Trade in services liberalisation of ASEAN Economic Community: Progress, Challenges and Implications

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ABSTRACT

Trade in services liberalisation in ASEAN is the one important goal under the ASEAN Vision 2020 to be deeper integration as single market. The ASEAN Framework of Agreements on Services (AFAS) is an instrument for implementation. The service sectors have become more crucial for enhance the economic development and growth in developing countries including ASEAN. Many service sectors are high potential to be benefited for liberalisation. Examples of these sectors are banking and finance, insurance, telecommunication, transportation and healthcare. This paper reviews the GATS and regional trade agreements (RTAs). It also discusses the current progress and challenges of trade in services liberalisation for ASEAN. Moreover, the plausible policy implications and recommendations to further accelerate the mutual benefits from trade in services liberalisation are proposed particularly in health care service sector. An efficient regulatory cooperation is the most essential in order to achieve the mutual benefits that can be adopt for other service sectors. Nevertheless, the high level of economic development gap is an obstacle for pursuing deeper regional integration for the newer ASEAN members especially Laos, Cambodia and Myanmar.

JEL: F10, F14, F15

Keywords: Trade in services, Liberalisation, ASEAN, Policy Implications and Recommendations

1. INTRODUCTION

Trade in services liberalisation particularly for developing countries has been currently debated among trade economists and policy makers to investigate the impact of this scheme on growth. This issue is also essential to negotiate under both bilateral free trade agreements (FTAs) and regional trade agreements (RTAs) due to the highly protection sector. Services are important sectors to boost the economy of developing countries. This paper aims to explain the progress and challenges of trade in services liberalisation under the ASEAN umbrella. The policy implications are proposed for ASEAN and Thailand. The review of general agreements on trade in services is described to provide the related background as well as the relationship between regional trade agreements and growth.

2. GENERAL AGREEMENTS ON TRADE IN SERVICES (GATS)

This section describes about the GATS in overview to be background for the following sections. GATS are other agreements under the WTO rules for member countries to implement that cover trade in services liberalisation. Service sectors have currently become more important for particularly developing economies to boost the economic development and growth. Tourism is one apparently sector to bring the foreign income to the country.

The one crucial achievement of the Uruguay Round Negotiations is GATS that came into effect in January 1995. The goals of these agreements are the same as the General Agreement on Tariffs and Trade (GATT) as follows: establishing a credible and reliable of international trade rules and system, assuring fair and equal treatment of all members (non-discrimination principle), enhancing trade and economic development via progressive liberalisation.

Service sectors recently cover more than 60 per cent of global production (WTO, 2009). Moreover, the share of these sectors in GDP of developing countries has also continued to increase. These sectors lead to economic activities, higher employment and income as well as technologies transmission such as electronic banking and telecommunication. Trade in services liberalisation contributes to more efficient competition and increase long term competitiveness including domestic policy reforms.

The GATS applies to all service sectors with two exceptions. First, the GATS exclude services supplied neither in the exercise of government authority neither on a commercial basis nor in competition with other suppliers (WTO, 2009). Four categories are distinguished under the GATS: Cross-border supply, Consumption aboard, Commercial presence and Presence of natural persons (WTO, 2009). Cross-border supply is defined as the services flow from the territory of one member into the territory of other members e.g. banking services transferred by telecommunication or mail. Consumption aboard are the situations where a service consumer, for example, tourist or patient moves into other member's territory to obtain a services such as health care and education. Commercial presence refers to a service supplier of one member set up a territorial presence through ownership or lease of premises in other member territory to provide a service e.g. subsidiaries of foreign firms and hotel chains. Presence of natural persons is regarded as persons of one member enter the territory of other members to supply a service such as accountants, doctors and teachers.

Many services are plausible to create simultaneous physical presence of producers and consumers. As a consequence, trade commitments for services need to extend to cross-border movements of consumer and establish a commercial presence within a market. The GATS concern the rights of members to implement their own regulations for policy objectives. In addition, the framework to ensure rules for reasonable, impartial manner and eliminate unnecessary trade barriers has implemented.

The basic obligations under the GATS are divided into two perspectives: General obligations and specific commitments (WTO, 2009). General obligations are applied to all members and service sectors. Specific commitments concern market access and national treatment specifically in special sectors. These commitments are different in scope and varied in individual schedules of each country.

General obligations consider about most favoured nation (MFN) treatment and transparency. The members are obligated to extend immediately and unconditionally to service or supply services of all other members in terms of treatment no less favourable than that accorded to like services and services suppliers of any other country. Furthermore, GATS members are required to provide all measures of general application and response to other member's information requests. Specific commitments involve market access and national treatment. Market access is the commitment negotiation especially in specific sectors that various limitations are applied. National treatment implies that the member have to concern not to do discriminatory operating measures to benefit domestic services or service suppliers. Therefore, the essential requirement is not to modify both in law and in fact the competition conditions in favour of the member's own service industries.

It is necessary for all WTO members to implement the Schedule of Specific Commitments efficiency to indentify the services that need to guarantee market access and national treatment as well as possible limitations. This schedule combines with sectoral and horizontal sections. Horizontal section consists of entries apply to all across sectors subsequently listed in the schedule. The sectoral section includes entries that apply only to some specific sectors. However, there are specific exceptions of national policy interests under the GATS such as secure compliance with law or regulations that inconsistent with the agreements to avoid deceptive or fraudulent practices affect member country's economy.

With regards to developing countries, the agreement structure and the facilitation to increase participation are other important consideration issue. Strengthening the service capacity, improvement of the access of information network and liberalisation of market access in developed countries are other essential provisions to developing countries to foster competitiveness. Developing countries require the flexibility of progressive liberalisation in terms of selected open sectors and extend market access in accord with their development situation.

The building agenda program is also crucial for services related negotiations to enhance the success of liberalisation via the selected sectors to conclude within the Uruguay Round timeframe. Examples of the sectors under this program are telecommunications and financial services. Nevertheless, the Uruguay Round is considered as the first step of long term multilateral rule making trade liberalisation process although the positive liberalising effects are relatively modest. Furthermore, many supporting schemes are necessary to implement such as quality standards, licensing and qualification requirements as well as compatible, conducive and core policy objectives.

In summary, the new rounds of trade in services liberalisation negotiation need to be launched by focusing on the built-in agenda to create a sound basis for negotiations particularly for new specific commitments. These commitments should be benefit to all WTO members in particular for developing countries.

3. REGIONAL TRADE AGREEMENTS

This section discusses about regional trade agreements (RTAs) and growth particularly in ASEAN. Regionalism is current dominant feature of economic integration. This dominant feature can use to explain the impact of RTAs on growth.

Regionalism is an economic integration dimension combining three core elements to contribute to growth: structure, processes and arrangements to working and supporting towards greater coherence of economic and other related cooperation issues within the region to enhance growth (Dent, 2008). An evolving of regionalism is different in different regions can be described by following reasons. First, the progress of regionalism development depends on different and various economic factors embedded in economic integration process. Second, the structural transformation is other essential factor driven to regionalism.

The market-led driving force leads to regionalisation via the linkage between national and transnational economy within region by trade, investment and other related economic cooperation. Regional community building is another consideration issue to accelerate the benefits. It is believed that this scheme is necessary for substantial development and co-operative as well as harmonise mutual benefits between members in the long term. This scheme needs the appropriate and effective implementation framework.

New regionalism needs to be implemented for ASEAN including other regional integration in Asia to foster growth. There are three main components of new regionalism as follows: multiple and co-existent of levels forms of regional cooperation and integration and community building. Moreover, the new regional integration process and structure has to be building bloc to multilateral trade liberalisation. The ASEAN Economic Community (AEC) is an example of collective effort to extend the regional trade and investment liberalisation agreements under the new regionalism concept. In addition, this scheme can be regarded as the guarantee of benefits from regional trade and investment agreements to growth.

4. CURRENT PROGRESS OF ASEAN TRADE IN SERVICES LIBERALISATION

This section describes the current progress of trade in services liberalisation in the context of ASEAN. Trade in services liberalisation of ASEAN has been implemented under the General Agreements on Trade in Services (GATS) of WTO and ASEAN Framework of Agreements on Services (AFAS). There are three main objectives of AFAS. First, is to enhance cooperation in services among members in order to increase the efficiency and competitiveness as well as distribute production capacity and supplies of services both within and outside the region. Second, is to get rid of substantially restrictions of trade in services among members. Third, is to enhance further liberalise trade in services by expanding the depth and coverage of liberalisation.

The areas of cooperation have been strengthened via establish infrastructure facilities, exchange information and formulate effective action plans. Discriminatory measures and market access regulations need to be eliminated. Mutual benefits recognition has to be concentrated. Dispute settlement mechanism is also other consideration issue to assure the success of trade in services liberalisation of ASEAN. Specific commitments schedule should be modified to achieve compensatory adjustment to newer members (Laos, Vietnam, Cambodia and Myanmar).

Based on the GATS and AFAS, ASEAN members have to implement trade in services liberalisation substantially in terms of number of sectors coverage under the reasonable timeframe. AFAS deals with market access commitments specify that ASEAN countries have to hormonise preferential treatment to one another on MFN basis. Nevertheless, the MFN exemption is possible under the GAT-plus. This scheme is regarded as an essential issue in each negotiation round of specific commitment policy package. The negotiation of specific sector commitments and exemption for trade in services liberalisation is called bottom up process. The newer members are subjected to limitations of general obligations and commitments.

The ASEAN first round of trade in services liberalisation commenced in 1996 and ended in 1998 for only initial seven primary sectors. These sectors are air transport, business services, construction, finance, marine transport, telecommunication and tourism. Moreover, ASEAN members agreed to extend the coverage of GATS-plus to include both all service sectors and modes of supply. The second round of negotiation started in 1999 and ended in 2001.

Trade in services liberalisation has been more intensive focused and negotiated in bilateral, plurilateral and regional trade agreements due to the importance of services to enhance economic development and growth (Corbett, 2008). The AFAS is one of obvious examples. For ASEAN, the clear and effective targets, schedules and schemes of trade in services liberalisation have to be set up to achieve the goal of ASEAN Single Market Vision in 2020. Eleven sectors which four are services have been implemented for deeper integration. These four service sectors cover air transportation, electronic commerce, healthcare and tourism are subjected to substantially all restrictions removal by 2010. Furthermore, the fifth service sector of logistics is included in the list with flexibility in 2015.

ASEAN has adopted the ASEAN minus X rule to expedite trade in services liberalisation (Corbett, 2008). This rule can be explained that two or more members negotiate to agree and select the sector liberalisation without having to expand the concessions to non-member countries. It can be said that this approach is deviate from an MFN approach and create more difficulty for to extend liberalisation treatment to non-ASEAN members. As a result, this approach can be obstacle to the success of an enlarged ASEAN integration or FTA in the future.

According to the AFAS, ASEAN has also adopted common sub-sector and modified common sub-sector approach. Common sub-sector approach can be explained that a sub sector where four or more countries had made commitments in that sub-sector under GATS and/or previous AFAS package. Modified sub-sector approach is fundamentally the same as common sub –sector approach except of threshold is decreased to three or more countries instead of four. This approach has been implemented during 2002 until 2004. In addition, the mutual recognition agreement (MRA) is another essential to be developed as the trade in services liberalisation facilitation and enhancement particularly to facilitating the professional services flow within the region (Stephenson, 2002).

From the above, it can be stated that trade in services liberalisation has been continue enhanced during the past decade until present. Many service sectors are high potential to be benefit from liberalisation such as banking and finance, insurance, telecommunication, education and healthcare and spa. The policy recommendations for these service sectors liberalisation for ASEAN are discussed in the following section.

5. CHALLENGES TO THE ASEAN TRADE IN SERVICES LIBERALISATION

This section explains the challenges to trade in services liberalisation in ASEAN. Trade in services liberalisation both under the WTO and ASEAN should be an effort and channel to utilising trade-related issue as mean to accelerate competitiveness and growth (Panitchapakdi, 2001). This issue has been recognised as an important issue in ASEAN in the last decade. It is currently believed that the success and benefits of trade in services liberalisation requires an appropriate and effective implementation framework.

The ASEAN Single Market Vision in 2020 can be considered as an essential step to enhance the success and benefits of trade in services liberalisation for the ASEAN. The success of trade in services liberalisation goal of ASEAN depends on the implementation schemes and measurement methods. Trade in services barriers, liberalisation degree and regulation changes are necessary to examine and analyse (Corbett, 2008).

The services sector has been more important for developing economies of ASEAN because this sector contributes to more than 50 per cent of GDP during the past ten years and continue to the present. The liberalisation of trade in services via conducive and attractive policies attracts investment, technology and increase higher income employment. The domestic service industries are not adversely affected from this initiative if government supports efficiently by implement appropriate capacity building to enhance the competitiveness to compete under the open export market access (Khoo Kah Lin, 2009).

Hoekman (1995) examines the restrictiveness of trade and regulatory policy of services. An access of trade in service is constructed to develop restrictiveness index of regulation regimes affecting the entry freedom to the sector and the operations by foreign-service providers. This index is used to measure the how high of restriction level. In contrast of trade in goods liberalisation that higher market efficiency and lower cost of production is set as objectives. Prudential regulations, standards and special treatments are other requirements for trade in services liberalisation objectives apart from different national trade policy goals.

Other challenges for ASEAN trade in services liberalisation can be explained as follows (Tan Tai Hiong, 2004). First, are human resources and financial constraints. Second, is an effective coordination and inadequate negotiation capacity. Third, is the complexity of sectors and sub-sectors to be liberalised. Therefore, it can be noted that many challenges are remaining to be efficiency solved in order to achieve the ultimate goal of trade in goods and services liberalisation and the ASEAN Single Market in 2020.

6. POLICY IMPLCATIONS FOR ASEAN

From the above, many policy implications can be discussed for ASEAN to achieve the mutual benefits of regional economic growth. These policy implications are as follows (ASEAN, 2007).

- Non-discriminatory barriers elimination contributes to more gains because most of these barriers are cost rising rather than price raising or tax although it is not clear that which type of barriers affect all of the major services sectors.
- Liberalisation commitments should be focused on the high cost barriers in high restricted sectors where the gains are highest.
- Progressive monitoring towards an effective schedule is required.
- Both strategies and the architecture of regional agreements can be improved by concentrate on non-discriminatory barriers as well as discriminatory strategies that decrease all forms of barriers to avoid the quantity of supply of services reduction.
- It is very crucial to implement the practice structure of ASEAN-x agreements and other plurilateral trade agreements (PTAs).
- An assessment of liberalising value of new agreements involving regional economies which are not only currently on GAT-plus but also AFAS need to be examined.
- The coverage has to be wider and deeper.
- The liberalisation schedule has to be flexible for the newer ASEAN members of Cambodia, Laos, Vietnam and Myanmar.

The current trade in services pattern in ASEAN particularly in health can be described by the four modes of service supplies according to the GATS (Arunanonchai and Fink, 2008). The major services in cross-border supply mode are medical transcription services to the US. The Philippines is an example due to the comparative advantage that is explained by the pool of educating English speaking human resources. The consumption aboard mode has become more important for ASEAN as the exporters of health tourism services. Examples of these are Malaysia, Singapore and Thailand. Thailand is the highest and follows by Malaysia and Singapore. The largest share of foreign patients is Japanese. The commercial presence mode is limited in participation only in the private healthcare sector in six ASEAN countries. The movement of individual service provider mode can be explained by that ASEAN region is host for two of the world's largest healthcare human resource exporters. The trade is driven by a growing number of well-educated professionals in ASEAN especially Indonesia and the Philippines as well as the lack of healthcare workers in richer and developed countries. Additionally, both demographic pressures and rapidly increasing healthcare costs in developed countries accelerate the demand for healthcare professionals from lower wage economies in the future.

Trade in health services has both benefits and risks. The impact depends on that way services are supplied internationally. Cross-border trade and consumption aboard can be benefited through gains from efficiency and greater choices. However, these efficiency and choice gains can contribute to negative effects. The instable rapid growth due to export expansion can slow down the economy. The health services export expansion can possible create important distributive consequences for domestic patients.

Foreign investment in healthcare and related services can also contribute to decrease capital constraints and alleviate the shortages of supply in the domestic healthcare industry. Furthermore, the skills and managerial know how may also be transferred. Nevertheless, this impact can increase the gap of domestic healthcare services between urban and rural areas. In addition, the contribution effects of foreign investment in terms of equity and access to healthcare services rely on both type of entry and accompany policies. Trade in healthcare services can improve economic efficiency by the mobility of health workers from low wage countries to high wage countries. The receiving countries can be benefited from an alleviating of domestic personnel domestic medical shortages. The sending countries can be benefited from the spending of health workers.

7. POLICY RECCOMMENDATIONS FOR ASEAN

This section discusses and proposes policy recommendation for ASEAN. The most important policy recommendation is that trade in services liberalisation for ASEAN needs to be achieved via the GATS-plus commitments. An efficient coordination between committee and sectoral working group under the AFAS is another essential consideration issue.

The sectoral working group has been established for six potential service sectors to negotiate and implement liberalisation. These service sectors include business services, construction, maritime services, telecommunication, tourism and healthcare. Moreover, other service sectors have also under consideration and negotiation for liberalisation enhancement in the future. The examples of these service sectors are air transportation and banking and financial and insurance services.

The negotiation approaches is another crucial issue to concern (Tan Tai Hiong, 2004). The common sub-sector approach is a sub-sector where 4 or more countries had made commitments in that sub-sector under GATS and/or previous AFAS package. Furthermore, all countries are requested to make MFN offer to these sub-sectors. The modified common sub-sector approach is the same as previous but this criterion is for 3 or more countries. The ASEAN minus X approach is 2 or more countries proceed with the liberalisation without having to extend the concessions to non-participating countries. Regarding to this approach, others can join at a later stage whenever ready.

Under the ASEAN Vision 2020, trade in service liberalisation for ASEAN has been implemented through three core components of liberalisation, facilitation and cooperation as follows.

- Progressively liberalise trade in services by initiating new rounds of negotiations.
- Expand the scope of negotiations to cover all service sectors and all modes of supply.

- Accelerate liberalisation through the adoption of effective and appropriate alternative approaches.
- Accelerate free flow of professional and other services in the region.

In addition, the free flow of services in all sectors and all mode of supply is long term goal and achievement.

Other following policy recommendations are based on the High Level Task Force on ASEAN Economic Integration (HLTF).

- Set clear target and schedule of liberalisation towards achieving free flow of trade in services earlier than 2020.
- Accelerate liberalisation in specific sectors than end-date through the application of ASEAN-X formula.
- Accelerate liberalisation of the potential six priority sectors by 2010.
- Enhance and promote the joint ventures and cooperation.

The impacts of trade reform and liberalisation depend on the other supporting domestic policies. The higher gains from trade in services liberalisation of ASEAN contributes to deeper integration (Arunanonchai and Fink, 2008). The AFAS has not contributed greater liberalisation and in the region. The ASEAN members have implemented liberalisation scheme for trade in services, however, the implementation has been done unilaterally. The health care service sector is one of eleven priority sector for integration since 2003.

The regional liberalisation and integration commitment is to open the market for trade in goods and services that the process is not prolonged compared to the multilateral negotiation process under the WTO. Nevertheless, if the services providers are inside the region and infant stage, as a result, the externalities and global competition can enhance an efficiency of these providers (Mattoo et al., 2001).

According to Arunanonchai and Fink (2008), many of policy recommendations of specific areas for regulatory cooperation are proposed as follows:

- Promoting health tourism exports
- Managing the movement of healthcare workers
- Improving the quality of health services and medical training

The development of an effective framework for the above regulatory cooperation is essential to promote the bilateral cooperation and assure the long term mutual benefits from this extended to all ASEAN members (Vo and Bartlett, 2006). Besides, the effort to accelerate the deeper regional integration via priority sectors liberalisation is another crucial consideration since the AFAS has been implemented more than ten years.

8. CONCLUSIONS

In summary, trade in services is an important engine for growth in the ASEAN region and between regions. The effectiveness of trade in services liberalisation has been enhanced via the AFAS implementation. The current progress of trade in services liberalisation has been accelerated. The GATS commitments, regional PTAs, schemes and negotiating methods have to be effective to increase gains from liberalisation to all ASEAN members. The structure and investment issues are different for different service sector.

9. SUGGESTIONS FOR FURTHER STUDIES

This study can be extended to deep research about the quantitative impact of trade in services liberalisation on growth as well as trade in services restrictiveness. The sectoral impact can also be examined to undertake the comparison study. The appropriate models and estimation techniques should be applied to obtain accurate empirical results. In addition, the practical policy implications and recommendations for other potential service sectors such as banking and finance, insurance, telecommunication, construction and marine and air transportation should be proposed to be an extension of this study.

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Despite clear aspirations by the Association of Southeast Asian Nations (ASEAN) to create an effective framework to facilitate movements among skilled professionals within the ASEAN Economic Community (AEC) by December 2015, progress on the ground has been slow and uneven. The challenge ASEAN Member States face is threefold. First, the complexity of the qualifications recognition process essentially discourages professionals who move within the region from having their professional and academic credentials assessed and recognized. Copyright Association of Southeast Asian Nations (ASEAN) 2020. All rights reserved.Â Its expansive implications of means that the impact goes way beyond the shocks to current income, jobs, and production, but is also affecting the regionâ€™s foundation for long-term productivity and competitiveness.Â H.E. Aladdin D. Rillo, Deputy Secretary-General of ASEAN for the ASEAN Economic Community shares his views on ASEAN recovery challenges and outlook and on the recently adopted ASEAN Comprehensive Recovery Framework. I believe that there are still opportunities even in this difficult time.Â On services, the ASEAN Trade in Service Agreement (ATISA) has been fully signed by all AMS in October 2020. The East Asian countries are seriously discussing the consolidation of ASEAN+1 FTAs to develop so-called ASEAN++ FTA or RCEP. The detailed analysis of services chapters in the existing ASEAN+1 FTAs gives insights to services trade liberalization in this new trade agreement. In order for ASEAN and its FTA partners to gain substantial new commitments that are genuinely "plus" to the existing trade pacts, both WTO GATS and ASEAN+1 FTAs, ASEAN++ countries should aim at an ambitious level of liberalization much higher than the AFAS package 5. Also, the detailed analysis suggests a policy option of narrowing the types of services trade limitations