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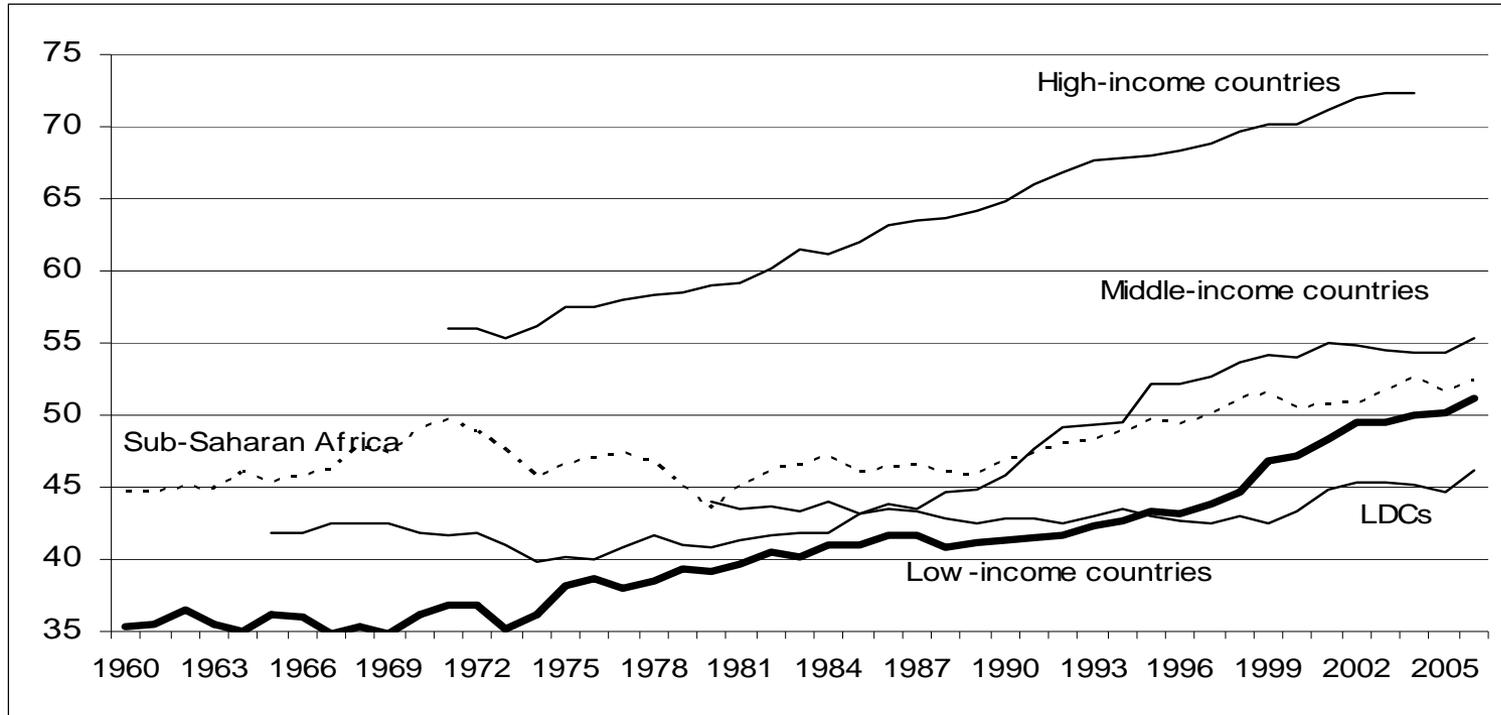
The contribution of services to development, the role of regulation and trade liberalisation

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ODI, 18 December 2008

Introduction

- ❑ Historically a polarised view on services and the role of regulation and trade liberalisation
 - Agriculture vs other sectors
 - Top down free trade everywhere vs Stop the GATS
 - ❑ Not helpful, does a narrative exist that is more pragmatic which:
 - Recognises the role of services in development
 - Examines the risks and benefits of trade liberalisation
 - And the role of regulation in minimising the risks and maximising the benefits
- New view on the role of services in the development process

Share of services in GDP is increasing over time with income



Source WDI 2007

Services and Development

- ❑ Increasing share in incomes and employment, including for the poor
- ❑ Services crucial for the investment climate and provides public services
- ❑ Opportunity to diversify; valuable esp. for small and landlocked countries
- ❑ Sectors covered in report
 - Tourism – direct effects on poverty, employment and GDP
 - Financial services – backbone of economy
 - Electricity – important effects on investment climate
 - ICT – effect on growth and new export opportunities
 - Health services – key social sector
 - Mode 4 – key interest and comparative advantage for developing countries

Trade liberalisation

- ❑ Opening up (trade liberalisation) can
 - Help to exploit comparative and competitive advantages (mode 1 and 2);
 - improve performance of domestic players (competition effects – esp via mode 3); and
 - bring new products and at cheaper prices (static and dynamic effects – all modes).
- ❑ Examples
 - liberalisation and privatisation has led to the spread of ICTs, spurred by foreign-owned firms who have often brought new capital into economies (Africa and Latin America)
 - Liberalisation of air access has led to more visitors and cheaper prices (Southern Africa)
 - new health products in South Africa, filling of health skills gaps in Botswana.
- ❑ CGE modelling studies suggest large benefits of trade liberalisation

Appropriate regulation required for liberalisation to bring expected benefits:

- create a level playing field and facilitate competition between market players (e.g. access to electricity or telecommunications networks);
- guarantee the quality of the services provided (e.g. by specifying qualification requirements for service providers such as doctors, engineers and architects);
- protect consumers (e.g. from fraud, or misselling);
- ensure sufficient provision of information (e.g. about the availability and features of services provided);
- prevent environmental degradation (e.g. arising from high levels of tourism development),
- ensure adequate access to services (such as electricity, health and education),
- maintain financial stability (in the banking sector),
- minimise disruptions in supply (in electricity).

Financial sector

- ❑ Crucial role in the economy
 - Underpins private sector development, investment and growth
 - Facilitates entrepreneurship, risk management and poverty reduction

Financial sector opening

□ Benefits include:

- Efficiency, dynamism, innovation
- Better services for consumers
- Improved domestic bank performance
- Better access to international capital
- More efficient allocation of capital

Risks and complementary policies: Financial instability

- ❑ Risks include financial instability and vulnerability to financial contagion
- ❑ Complementary policies required:
 - Sound macroeconomic framework
 - Domestic bank restructuring and commercialisation
 - Financial regulation and supervision
- ❑ Do we need to rethink international financial regulation?

Risks and complementary policies: Impact on access

- ❑ Reduced access to financial services?
- ❑ Governments can reduce the costs of widening access:
 - Credit bureaux
 - Contract enforcement
 - Risk based rules on Know Your Customer
- ❑ And create incentives for widening access:
 - Basic bank accounts
 - Monitoring and benchmarking
 - Regulatory incentives

Trading health services

- ❑ Nursing services via temporary movement of persons
- ❑ Establishing commercial venture into a foreign country to provide health services to residents of that country
- ❑ Medical and wellness tourism in developing countries by cost sensitive consumers in developed countries
- ❑ Indian company Wipro Ltd. provides a CT scan services for the Massachusetts General Hospital in the US

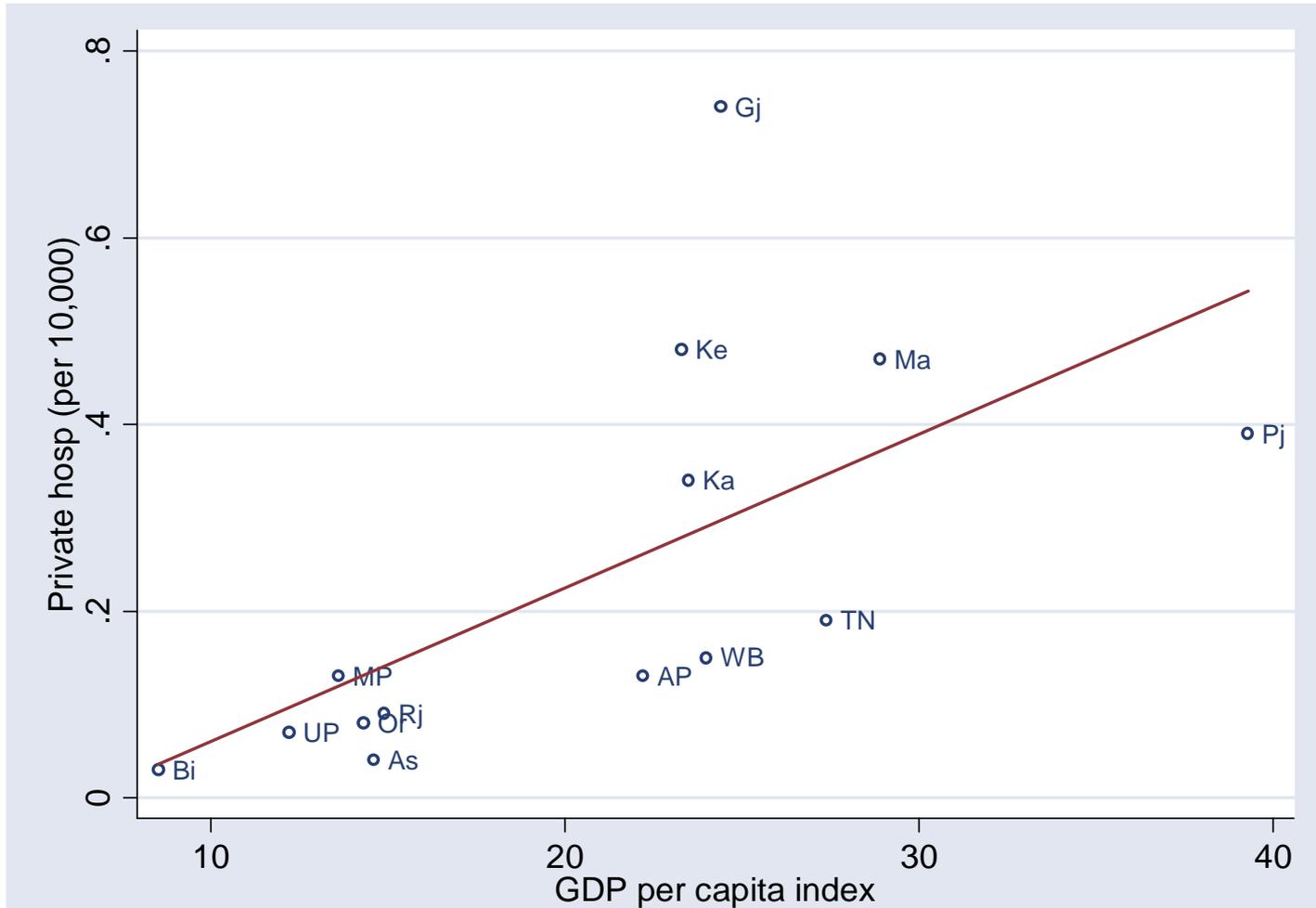
Regulation as a barrier to health services trade

- ❑ Most regulated among services sectors, concerns on reliability, quality, price of services, etc
- ❑ 3 main barriers to trade:
 - qualification and licensing requirements for professionals;
 - approval requirements for clinics and hospitals;
 - rules governing reimbursement from mandatory health insurance schemes

Does regulation actually restrict trade?

- ❑ Regulation can be binding constraint
 - South African imports of doctors
 - Indian doctors to the UK
- ❑ But it is not always binding constraint:
 - poorer countries in ASEAN have more liberal regulation on Mode 3 but less FDI
 - liberal regime but little FDI in India
 - same regime but big differences across Indian states of commercial presence

Private sector more present in richer states



Increased corporatisation on Indian health system: Benefits

Type	for all	for poor
Reduce burden of public sector structures	Medium	Small
Expand range and quality of health services	Large	Small
Help retaining health professionals	Medium	Small
Use of private sector to reach public sector objectives (e.g. PPP)	Large	Medium
Upgrade and expand health services infrastructures (curative and training)	Large	Small
Expand health training facilities	Medium	Small
Facilitate expansion of health insurance	Large	Medium
Positive spillovers to public sector	Unclear	Unclear

Increased corporatisation on Indian health system: Costs

Type	for all	for poor
Reduce the quality of and accessibility to health services for the poor	Small	Small
Internal brain drain	Small	Small
Reduce support for quality public health services (share of health in public bdgt)	Small	Small
Reduce general public budget (through public subsidies to corporate sector)	Medium	Medium
Deteriorating quality of training due to private sector-led expansion	Medium	Medium

What complementary policies?

Regulating more effectively rather than restricting trade in health services!

- 1. Facilitating an orderly expansion of the health skill base;*
- 2. Increasing the role of the State as financier rather than direct provider of health services;*
- 3. Strengthening public-private partnerships;*
- 4. Strengthening the health insurance market;*
- 5. Scaling up the overall public oversight system*