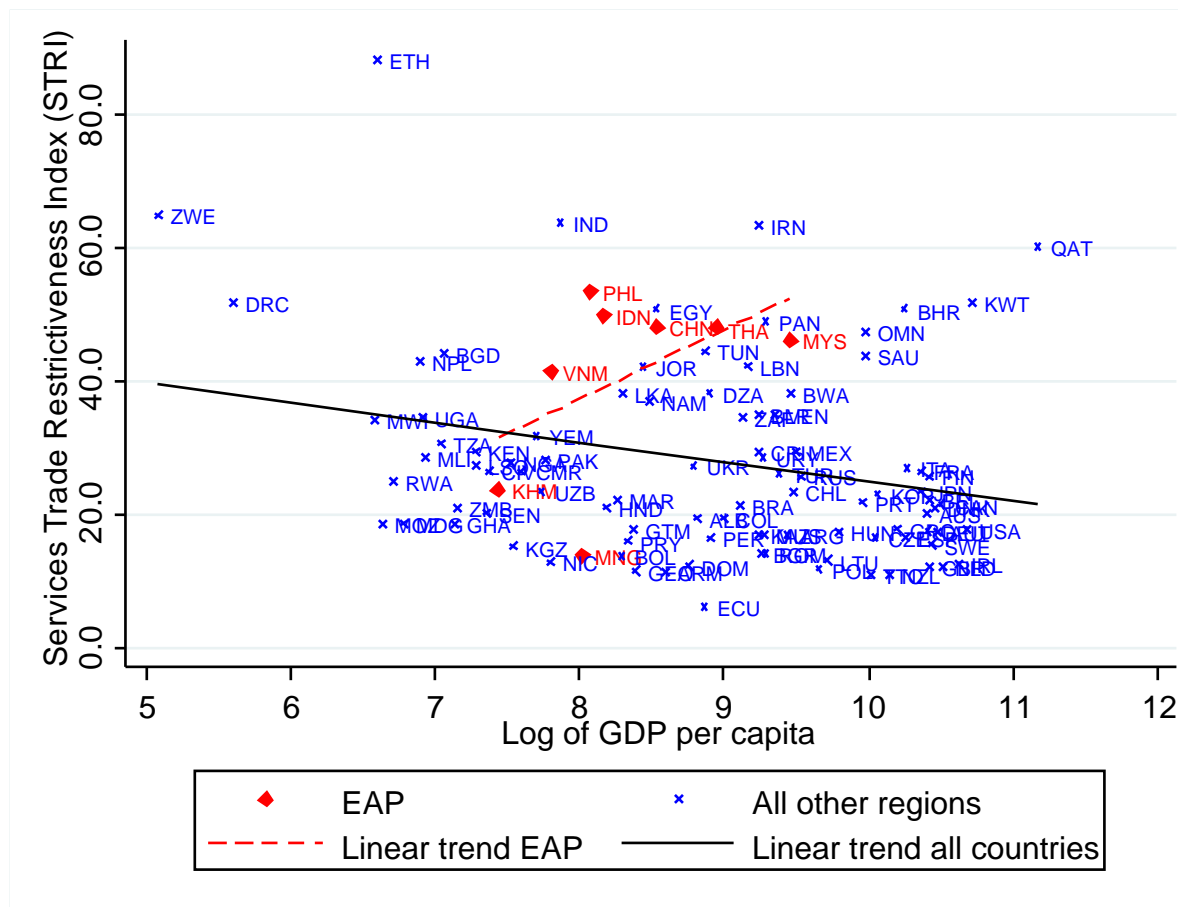
Source: Borchert, Gootiiz, Grover and Mattoo (2010)



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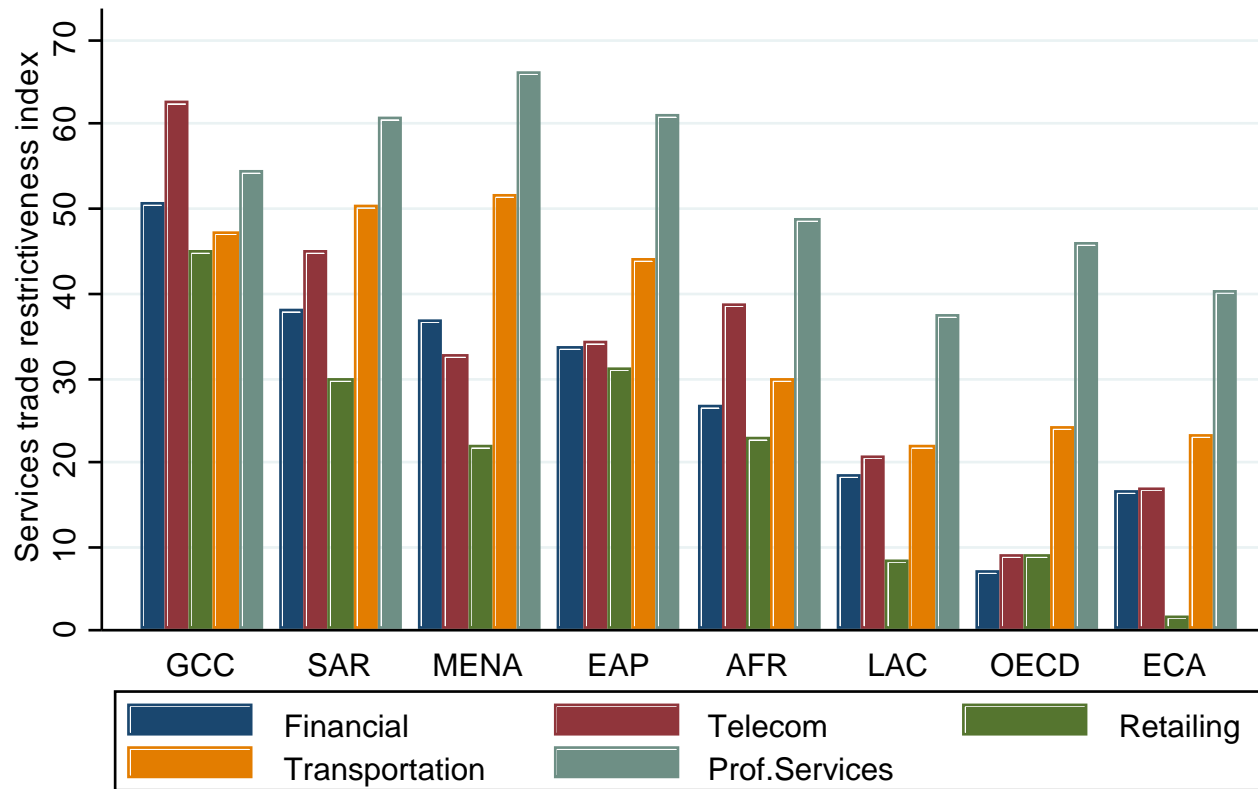
The evidence: wide variation of services restrictiveness across countries

Country-level STRI and per-capita income:



The evidence: wide variation of services restrictiveness across sector

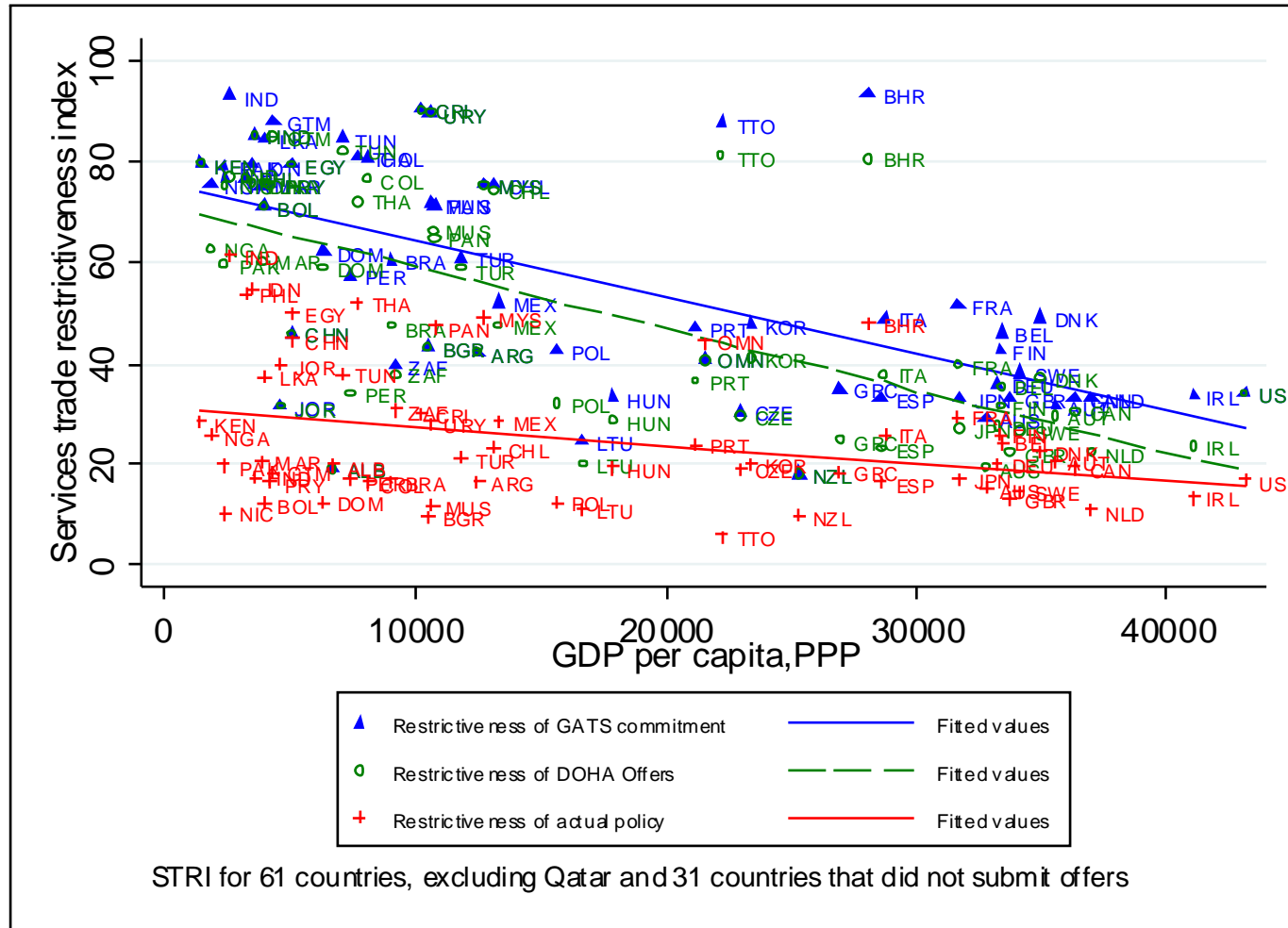
STRI by sector and region:



Note: 103 countries included.



The evidence: commitments under GATS are generally less than the actual policies had already been implemented



Source: Borchert, Gootiiz, Mattoo 2010



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Challenges in further integrating domestic services sector with the global market place

- ▶ International services trade negotiations might becoming less effective to serve as an “anchor” for domestic policy reform
 - ▶ Less “market opening” effect, more focus on less important trade barriers
 - ▶ Restrictions in mode 4 abroad reinforce beliefs at home that it should restrict its services from international competition
 - ▶ Domestic downstream industries are already demanding more competitive services
- ▶ Often there is no “Ministry of Services” and this makes coordinating sectoral policy reforms challenging
- ▶ Concerns over market failure due to the absence of regulation
 - ▶ E.g . quality, safety, abuse of market power, cream skinning etc.
- ▶ Political economy in services reform
 - ▶ Fear over impact of domestic income distribution from opening up services to international competition

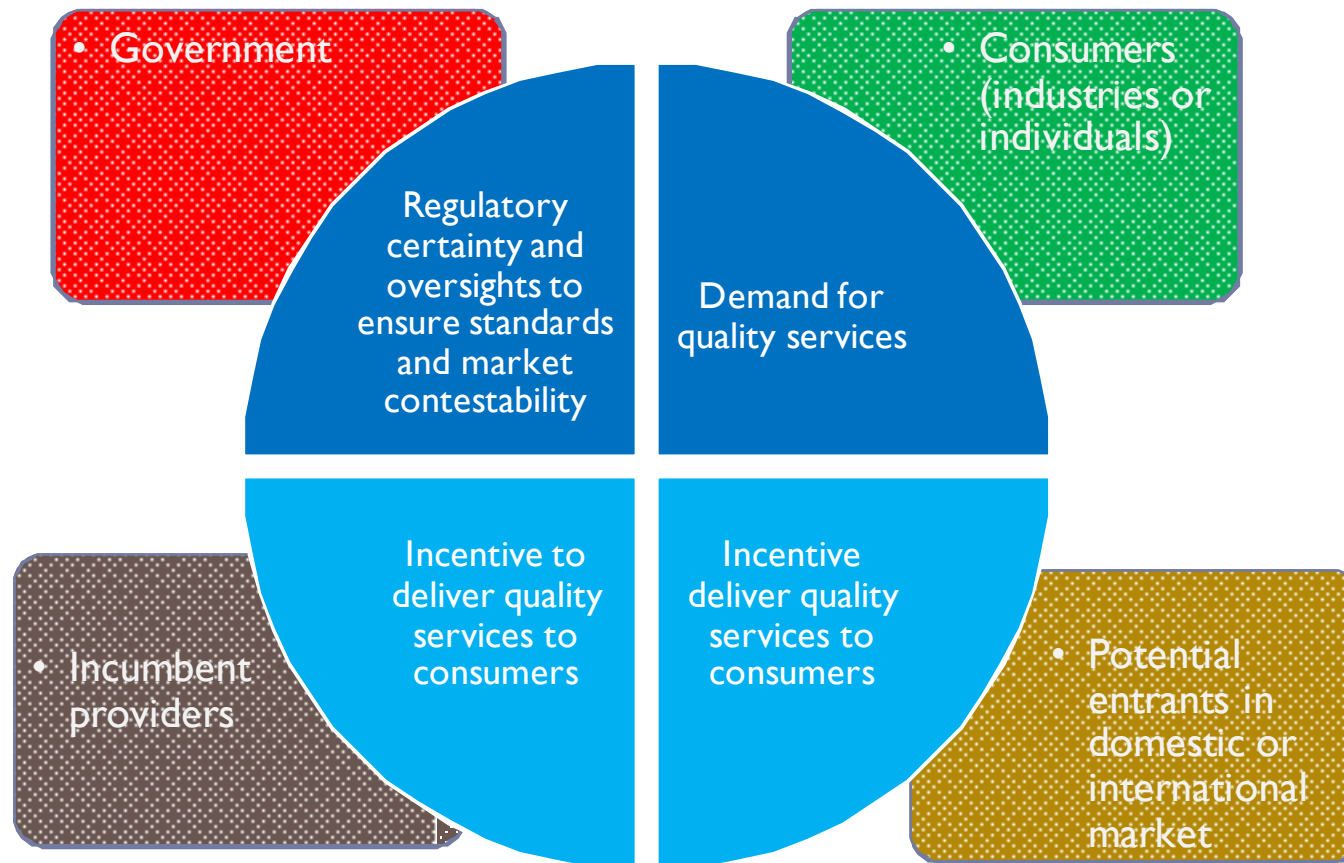


How can Services Knowledge Platform help?

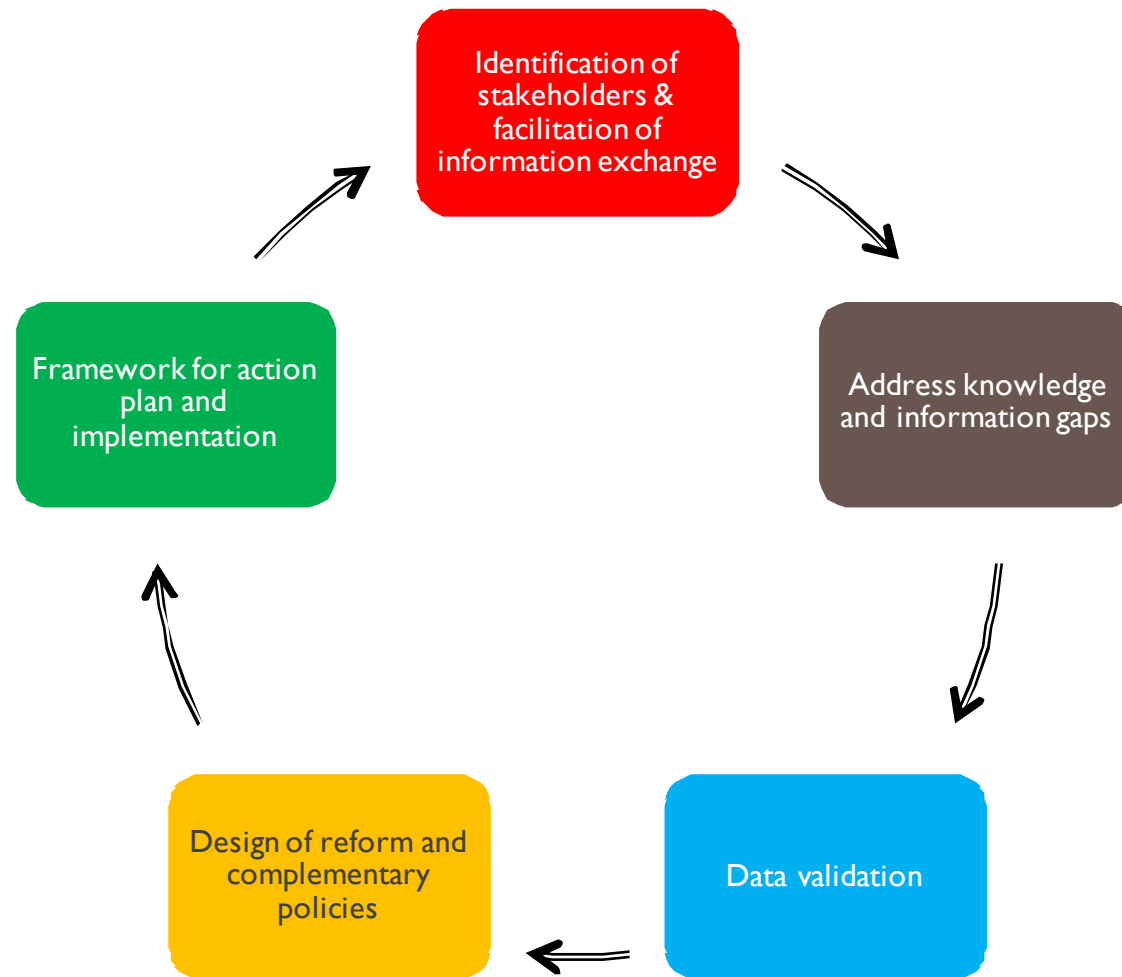
- ▶ A platform for exchange in information among key stakeholders in particular sector in services
 - ▶ What are lessons learned from reform process and greater international competition in other countries?
- ▶ A platform to generate evidence-based policy dialogue to
 - ▶ Promote better regulations in certain service sector to allow for more competition and greater trade
 - ▶ Establish an inclusive process to design and implement regulatory reform
 - ▶ Identify complementary policies to ensure



How the Platform can help shape policy debate



Stages in operationalizing Services Knowledge Platform



Example from World Bank's engagement: professional services in Sub-Saharan Africa

- Skills shortages
 - Most severe shortages of engineering and accounting professionals
 - Shortages of middle-level professionals (such as technicians or paralegals) and shortages of experienced professionals
- Skills mismatches
 - Jobless professionals despite scarcity
- Underdevelopment of professional services markets
 - Professional services are less efficient, more costly and less widely available than in many other comparable countries (for example, poor quality of auditing and reporting systems, poor enforcement of property rights)
- Foreign accountants are less than 3% of total in Malawi and Zambia and less than 10% of total in Kenya, Tanzania and Uganda but 60% in Rwanda
- Foreign engineers are less than 5% of total in Malawi and Mozambique and 6% of total in Tanzania
- Virtually no foreign professionals in legal services in any of the Eastern and Southern African countries

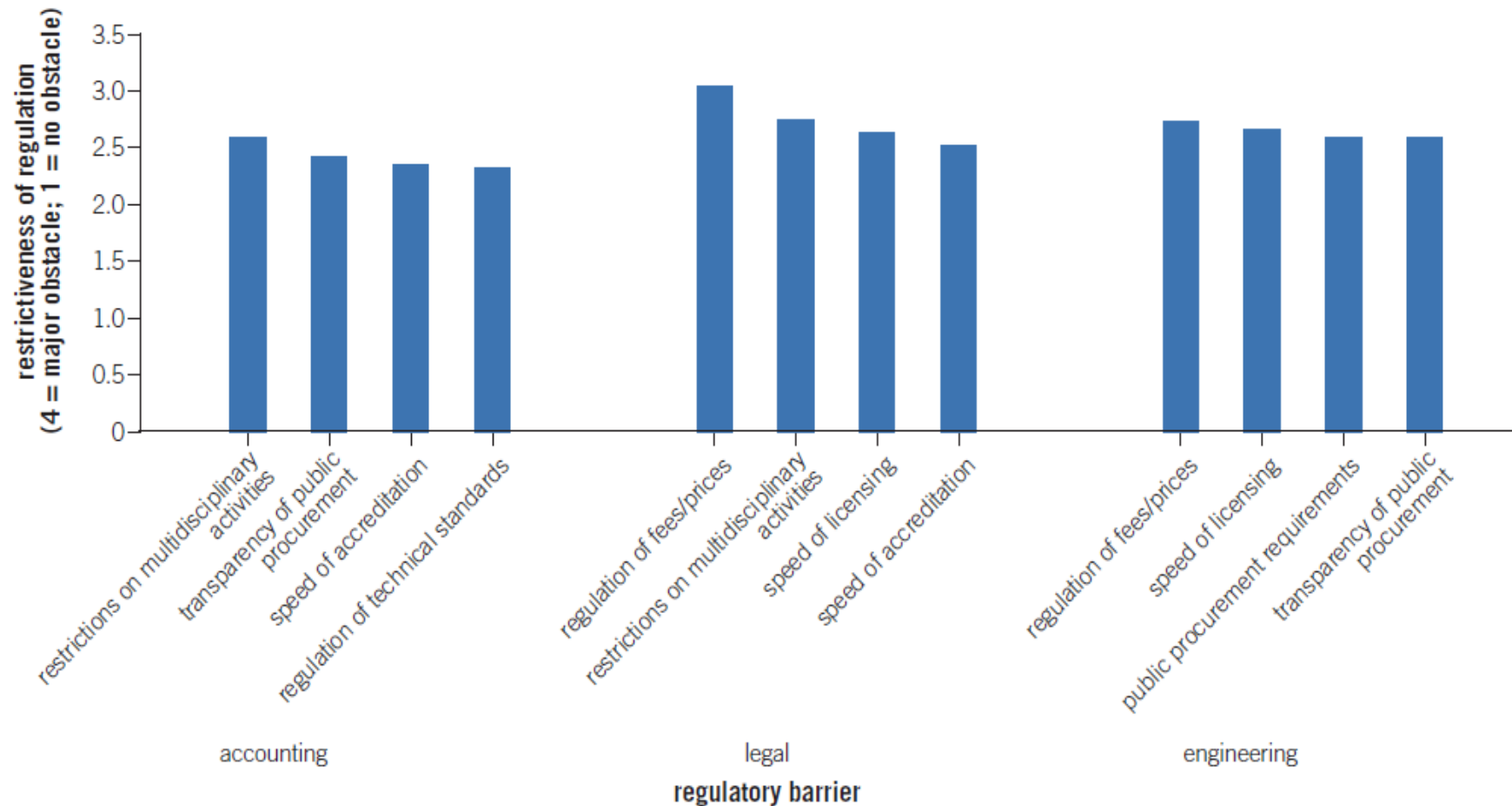


Example from World Bank's engagement: professional services in Sub-Saharan Africa

- ▶ Mapping the regulations of a wide range of activities going beyond the trade related regulatory regime
- ▶ Analyzing market structure, skills gaps,
- ▶ Support to implement a mutual recognition agreement on professional services among several Sub-Saharan countries.

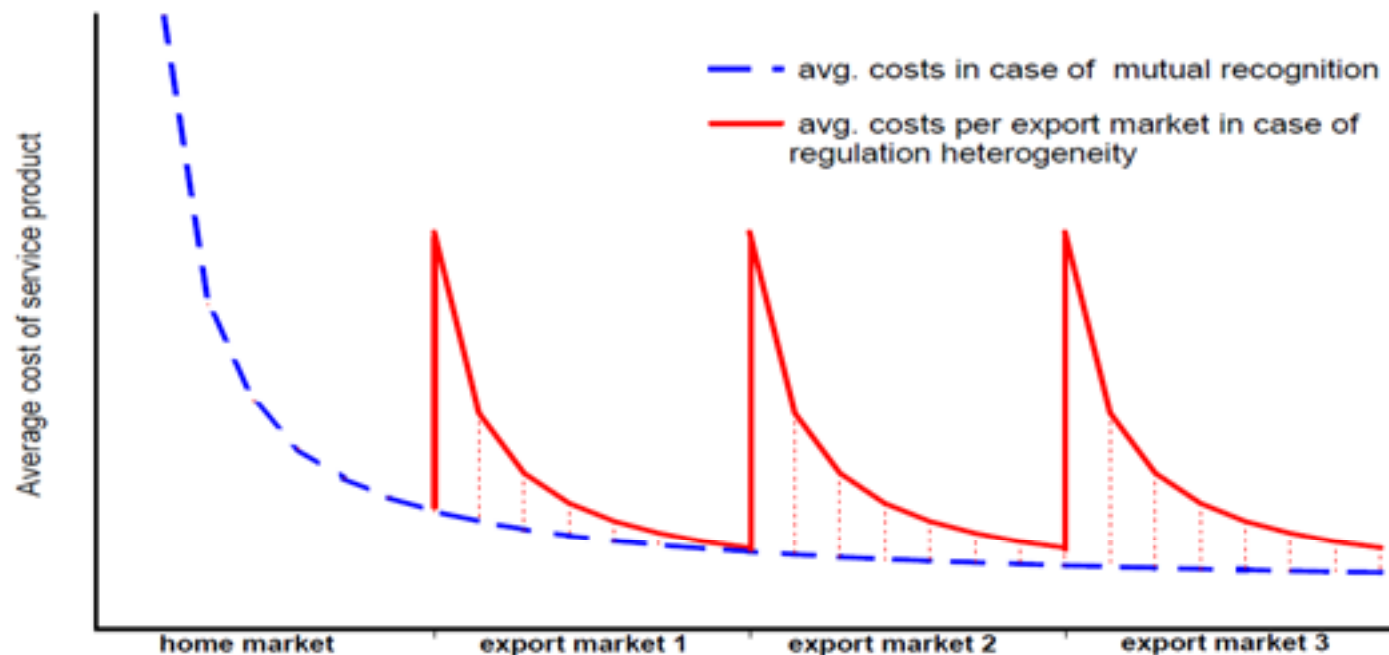


Restrictions on operations hurt professional services providers – the example of East Africa



Mutual Recognition Agreements: strong conceptual and empirical support

- ▶ MRA of education, professional qualifications and licensing would eliminate heterogeneity in education and qualification requirements and licensing procedures that is costly and hurts entry of small providers



Kox et al. (2004) estimate that EU stock of FDI could increase by 20-35% if regulatory Heterogeneity was reduced as a result of a common services regulation directive



Example on potential application for Indonesia

- ▶ ASEAN Economic Community aims to have a freer flow of services trade by 2015
 - ▶ ASEAN equity on services will be at least 70 percent
 - ▶ MRAs for selected professional services (e.g. accounting, architecture, medical practitioner)
 - ▶ Priority services sectors: air transport, healthcare, tourism, e-ASEAN, logistics
- ▶ What are the economic impact and lessons learned from
 - ▶ Progress in opening up air-transport, retail, and telecom?
 - ▶ Stagnation in opening up health care, higher education, domestic sea transport to international competition?
- ▶ How can those lessons inform process for regulatory reform in other services sectors?

Example on potential application for Indonesia

Relatively successful sectoral economic integration in Indonesia typically have the following ingredients

Filling information and knowledge gap

- Data collection to benchmark performance and opportunities
- Regulatory audit and how it affects services industries
- Exchange of information on reform experiences in other countries or other sector within the country

Understanding the political economy

- Identify “reform champions” within the government and private sector
- Use evidence based dialogue to facilitate consensus for reform target
- Identify policies to address market failures and distributional concerns

Designing and implementing reform

- Establish a credible mechanism for coordinating and implementing policy reforms
- Identify action plans and better regulations
- Establish credible and transparent feedback mechanism for all stakeholder



To sum up

- ▶ Despite clear potential benefits from more services trade, international cooperation seems to deliver less traction on reforms and integration of services sector, particularly on transport and professional services (which includes mode 4)
- ▶ Services Knowledge Platform is an alternative way to bring parties together in the spirit of partnership to find best path for implementing regulatory reform in services to increase competitiveness in domestic services industries
- ▶ To be applicable and successful, the Platform should be demand driven and inclusive to key stakeholders. But eventually it would need to link to strong reform champion within the government to make policy coordination and implementation happen



Thank You



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