Domestic Preparedness for Trade in Services Liberalization: Are East African Countries prepared for Further Trade Liberalization?

Preparación doméstica para la liberalización del comercio de servicios. ¿Están los países africanos preparados para una mayor liberalización comercial?

Elias Peter BAGUMHE
Economist
Ministry of East African Cooperation
United Republic of Tanzania
peterbagumhe75@yahoo.co.uk

Domestic Preparedness for Trade in Services Liberalization: Are East African Countries prepared for Further Trade Liberalization?*

Elias Peter BAGUMHE
Economist
Ministry of East African Cooperation
United Republic of Tanzania
peterbagumhe75@yahoo.co.uk

Preparación doméstica para la liberalización del comercio de servicios. ¿Están los países africanos preparados para una mayor liberalización comercial?

Abstract

Services are the fastest growing sectors in the global economy. Over the past decades East African countries have witnessed even faster growing rates of the share of trade services in their GDPs. The total services export of EAC countries increased from USD 1868 mills in 1995 to USD 5681 mills in 2008 (WDI 2010) which is approximately three times increase compared to 1995. Along with this growth, liberalization of services trade is becoming a critical economic agenda of these economies. EAC countries have also made unilateral liberalizations in a number of services sectors since the mid 1980's. On top of that EAC countries have also made commitment to liberalize service trade at the multilateral level. Furthermore a significant commitment of their services sectors has been made under the East African Integration Process beginning from first July 2010. This paper argues that although the importance of services as a share of overall GDP, increase with growth on FDI and employment. Its growth can be driven by number of factors, such as final demand factors and basic structural changes in production, linked to development. Weak domestic preparedness before opening up is likely to be associated with unsatisfactory and undesirable outcomes of services trade liberalization. This paper tries to expound issues that are essential on domestic preparedness for service trade liberalization and analyses the associated concerns. The purpose of this paper is not to provide answers but to shed some light on how services Trade liberalization is currently operationalized in the East African countries, in particular, that is, to open up the "black box", and indicate the operational design elements around which variance is the highest.

Keywords: trade liberalization, services trade, East Africa

Resumen

El sector servicios es el de mayor crecimiento en la economía global. En los países del Este de África, en las últimas décadas, se ha producido el mayor incremento histórico de la proporción del comercio de servicios en su PIB. El total de servicios exportados en estos países se multiplicó por tres, pasando de 1868 millones de dólares en 1995 a 5861 millones de dólares en 2008 (WDI 2010). Junto con este crecimiento, la liberalización del comercio de servicios se está convirtiendo en un asunto crucial en la agenda económica de estos países. Los países del Este de África han llevado a cabo liberalizaciones unilaterales en una serie de servicios desde mediados de los ochenta. También se han comprometido a liberalizar el comercio de servicios a un nivel multilateral. Asimismo, un compromiso adicional se ha producido en el

* This paper carries the name of the author, and should be cited accordingly. The finding, interpretations and conclusion expressed in this paper are entirely those of the author. They do not represent the view of his employer. Any errors are the faults of the author.

marco del Proceso de Integración del Este de África, comenzado en julio de 2010. Este artículo analiza las implicaciones en términos de crecimiento de ayuda externa y empleo. Otros factores son analizados, como la demanda final y cambios estructurales básicos en la producción, ligados al desarrollo. Una débil preparación interna antes de la apertura probablemente provocará resultados insatisfactorios e indeseables tras la liberalización del comercio de servicios. Este artículo trata de abordar temas esenciales en la preparación interna para la liberalización comercial. Su objetivo no es tanto proporcionar respuestas sino ilustrar cómo la liberalización comercial de servicios se está llevando a cabo en estos países. En particular, trata de abrir la «caja negra» indicando los elementos de diseño operativo de mayor variabilidad.

Palabras clave: liberalización comercial, comercio de servicios, África del Este

1 Introduction

There is no single explanation for African poor performance before the adjustment period that started in the mid 1980's. However the main factors behind the stagnation and decline were poor policies both macroeconomic and sectoral, emanating from a development paradigm that gave state a prominent role in production and regulating of economic activities. Protectionist trade policies and government monopolies also reduced the competition which is vital for increased productivity (WB 1994).

Immediately after independence in the 1960's most sub Saharan Africa economies, East African countries in particular, followed an inward oriented import substitution strategy supplemented by wide spread use of tariff and non-tariff barriers. This policy choice reduced external competition mainly in manufacturing that were vital in increase productivity and growth. Its impact culminated into economic crisis that engulfed the economies of the East African countries during the early years of the 1980's. The economic crisis provided an initial drive for changing the public-private sector relationship in favor of the private sector, against a background of the non performing public sectors.

The reform program that many East African countries initiated in the mid-1980's (structural adjustment program) under the umbrella of the International Monetary Fund, the World Bank, and other donors reflected a new paradigm in East African development policy. It comprised all spheres of economic activities ranging from services trade, industries and agricultural. One of the precondition of the structural adjustment program was rolling back of the states, where by governments were required to withdraw their hands from the production process and let the private sectors be at the front seat of the development vehicle (Wangwe 2003). This necessitated East African Governments to open the door for the private services provision. This policy option expended the scope for private and foreign participation in the economy.

At the multilateral level, until 1995 no multilateral agreements existed on rules governing services. This was due to lack of knowledge about the services trade itself (Majid 2003). However it should be noted that the general agreement on trade in services were introduced during the Uruguay Round. Developing countries strongly reacted, due to the believe that trade in services liberalization was an area of interest to developed countries. Currently this view is no longer held, the importance of the trade in services in the economy is now widely accepted (Mattoo 2006). Studies predict that liberalization of services trade has positive impact on trade in goods, and allow developing countries to better exploit their comparative advantages in a labour intensive manufactures (Ragui 2008). The gain from services liberalization are likely to be large than those from goods liberalization, and the adjustment costs that arise from services sector reform are likely to be lower than those arising from reduction of professionalism in goods (OECD 2003). However liberalization of services can be more complex than the liberalization of goods trade; it requires substantial amount of technical capacity, which is often lacking in Africa (World Bank 2011).

Currently export of services which is the subject mater of this paper is growing rapidly than the export of goods. For instance, the average growth rate of service sector in the East African community has increased from 2.08 percent in 1990 to 7.98 percent in 2008 (author calculation based on WDI 2010).

At the global level trade in services account for two thirds of the global output, 30 percent of global employment and 20 percent of global trade (Kumar 2005). Services activities in low- and middle-income countries have been expanding faster than GDP (gross domestic product) for the last two decades. The implication of this continuous shift toward services sector is that the overall growth of productivity in the economy is becoming increasingly determined by what is happening in the services sector (Sorsa 1997). For instance, the UNCTAD LDC (2006) indicated that economically productive population engaged in agriculture would be outpaced by other sectors, pointing out the services sector as the key sector. This fact has been proved in all East African countries, where by the share of service sector to GDP has outpaced that of agricultural as depicted by Figure 3 of this paper.

This paper is structured as follows. Section 1 provides the introductory part in terms of unilateral liberalizations pursued by East African countries since the 1980's, and rationally for service trade liberalization in East African community. Section 2 highlights the performance of the trade in services liberalization in the East African community and its contribution to these economies in terms of output, employment, trade, and investment flows. Section 3 examines why we should worry about services liberalization in EAC and some special insights in service sectors. Section 4 describes the East African trade in services liberalization and its compatibility to GATS. Section 5 analyses the states of domestic preparedness in different services sub-sectors in terms of their competitiveness and the likely positive and negative outcomes of liberalization. Finally, Section 6 concludes by summarizing the major findings.

2
Services trade and its liberalization in East Africa

2.1. Rationale for services trade liberalization in the East African community

After the inception of the General Agreements of Trade in Services (GATS) in 1995, trade in services was getting the necessary importance in the multilateral trading system. Increasingly services are no longer seen as a byproduct of manufacturing but an integral part of the production and sales process that could determine the success or failure of the economy (OECD 2002). Trade in services is currently growing faster than trade in goods. With the GATS, the rules and disciplines of the multilateral trading system were extended to cover trade in services. Recent statistics indicate that, the sector has an average contribution of 45 percent of GDP in developing countries and more than 57 percent in middle income countries and 71 percent in high income countries (www.intracen.org/servicexport). Today more than half of annual world foreign direct investment flows are in services. Services have also been among the fastest growing component of the world trade over the last decade and half. Statistics also indicate that the share of developing countries in export of services has increased from 11 percent in 1990 to 21 percent in 2008 the figures above are the good reminder of the role that services play in facilitating all aspect of economic activity (www.wto.org).

In a heavily protected market, services are often inaccessible, prohibitively expensive and yet of a low quality. This is due the fact that protection is associated with low competition and less efficient suppliers (Mattoo 2006). More specifically protection tends to act as a tax on domestic consumers and producers. Improvement of services infrastructure requires large investment as well as regulatory reform to remove cumbersome red-tape procedures. Generally an inefficient and costly service infrastructural hampers the overall economic growth (Hodge 2002). From the above fact, reforming the service sectors is at the heart of the East African countries. Through the Common Market Protocols they have so far liberalized seven sectors. These sectors are communication services, transport services, financial services, business services, distribution services, education services, and tourism and travel related Services.

Furthermore, under the request-offer process of GATS, there have been the large number of requests from other developing and developed countries to these East African country to open up a significant number of their services sectors. The comparison of Table 1 and 3 clearly indicate that more commitments have been done at the regional level than at the multilateral level. For instance Rwanda which has done 63 percent commitments of the Services subsectors at the regional level while at the multilateral level has committed only 6 percent. On average the EAC has liberalized service under GATS by 12 percent only, compared to 49 percent at the regional level. Despite of the small percent of liberalization

NO	Country	Sectors committed (out of 12)	Subsector committed (out of 160)	Commitment negotiated (out of 1280)	Partial commitment made	Full commitment without restriction	Percentage of liberalization commitment made
1	Tanzania	1	1	8	2	4	**0.47%**
2	Kenya	5	59	472	195	203	**31.09%**
3	Uganda	2	11	88	42	46	**6.88%**
4	Rwanda	4	10	80	4	76	**6.25%**
5	Burundi	5	28	224	62	162	**17.5%**
	EAC Average	3.4	21.8	174.4	97.8	98.2	12.4%

Table 1
Commitment that have been made by East African country under GATS.
Source: Extracted from TRALAC (2011).

under GATS, there is good sign that progressive liberalization is in gear, indicated by partial commitments made so far.

The aspiration of EAC in liberalizing trade both at the regional and multilateral level intended to allow services to freely flow within the region. This will facilitate the generation the bigger markets. Large markets will encourage specialization, which leads to greater gains in productivity and efficiency in both services and in goods market. Technological progress will also be stimulated by large markets and encourage low cost.

Out of the seven sectors committed in the East African Common Market, six are producer services. Liberalization of producer services has a wider spread effect in the whole economy, since producer services are the input in the production systems. There is substantial evidence that depicts that policies that reduce competition in these services can be very costly.

For instance financial services liberalization acts as a life blood of the commercial activity. Exerting competition in this sector helps to improve the quality and efficiency of the products offered. A study using a sample of 60 countries found that between 1990 to 1999 those countries with full liberalized financial services grew, on average at about one percent point faster than the others (OECD 2008). Equally important improvement of the transportation efficiency through liberalization makes trade possible. Transportation cost is a major factor that determines a country's comparative advantage and competitiveness. Availability of reliable, efficient and low cost port services can be the key factor in the logistics and distribution chain (OECD 2003). Studies have also established that countries that embark on comprehensive reform of telecommunication did systematically better than other that confined themselves to partial changes (WTO notes). Full liberalization of financial and telecommunication services tend to increase performance of economic growth by 1.5 percent than those that did not.

Furthermore services sectors like tourism, distributions and communication are increasingly being used as a key determinant of the country's overall competitiveness. Many of the costs that determines competitiveness of domestic industries are associated with the availability of these services. Above all are the information technologies that are crucial to explain export success. Even human development index published published annually by UNDP has now included services as the matter for determining development and social equity. Educations, health, safe and reliable water are relevant for quality of life, social progress, and the determinant inclusive and shared growth in the economy (SAWTEE 2008).

Mattoo and Sauvé (2010) pointed out that to realize the full benefit from services trade liberalization depends on the country infrastructural performance, factors of production and institutions relevant to services. In a country where the infrastructure of services delivery and the institutions governing services have improved, they will be able to become successful services exporters. Moreover, how to get services liberalization right and how to strike the balance between services liberalization and domestic regulation, is a critical issue confronting all countries implementing this policy option. There are also growing concerns with regard to domestic preparedness for opening up of these sectors to international competition. The underlying arguments is that weak domestic preparation before opening up is likely to be associated with unsatisfactory and undesirable outcomes of services liberalization (Mattoo and Sauvé, 2003).

2.2. Performance of trade in services in East African countries

The period between 1990 to 2008 has witnessed an impressive growth of the services sector in all East African economies as shown by Figure 1 below. The average annual growth rates of services sectors in East African countries from 1990 to 2008 indicated a persistent increase of services sector in East African countries under the mentioned period as indicated below.

Looking at the growth rates of the services sector across five East African countries for different time periods, it appears that Uganda was experiencing a persistent rise in the growth of the services sector over the last two and half decades. During 1990 to 2000 the average growth rate in the services sector in Uganda was 8.2 percent when compared to other East African countries. The period between 2000 to 2008, Uganda continued to register a high growth rate than its counterpart. Rwanda and Burundi also registered an impressive performance rate over the same period. The two countries registered a big jump, from a negative rate in 1990-2000 to 10.4 and 8.9 growth rates respectively. Apart from this fact, three countries which are Tanzania Rwanda and Burundi indicated an average growth rate in the services sector which is higher than the growth rate of their gross domestic product (6 %) during the same period.

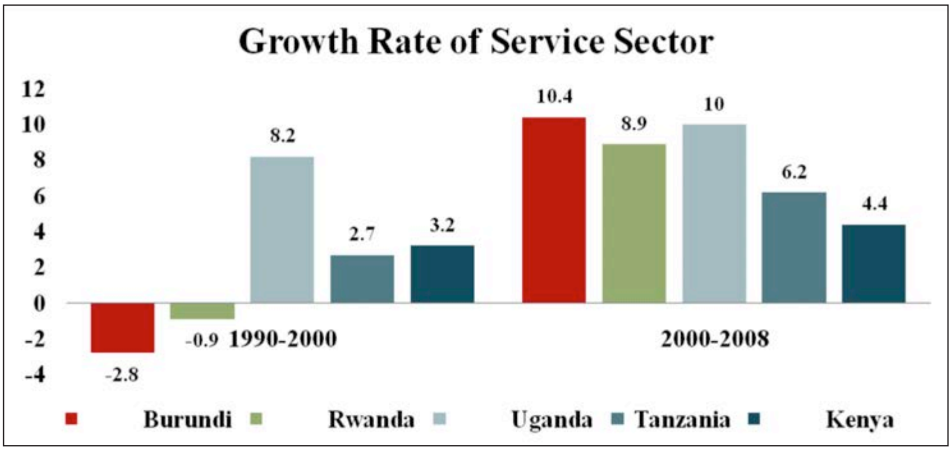

Figure 1
Growth rate of service sector (1990-2008).
Source: WDI (2010).

This momentum of the services sector should not be undermined by further EAC services liberalization. In this case therefore, the East African countries need to carry out thorough, comprehensive and full transparent sustainability assessments so that further obligations should Increase efficiency in services sector and stimulate growth rates that the services sector has registered in the past two decade. More work; however, need to be done on the regulatory capacity assessment needed for services liberalization. Lack of appropriate regulatory authorities in the face of the ongoing services liberalization will paralyze the expected objective of service liberalization (World Bank 2010). It should be clearly understood that opening up essential services to foreign or domestic competition could have an adverse effect on the poor if not done property. More over if a country is a relatively inefficient producer of service, liberalization and the resultant foreign competition are likely to lead to a decline in domestic prices and improvement in quality.

It is evident from Figures 2 and 3 that export and import of services trade has continued to increase in East African country with a strong variation among the EAC countries. Export of services is significant and most substantial for Kenya followed by Tanzania, while import of services is more significant to Rwanda and Burundi. This particular scenario depict that service market is more developed in Kenya than in any other East African countries.

2.3. Contributions to GDP

The figure below describes the sector composition to GDP from 1995 to 2008, the current period is not covered due to data unavailability.

The finding indicates that there is the broad structural shift in the Economies of East African country from agricultural sector as the dominant sector toward the service sector. This particular shift has emanated in these economies for the past one and half decades. Over the last two

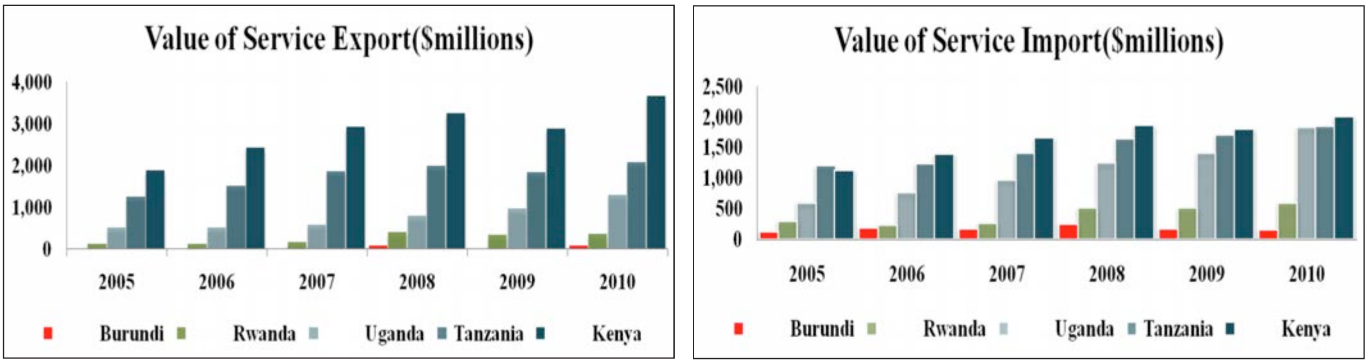

Figure 2
Trend of export and import performance of service sector from 2005 to 2010.
Source: UNCTAD, *Handbook of Statistics,* 2011.

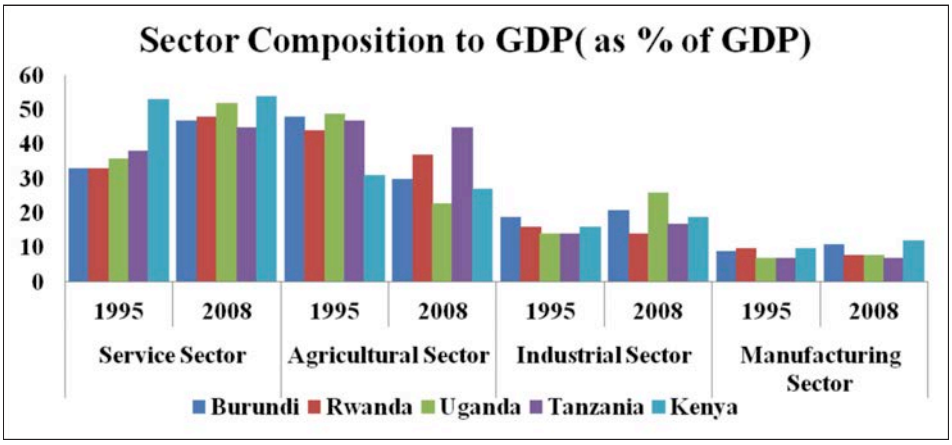

Figure 3
Sector Composition of GDP: East African country in 1995 and 2008.
Source: ITC Calculation based on COMTRADE, *Statistics,* 2010.

decades the East African country witnessed significant shift in the structure of their economies towards dominance of the services sector (from the traditional sectors of agriculture and industry) in national production and employment. Figure 3 suggests that, with the exception of Kenya, in which service was the dominant sector since 1995, the rest of East African country had agriculture as the dominant sector since independence.

The standard explanation toward this shift that revolves around the world is both demand and supply side factors. These factors includes income elasticity of demand for services that exceed one, limited productivity improvement in the supply of consumer services, expansion of the extent of the market as well as incentives for firms and Government bodies to spin off service activities to specialized providers and advances of information and communication technology (Hoekman, Mattoo and Sapir 2007).

In economic terms sector composition to GDP is assumed as the overall global measure of the sector performance. Figure 3 and above is a testimony of the increased service productivity in the EAC economies.

The World Bank study (2010) analyzed the relationship between GDP and other sector performances. The study concluded that, there is much stronger relationship of GDP in service than in manufacturing sector. Further more Experience across the world indicates that growth of the services sector contribute more to poverty reduction than growth of manufacturing and agricultural sector (World Bank 2009).

The dominance of Services sector in East African economies has a fundamental function, which trade in services performs in relation to the overall economic growth. WTO (2010) supported this fact and argued that, services underpin every part of the production process, from research and development, design, engineering, financing, transportation, distribution and marketing. Without services, there would be little value-added and innovation. Services are also input into production; the dimension of this input function is that, they facilitate transaction through space (most in producer services) or time. Another dimension is that, services are frequently direct inputs into economic activities, and a determinant of the productivity of the fundamental factors of production labour and capital that generate knowledge, goods and other services (Melvin 1989 cited in Hoekman and Mattoo 2007). Hence, it is evident that for a meaningful development strategy, East African countries should target on how more efficiency could be improved in services trade. Important point to note here is that, although service trade has quick reaction to poverty reduction because of its inclusive growth. The highest percent of the labour forces in East Africa has continued to engage in the agricultural sector.

2.4. Contribution to trade

The contribution of trade in services to total trade in East African countries is depicting a mixed trend for Uganda, Tanzania and Kenya. Rwanda and Burundi has reflected increasing trend indicating that services trade is more significance to total trade in Rwanda and Burundi as indicated by Figure 2 below.

Country		2005	2006	2007	2008	2009	2010
Tanzania	Services exports	42	44	45	38	38	32
	Services imports	28	24	22	20	22	20
Kenya	Services exports	36	41	41	39	39	42
	Services imports	16	17	16	15	16	16
Uganda	Services exports	34	30	25	26	29	37
	Services imports	24	24	23	23	26	29
Rwanda	Services exports	50	47	50	61	64	60
	Services imports	43	32	28	32	31	31
Burundi	Services exports	38	37	33	60	44	50
	Services imports	35	33	37	41	32	25

Table 2
Significance of services in total trade (% of country's total trade).
Source: UNCTAD, *Handbook of Statistics,* 2011.

2.5. Service Sector and FDI

Figure 4 of this paper depict foreign direct investment inflows to EAC countries since year 2000.

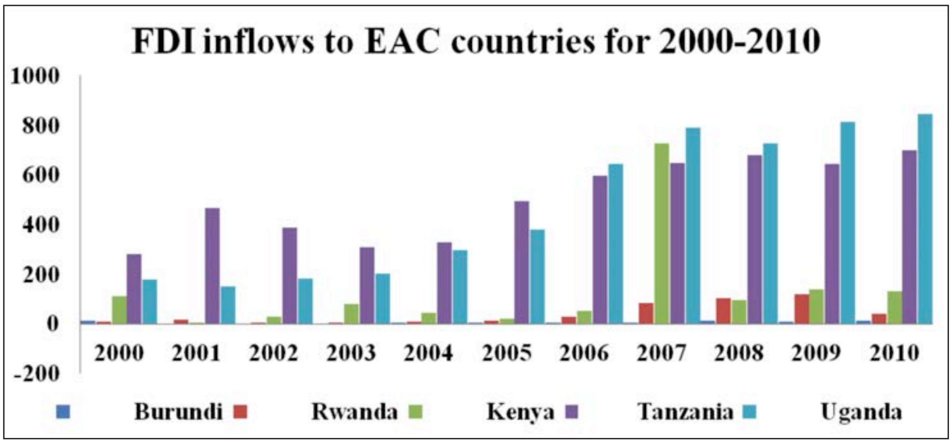

Figure 4
FDI inflow in Esat African countries (in mill, USD).
Source: UNCTAD, *Handbook of Statistics,* 2011.

Experience across the global and in East African countries shows that increase in foreign direct investment (FDI) has been associated with increased liberalization in services sectors. Data in the figure above indicate an increasing trend of FDI inflows since 2000 with more impressive performance in Uganda and Tanzania. Uganda has continued to register more FDI in her economy in the past decade than any other East African countries. This is in line with the Figure 1 above where Uganda has registered persistent growth rate of services sectors in EAC, this signify the fact that there is a sympathetic movement between service sector performance and FDI inflows. WDI (2011) also highlighted that from 2006 to 2010 Uganda and Tanzania had tended to be stable in FDI inflows in the regional than any other country. Burundi is hanging in the thin line in terms FDI inflows in EAC.

To verify whether the extent of the relationship between services trade liberalization has more influence to FDI flows in EAC, one need to compute the correlation coefficient between total services as the in depended variable and FDI inflows as the depended variable as shown in Table 3 below. However it should be carefully noted that liberalization of the services in an economy is not the sufficient factor for FDI inflows. More factors other than services trade liberalization might motivate FDI inflows in the economy.

The Table 3 above indicate that all the five countries in East African community have positive correlation coefficient at an average of 0.65. This suggests that FDI inflows in East African community tend to move on the same direction with the services trade liberation. Hence liberalization of services in the region induces FDI inflows. The individual country

Country	Correlation index
Kenya	0.65
Rwanda	0.69
Burundi	0.50
Uganda	0.58
Tanzania	0.81
Average correlation index for EAC counties	**0.65**

Table 3
Correlation index for Total service and FDI inflows from 2000 to 2010.
Source: Author calculation based on UNCTAD database.

correlation coefficient indicate that Tanzania is leading among the EAC countries on the degree of the correlation coefficient of Service trade liberalization and FDI followed by Rwanda, Kenya, and Uganda. This fact highlight that service trade liberalization in Tanzania has more impact in terms to FDI inflows than any EAC country.

The existence of sympathetic movement between services performance and FDI has tremendous impact in the economy, as Pascal WTO (2010) noted that foreign direct investment, through which much of services trade is conducted, has a dual role of creating opportunities in new markets, as well as bringing capital and know-how. These are ingredients which are so vital for growth. Equally important, workers in the services sectors tend to have post-secondary education. Interestingly, some of the best-paid jobs in East Africa are in the services sector – in financial, legal, advertising, business services and engineering services. Hence the performance of FDI inflows in Uganda and Tanzania implies also more performance in skills intensive employments. Services sectors that receive high employment across East African countries are telecommunications sector, banking sector, business related services, and the subsection. Increased investment into such sectors is also a testimony of deregulation of Government monopoly.

3 Why should we worry about services liberalization in East Africa

Services comprise a diverse set of activities including basic services such as health care, education, water provision and infrastructure. Important linkage exists between the provision of services and all three pillars of sustainable development. Hence, it is crucial that commitment made under the East African Common Market and the ongoing negotiation under the WTO to liberalize trade in services do not undermine the pursuit of sustainable development. New obligation to liberalize trade in

Services in both multilateral and regional trade arrangement should support and compliment government obligations and efforts to promote social and economic growth development. The three pillars of sustainable development are economic growth, ecological balance, and social progress. Furthermore, social and economic equity as an important aspect of sustainable development should be taken as an important analytical issue on how it can be integrated into the East African Community Common Market Protocol.

It is from this perspective that service is the key for sustainable development (OECD 2000). Due to the closes linkage of services trade and sustainable development, East African countries need to make sustainable development the key benchmark of any services trade liberalization.

The service sector also stands at the heart of all development strategies in all East African countries. These development strategies provide a means in which the livelihood of all East African people will be realize through the East African Development Strategy (2010). For instance, a financial and communication service has been identified as the key driver of the economy in Burundi (www.newvision.co.ug). In Kenya out of the six priority sectors identified as crucial in the attainment of the vision 2030, four of them are services sectors. In addition Kenya aspire to be interconnected through a network of road, railway, port, water and sanitation facilities and telecommunication by 2020 (www.vision2030.go.ke). In Rwanda, the services sector has been identified as crucial sectors in attaining the country's development goal (Rwanda vision 2020). Equally important, in Tanzania education services, health, communication, infrastructural development, services incident to utilities have been prioritized as key Tanzania development policy focuses, and important sectors in attainment of Tanzania key development policies (NSGRP II, vision 2025, and PRSP). In Uganda communication and transportation have been identified as key drivers to economic development vision 2025.

4
East African community services liberalization and GATS compatibility

The inclusion of trade in services into the Uruguay Round of negotiations is documented (Hoekman 2002; Francois and Woerz 2008) as one of the greatest achievements of this round. article 1: 2 of GATS defines services trade depending on the presence of the supplier and the consumer at the time of the transaction. In this case therefore GATS cover's services supplied under model one which is cross border trade. Model two consumption abroad; Model Three: commercial presence, and Model four: presence of natural persons. GATS also provide general transparence and good governance obligation to its members with regard to the application of trade in services liberalization. Furthermore, GATS does not describe the extent of market access that a country is required to commit, country have flexibility on the scope of market opening they wish to maintain. In this case market access and national treatment apply only to the sector or subsectors covered in the schedule. East African countries are all members of the WTO hence they are obliged to comply with the general GATS obligation.

Service liberalization under GATS is guided under two main obligations, general obligation which apply across the board and unconditional obligation which apply in a sector committed by a member. General obligations includes transparence obligation which is stipulated in article III of GATS. It requires that members publish promptly any measure pertaining to, or affecting the operation of GATS. All members also have a general obligation to establish an enquiry point to respond to requests for information from other members. Moreover, pursuant to article VI, developed countries are to establish contact points to which developing country service suppliers can turn for relevant information related to trade in services

Article II of GATS provides about the most favored nation which is the corner stone of the multilateral trading system. The MFN requires that all WTO members to be treated equally. Under this obligation a WTO member has the requirement of ensuring that access condition that may have negotiated between say the big players in the system must be extended to the small players automatically without any discrimination.

However for the purpose of ensuring flexibility in this obligation GATS allows its members during the time of entry of this obligation to seek exemption not exceeding a period of ten years. Furthermore members are allowed to depart from the MFN obligation if they are in regional integration or lab our market agreements like the East African partner states. The commitment that has been made by the EAC countries under the Common Market Protocol will not be extended beyond the EAC partner states. Economic integration member that qualify for the most favored nation exemption must meet the following qualification: must have substantial sectoral coverage, and provide for the absence or elimination of substantially all discrimination in the sense of national treatments. On top of that, the commitment made must not result into raising barriers against non member.

Although the term “substantial sector coverage” is not defined in the WTO provision, the footnotes state that, the term must be understood in terms of the sectors, volume of the trade affected, and model of supply. It is difficult to draw conclusion whether the East African community qualify for these exemptions, since the relevant parts of the East African Common Market Protocol related to the liberalization of trade in services has not been notified to the WTO Council on trade in services. Besides the fact that the EAC partner states completed the ratification of Common Market Protocol by November, 2009, GATS requires that notification of RTA shall, as a rule, occur not later than the ratification of the RTA members or any part decision on application of the relevant parts of an agreement, and before the preferential application of preferential treatment between the parties.

In terms of the substantial sector coverage the EAC Common Market Protocol so far have covered seven sectors out of twelve sectors in the GATS language namely, business, communication, distribution, education, financial, tourism and travel related services, and transport services. By the virtue of this fact one can draw conclusion that the question of substantial sector coverage has been adhered to in the EAC service liberalization.

The second category of obligation applies when members have scheduled a certain sector or subsector on its schedule of specific commitments. GATS articles related to conditional obligation includes, VI: 1, 3, 4, 5 and 6, article VIII: 2, article III: 3 and article XI. These conditional obligations are additional to the general obligations and are intended to preserve the commercial value of the specific commitments that have been undertaken. Transparence mechanism is also a conditional obligation. It requires that where specific commitment have been made, the Council of Trade must be notified at least annually of all legal or regulatory changes that significantly affect trade.

Moreover all legal and regulatory measures affecting the operation of GATS must be notified at least annually. There is also an issue of trade off between the domestic policy objectives and service trade liberalization. These agreements ensure that Government measures do not undermine general obligations such as most favored nation treatment or specific commitment in a certain sectoral? That is to say in a sector where commitment exists, measures of general application are administered impartially and in a reasonable and objective manner. The other category of conditional obligation is under article VI: 3, which applies if a supply of a scheduled service is subject to authorization. Members are required to decide on applications within a reasonable period of time. Thirdly, article VI: 6 specifically requires members that have undertaken commitments on professional services to establish adequate procedures to verify the competence of professionals of other members. The Table 4 provides a summary of the extent of subsector covered in each sector.

The table 4 depicts that Uganda and Rwanda have made more commitments in terms services trade liberalization when computed based on the WTO services subsectoral classification. Tanzania and Kenya have opened their services industry by less than forty percent. Since EAC decided to liberalize their service sectors on a progressive basis, additional commitments were to be made on the subsequent negotiations.

GATS also provides a general framework for negotiations on further liberalization in services trade. The negotiations take place under the request-offer process model, whereby WTO members submit requests to their other members to open up some specific service sectors. On the other hand, they make offers to others indicating how much they are willing to open up their specific service sectors. Once a country agrees, through negotiations in the WTO, to liberalize a sector it must be listed in a schedule of specific commitments. By committing a particular service sector to liberalize, a country is legally bound by GATS to provide national treatment and MFN (most favoured nation) treatment to other WTO members.

No	Service Sector	Tanzania	Kenya	Uganda	Rwanda	Burundi
1	Communication	17	17	21	21	6
2	Transportation	9	9	20	20	17
3	Business	7	15	33	32	31
4	Distribution	2	3	4	4	3
5	Education	4	4	5	5	4
6	Financial	16	12	11	15	9
7	Tourism and travel related	4	3	4	4	4
	Total number of commitment by sub sector	59	63	98	101	74
	% of commitment made by each country out of 160 subsector under GATS	37%	39%	61%	63%	46%

Table 4
Total number of Subsector covered in EAC Common Market Protocol.
Source: other computation based on EAC Common Market Protocol.

Negotiations under GATS and at the regional level are important for the East African countries, as they are facing constraints in economic development due to poor infrastructure, poor institutional settings and governance deficits. Service sector is the dominant sector in these economies as shown by Figure 3 above. Also, there is a huge growth potential of the domestic service market in EAC economies.

Without proper preparedness liberalization might jeopardize the growth potential of the domestic service market (Mbekeani 2003). Among the major supply constraints that prevent the building of a competitive services sector in the East African countries are the lack of the following factors: human resources and technology to ensure that professional and quality standards are met; telecommunications infrastructure; a national strategy for export of services; government support to help service firms, especially small and medium enterprises; financial capacity of firms; presence in major markets; and the ability to offer a package of services (UNCTAD 1998).

The outcomes of ongoing services liberalization under the East African Common Market and GATS negotiations will have a significant implication on the national development strategies since each country strategy put more weight to services sectors as a means of realizing its national vision. The East African countries should have clearly defined negotiation strategies, based on a clear conceptual framework and understand what might be done in order to make trade in services liberalization meaningful for the economic development of a country.

5
Domestic preparedness for services trade liberalization, issues and practical consideration

The previous three phase of this paper reviewed the theoretical background of the services sector liberalization in the East African countries: the growth rate of the sector, the composition of services sector to GDP performance as well as the relation of FDI inflows and trade in services liberalization in the region. This review is crucial at this particular part of analysis due to the strong correlation that exist between services sector liberalization, FDI inflow, rate of services growth, GDP performance and the likely effect to the livelihood of the people. However opening services to foreign providers yields significant benefit to the participation countries. The other side of the coin tells us that services liberalization is not an easy task. Doing so involves a broad and complex set of policies, regulatory instruments, institutions and constituencies – domestic and foreign, public and private (Sauvé notes).

Experience teaches us that considerable care must be given to assessing the nature, pace and sequencing of regulatory reform and liberalisation undertakings if they are to meaningfully sustain a country's growth and development prospects. Progressive liberalization and investment in capacity building is critical in this process. Capacity building should be directed in the area of, negotiation of trade agreements, formulation of sound regulatory frameworks, effective implementation of trade agreements, and enhancement of supply-side responses.

The above domestic preparedness is important because the role played by the liberalization of services sectors such as business services, telecommunication, banking and transport in the development of an economy is not without risks. There is a possibility of technical, procedural, and financial disorder in these sectors which might have serious economic implications. On top of that, services are deeply integrated into the production process. When such services are poorly provided, the rest of the production chain suffers as well (Paracha 2008). For instance in 1991 to 1994 in Zambia banking industry were liberalized before establishing a proper regulatory framework. During the same period ten new bank licenses were issued. From 1995-2001 nine bank failures occurred, causing estimated losses equivalent to 7 percent of GDP (Mattoo 2003). Beside these fact foreign banks today in Zambia account for over two thirds of total assets, but loans and deposits credit to the private sector is only 8 per cent of GDP.

Sauvé and Ward (2009) pointed out that for meaningful services trade liberalization the five key pillars for services negotiation and implementation cycle must be pre conceived and be at the heart of the whole agenda. These pillars are: mapping out a strategy in a national development plans, preparing for services negotiations, conducting services negotiations, implementing negotiated outcomes, and enhancing the capacity for supplying newly opened foreign market.

When mapping a strategy for services in a national development plans, broad policy objective for services trade liberalization must be cleary demonstrated. The whole services trade liberalization objective must be branded with the broad national development and be taken as an anchor of the ongoing national reform. This tends to help minimize duplication of effort and resources. A clear problem in East Africa at this particular point is that services trade liberalization strategy has been undertaken as separate. Because of the wider economic implication of the services sector reforms and the involvement of a host of national policy objectives such as prudential regulation, universal access, and maintained of the high professional standard. In this case therefore the coordination of these processes should be taken by the highest level of the Government. As well as all objective be factored in, while involving all interested stakeholders.

Service negotiation is guided by the request-offer approach. So when preparing for services negotiations a country need to gather significant knowledge before it can submit sensible liberalization requests to its partner states/trading partners. A full inventory of the regulatory agencies should be undertaken. This is crucial because the extent of the services trade liberalization is determined by the regulatory framework, institutions and capacity. Raihan and Ahmed (2008) added that regulatory institutions should be established to day, and liberalization be done tomorrow. When analyzing the negotiation request from your partner, governments need to identify opportunities and challenges for its exporters, determine the capacity building needs of its negotiators, line ministries, and regulatory agencies and assess the likely economic and social impacts of various liberalization scenarios.

The third part in the cycle the preparedness process is to conduct the actual services negotiations. Two important issues are critical at this stages one is rule making. This involve exposing the negotiator to the GATS discipline, scheduling of specific commitment, address matters of cultural cooperation, how best to enhance the treatment of labor mobility; agreeing on operational aid for trade modalities for services. This particular part is the most challenging area in almost many of the preferential trade agreements involving developing countries. More attention is devoted at the second issue which is market opening. This involve identifying the legally binding obligations that a country will be undertaking in respect of horizontal, sector- and mode of supply-specific measures with regard to the two most crucial aspects of the negotiations, which are level of market access and regulatory treatment. Market opening also is based on the request for and offer of liberalization. Decision on the offer-request issues should be based on benefit to be achieved, downside to be addressed and required regulatory frameworks to be adjusted or regulatory reform efforts to be undertaken.

Implementing negotiated outcomes involves substantial legal and regulatory reforms. Establishment of enforcement mechanism, as well as high degree by the trading partners. Mattoo and Subramanian (2011) has recently pointed out that since the implementation of negotiated outcome in terms of regulatory reform has added more burden to the participating countries. Proposal for regulatory cooperation is critical for proper implementation of negotiated outcome. Studies has indicated that adopting and implementing sounder regulation is key to better overall performance in services liberalization.

The last part in the process of mapping out services trade negotiation is enhancing the capacity for supplying of newly opened foreign market. The most critical issues here is that in many of the less developed country like Tanzania which is dominated by small service suppliers, always experience limited human resources to build referral networks, find local partners abroad, identify market opportunities and research regulatory conditions prevailing in foreign markets. Other problem includes credibility with international suppliers, problem of export financing, limited prospect to serve foreign market, and other supply side constraints.

To identify whether a sector can withstand regional as well as international competition we need to explore the competitiveness of that sector in terms of price competition, technical standard, capacity of the existing firms, etc. The best way is to construct the Ballassa's index of Reveled Comparative Advantage (RCA) for the services sectors in East African countries. Table 3 below depict the RCA of estimates of the RCA for Tanzania, Kenya, Rwanda, Uganda and Burundi.

In terms of services subsector the finding indicate that Kenya has comparative advantage on transport, communication, and financial services in the region. That means Kenya is more competitive in the mentioned services subsector than any other country in the East African community. Hence, Kenya stands a better chance to withstand international as well as regional competition in the above three sectors. Tanzania has comparative advantages on insurance and business services in the region. Likewise Uganda has also comparative advantages on insurance business service, and other services. This sector is the same for Tanzania, in terms of magnitude Tanzania has more competitiveness in these sectors than Uganda. Rwanda and Burundi have comparative advantage in other services.

Overall Rwanda is having the lowest RCA index, which indicates Rwanda comparatively disadvantageous position in services trade compared to other East African countries. Kenya, Tanzania and Uganda are

	Transport	Communica-tions	Insurance	Financial	business services	Other services	Total service
Tanzania	0.72	0.31	1.53	0.09	2.49	0.58	0.96
Kenya	1.50	1.74	0.66	1.65	0.00	0.00	1.97
Rwanda	0.55	0.01	0.14	0.43	0.67	1.11	0.48
Uganda	0.17	0.40	1.40	0.94	1.47	1.07	0.91
Burundi	0.04	0.00	0.78	0.25	0.39	3.06	0.75

Table 5
Revealed comparative advantage of services sectors in East African countries, 2010.
Source: Author Calculation based on data from UNCOMTRADE.

in strongly advantageous position. The high RCA index for Kenya can be explained by the fact that among the East African countries Kenya has experienced transformation in transport and communication subsector. This transformation has tremendous impact in all services sectors.

6
Concluding remarks

It is evident from this analysis that competitiveness of the services sectors as well as functioning regulatory system are must for ensuring gains from services trade liberalization in the developing countries. The East African countries like Kenya, Tanzania and Uganda have competitive edge in few services subsectors, while Burundi and Rwanda are lagging behind compared to their counterparts in almost all categories of services trade. It can be argued that development of skills and technologies in the services subsectors can improve the competitiveness of these East African countries.

We have also noted that domestic regulation has its importance in protecting national policy objectives but it should not be applied as a means for undue trade restrictions. This call for a more sophisticated method on how to balance services trade liberalization and domestic policy objective. Equally important the paper has also identified that for meaningful development strategy, the East African countries should target on how more efficiency could be improved in services trade. An important point to note here is that although service trade has quick reaction to poverty reduction because of it's inclusive growth, the highest percent of the labour forces in East Africa has continued to engage in agricultural sector.

7
References

AMITI M, WEI SJ (2005). Fear of Services Outsourcing: is it Justified? Economic Policy 20(42):308-347

ARNOD JM, JAVORCIK B, MATTOO A (2007). The Productivity effects of Services Liberalization: Evidence from the Czech Republic. World Bank Policy Research Working Paper 4109

BANK OF TANZANIA (BoT) AND TANZANIA INVESTMENT CENTRE (TIC) (2006). Tanzania Investment Report

BLYDE J, SINYAVSKAYA N (2007). The Impact of Liberalizing Trade in Services on Trade in Goods: An Empirical Investigation. Review of Development Economics 11(3):566-583

CHANDA R (2008). Services Trade and Investment Liberalisation, and Domestic Regulation: A Summary of Six Country Studies. CUTS, Jaipur

COMTRADE (2010). United Nations Commodity Trade Statistics Database. United Nations Statistics Division

CUTS INTERNATIONAL, TRADE IN SERVICES & DEVELOPING COUNTRIES (2005). The Market Access Barriers, Policy Brief. http://www.cuts-citee.org/PDF/PB2-2005.pdf, February 2005

DAWN (2005). Pakistan submits initial offers list to WTO: Opens all major sectors to FSPs. 31-5-2005

DE MEL D, WIJAYASIRI J (2008). Domestic Preparedness of Sri Lanka with respect to Services Trade Liberalisation: Case Study of the Telecom Sector. Paper Prepared as part of the WTO Doha Round & South Asia: Linking Civil Society with Trade Negotiations, Phase 2 Project, CUTS, Jaipur

EAC (2009a). East African Community Facts & Figures. EAC Secretariat Report, Arusha

EAC (2009b). Protocol on the Establishment of the East African Common Market by East African Community Secretariat

EL-ETREBY R (2008). Globalization of Services Trade and the Establishment of Industry Coalitions. ITC World Trade Net Business Briefing (14 April)

FEKETEKUTY G (2008). A Guide to Services Negotiations, Appendix A. In: Mattoo A, Stern RM and Zanini G (eds.). A Handbook of International Trade in Services. Oxford University Press, New York, pp 542-592

FRANCOIS, J, WOERZ J (2008). Producer Services, Manufacturing Linkages, and Trade. Journal of Industry, Competition and Trade 8(3):199-229

FRANCOIS J, VAN MEIJL H, VAN TONGEREN F (2003). Economic Benefits of the Doha Round for the Netherlands. Agricultural Economics Institute, The Hague

GOOTIZ B, MATTOO A (2009). Services in Doha. What's on the Table? The World Bank Policy Research Working Paper No. 4903. Washington DC

HODGE J (2002). Liberalization of Trade in Services in Developing Countries, Development, Trade, and the WTO. The World Bank

HOEKMAN B (2002). Strengthening the global trade architecture for development. Policy Research Working Paper Series 2757, The World Bank

HOEKMAN B (2006). Liberalizing Trade in Services: a Survey. Policy Research Working Paper 4030. The World Bank, Washington DC

HOEKMAN B, MATTOO A (2007). Regulatory cooperation, aid for trade and the general agreement on trade in services. Policy Research Working Paper Series 4451, The World Bank

HOEKMAN B, MATTOO A (2008). Services Trade and Growth. Policy Research Working Paper 4461. The World Bank, Washington DC

HOEKMAN B, MATTOO A, SAPIR A (2007). The political economy of services trade liberalization: a case for international regulatory cooperation? Oxford Review of Economic Policy 23(3):367-391

HUFBAUER GC, WARREN T (1999). The Globalization of Services: What Has Happened? What are the Implications. Institute for International Economics, Australian National University. http://www.iie.com/publications/wp/1999/99-12.pdf

INTERNATIONAL TRADE CENTRE UNCTAD/WTO AND THE COMMONWEALTH SECRETARIAT (2002). Business Guide to the General Agreement on Trade in Services. ITC, Geneva

JUAN B, SINYANVSKAYA N (2007). The Impact of Liberalizing Trade in Services on Trade in Goods: An Empirical Investigation. Review of Development Economics 11(3):536-583

KARSENTY G (2003). The GATS Agreement and the four modes of supply – A new ground for Statisticians. World Trade Organization

KUMAR P (2005). Services Negotiations in Doha Round: Concerns of South Asia. CUTS, Jaipur

KUMAR P, JATKAR A (2008). Domestic Preparedness of India in Trade in Services. Paper prepared as part of the WTO Doha Round & South Asia: Linking Civil Society with Trade Negotiations Phase 2 Project, CUTS, Jaipur. Liberalization. Working Paper No 97/55, International Monetary Fund

MAJID, N (2003). Globalization and Poverty, Employment Paper 2003/54, ILO, Geneva

MATTOO A (2006). Services in a Development Round: Proposals for overcoming inertial. Washington DC

MATTOO A, SAUVÉ P, (2003). Domestic Regulation and Services Trade Liberalization. Oxford University Press, Washington DC

MATTOO A, SAUVÉ P, (2010). The Preferential Liberalization of Services Trade. NCCR Working Paper No 2010/13 (May). World Trade Institute, Bern

MATTOO A, SUBRAMANIAN A (2011). China and the world trading system. Policy Research Working Paper Series 5897, The World Bank

MBEKEANI KK (2003). GATS Negotiations Must Focus on Services Liberalization: The Case of SADC. Development Outreach, World Bank Publication, July 2003

OECD (2000). Towards Sustainable Development. Indicators to Measure Progress. Rome Conference. OECD, Paris

OECD (2002). Managing the Request – Offer Negotiation the GATS, TD/TC/WP/2002 (13) Final. OECD, Paris (21 June)

OECD (2003). Opening up Trade in Services: Opportunities and Gains for Developing Countries, Policy Brief. Organization for Economic Cooperation and Development, Paris (August)

OECD (2008). OECD Handbook on Economic Globalisation Indicators. Organization for Economic Co-operation and Development

ONYANGO CH (2007). Negotiations of Distribution Services in the WTO: An Analysis of the US and EU Requests to Kenya. Paper presented during National Workshop on Trade in Services organized by the Ministry of Trade and Industry in association with the International Lawyers and Economists Against Poverty (ILEAP). 26th-27th March 2007. Nairobi, Kenya

PARACHA MA (2008). Domestic Preparedness' with respect to Services Trade Liberalization in Pakistan. Paper prepared as part of the WTO Doha Round & South Asia: Linking Civil Society with Trade Negotiations Phase 2 Project. CUTS, Jaipur

RAIHAN S, AHMED M (2008). Domestic Preparedness for Services Trade Liberalization in Bangladesh. Paper prepared as part of the WTO Doha Round & South Asia: Linking Civil Society with Trade Negotiations Phase 2 Project. CUTS, Jaipur

ROY M, MARCHETTI J, LIM H (2007). Services Liberalization in the New Generation of Preferential Trade Agreements (PTAs): How much further than the GATS? World Trade Review 6(2):155-192

SAUVÉ P (2002). Completing the GATS Framework: Safeguards, Subsidies, and Government Procurement. In: Hoekman B, Mattoo A and English P (eds.). Development, Trade and the WTO: A Handbook. The World Bank, Washington DC, pp 326-335

SAUVÉ P (2008). Conducting a Trade-Related Regulatory Audit in Financial Services. Mimeo. The World Bank, Washington DC

SAUVÉ P, WARD N (2008). The EU-CARIFO-RUM Economic Partnership Agreement: Assessing the Progress on Services and Investment. NCCR Working Paper No. 2008/10. World Trade Institute, Bern (May)

SAUVÉ P, WARD N (2009). The EC-CARIFORUM Economic Partnership Agreement: assessing the outcome on services and investment. European Centre for International Political Economy, Brussels, January

SAWTEE (2008). Nepal's Preparedness with Respect to Select Services Sector Liberalisation. Paper prepared as part of the WTO Doha Round & South Asia: Linking Civil Society with Trade Negotiations Phase 2 Project. CUTS, Jaipur

SOBHAN R (2004). Road map of South Asian Cooperation. Paper read at South Asian Free Media Association's (SAFMA) Conference on Regional Cooperation on August 20-21, 2004, at Dhaka, Bangladesh

SORSA P (1997). The GATS agreement on Financial Services: A Modest Start to Multilateral. Study on the Impact of the Implementation of the East African Customs Union on the Business Community – 2008 by Economic Research Bureau/TCCIA. University of Dar es Salaam

TRALAC (2011). Managing the Process of Services Liberalisation. Trade Law Centre for Southern Africa (TRALAC)

UNCTAD (1998). Liberalizing Trade in Services: A Handbook. Geneva, Switzerland

UNCTAD (2006). Developing productive capacities: the least developed countries report 2006, UNCTAD, Geneva

UNCTAD (2011). Handbook of Statistics. Geneva: United Nations Conference on Trade and Development

VONKHORPORN P (2008). Preparing for FTA negotiations, Thailand's Experience presentation to the ADB course in trade in Service

WANGWE S (2003). African Systems of Innovation: Towards an Interpretation of the Development Experience. Revised version of paper presented at the International Workshop on African Systems of Innovation and Competence-building in the Era of Globalization, Denmark: University of Aalborg, March, 2001

WDI (2010). World Development Indicators. World Bank, Washington DC

WDI (2011). World Investment Report. UNCTAD

WORLD BANK (2009). World Development Indicators. 2009. Washington DC

WORLD BANK (2010). Reform and regional integration of professional services in East Africa: time for action, World Bank, Washington DC

WORLD BANK (2011). World Development Indicators, Part 2. The World Bank: Data [online]. Available from: http://data.worldbank.org/data-catalog/world-development-indicators.

WORLD TRADE ORGANIZATION, Council for Trade in Services – Special Session, Conditional Initial Offers on Services of Pakistan, TN/S/O/PAK, 30 May 2005

WORLD TRADE ORGANIZATION, Economic Research and Statistics Division, Measuring trade in services, training module produced for the World Bank, November 2003

WORLD TRADE ORGANIZATION, GATS – Fact and Fiction, WTO Secretariat, Geneva

WORLD TRADE ORGANIZATION, GATS Schedule of Specific Commitment, WTO Secretariat, Geneva

WORLD TRADE ORGANIZATION, Trade Policy Course, GATS – Services, WTO Secretariat, Geneva

WTO (2009). World Trade Report 2009. WTO Secretariat, Geneva

WTO (2010). World Trade Organization. Annual Report. Geneva, Switzerland

WTO Wing, Ministry of Commerce, Government of Pakistan, Finalization of offers by Pakistan under GATS negotiations in the WTO. Working Paper, 2004