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# **Liberalisation and Competition in the Service Sector: Experiences from Europe and Asia**

**JOINT ANALYTICAL REPORT**

**PART I - OVERVIEW**

*First Draft*

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## PART I - OVERVIEW

### A. Introduction

1. In spite of differences in the structure of production and employment, modern economies – be they developed or developing – all share a common feature: a significant and increasing share of services in the economy. Among OECD countries, the service sector has become the most important provider of both output and jobs; this sector accounted on average for roughly two-thirds of total gross value added and employment in 2000 (see Table 1). The role of services in the national economy is even more important for many European countries. In developing countries, too, the share of services has risen relative to total value added as Table 2 covering selected Asian economies shows. The adequate provision of services is increasingly recognised as one of the preconditions for - rather than a result of - development. For instance, inadequate infrastructure services, such as poor telecommunications and transport networks or a weak financial system, are perceived as critical bottlenecks on sustainable development. Distribution, trade finance, insurance, marketing and other business services are complementary to the healthy growth of industrial activities.

2. This joint analytical report aims to:

- Review both the European and the Asian experiences of the progressive liberalisation of services of general interest<sup>1</sup>;
- Assess the outcomes of such experiences in Europe and draw policy lessons; and,
- Discuss what Asia could gain from further liberalisation of service sectors.

3. The Report is comprised of three parts. Part I will present an overview of the Report and put forward some conclusions. A detailed account of the liberalisation experiences of selected service sectors will be presented in Part II (for Europe) and Part III (for Asia).

### B. Services Liberalisation: European and Asian Contexts

4. In 2000, the value of world trade in commercial services amounted to USD 1 435 billion, equivalent to roughly 20% of world total trade. In the same year, Europe and Asia combined together accounted for approximately two-thirds of world trade in commercial services.<sup>2</sup> Furthermore, the services sector has attracted the majority of foreign direct investment over the past decade and has become the focus of cross-border mergers and acquisitions (M&As) among OECD countries (see Figure 1).

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1. This term is defined by the European Commission to cover “market and non-market services which the public authorities class as being of general interest and subject to public service obligations” (COM//2000/580 final, Annex II). It conventionally refers to telecommunication, power, postal and transport services.

2. Based on WTO (2001), *International Trade Statistics 2001*, Tables III 3 and 4.

5. Table 3 presents the share of trade in goods and in commercial services, respectively, relative to gross domestic product (GDP) for both OECD and selected Asian economies. There is a striking contrast in the relative importance of services in national economies on the one hand and in international exchanges on the other. This is partly due to the fact that the international exchanges recorded in the balance of payments statistics tend to underestimate the true significance of international trade in services. This is because much of the service components (e.g., R&D, advertising and marketing) are embedded in the value of final goods exchanged in the international market. Technical constraints also explain in part the relatively low level of international trade in services. As most services have to be produced and consumed quasi-simultaneously, the non-storable nature of services makes international exchanges difficult. This often prompts domestic suppliers to invest abroad so as to provide services directly to consumers and end-users in foreign countries. In a similar vein, restrictions on the movement of people are likely to be hampering international transactions in services. Furthermore, services had been regarded until quite recently as non-tradable and attracted little attention in multilateral trade negotiations.

6. Still, even after taking account of the underestimation of their real significance in world trade, services remain weakly internationalised. One main reason for this is the well-known existence of restrictive rules and legal systems within the boundary of national economies. *Domestic* barriers to trade in services are numerous and often pervasive. Since, unlike for goods, trade in services require the simultaneous liberalisation of both external and internal barriers to trade, the preferred mode of supply is often foreign direct investment.

7. Gains associated with more open trade in services are not fundamentally different from those associated with open trade in goods. However, given the significant and increasing linkage between services and the production of goods, the impact of liberalisation will not be confined solely to the services sector, but diffused rather across the entire economy. The crucial role played by services in linking various blocks of production activities within and across national borders has been emphasised in recent trade literature. This is often referred to as a “service link”, that is, “a composite of activities such as transportation, insurance, telecommunications, quality control, and management co-ordination to ensure that the production blocks interact in the proper manner”.<sup>3</sup>

8. The aim of creating the European single market for services derives from this logic. As stated by the European Commission in its communication “*An Internal Market Strategy for Services*”, “[i]mproving the conditions for the free movement of services should release the dynamism inherent in the Internal Market and so enhance competitiveness, growth and employment creation in our economy”.<sup>4</sup> The present report reviews the progress made so far in establishing the single market in services on the basis of a sectoral approach. This approach also makes cross-country comparisons (between Europe and other regions) easier and more

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3. See Arndt and Kierzkowski, eds. (2001), “Introduction”, in *Fragmentation: New Production Patterns in the World Economy*, Oxford: Oxford University Press, p.4.

4. See COM(2000)800, p.1. In this communication, the European Commission proposes an innovative approach, dealing with different types of rules that may affect service providers at different stages of the business process (setting up the business, use of inputs, promotional activities, distributional activities, sales activities and after-sales support services). This appears to be a new departure from the traditional, sectoral approach taken by the European Commission in its previous communication, which focuses on such strategically important sectors as telecommunications, energy and transport (COM(2000)580 final of 20 September 2000, entitled *Services of General Interest in Europe*).

compatible with the ongoing multilateral negotiations under the auspices of the World Trade Organisation.

9. The report is *not* intended to present a general description of the European dynamics of economic integration in all service sectors. Rather it will focus on four specific sectors (see Part II for details). One is *telecommunications*, where full liberalisation within the European Union was achieved in January 1998. The three others are *electricity, postal services and transports*, where the realisation of the single market has yet to be decided or is to differing degrees incomplete. Such differences may be explained by at least three factors. One is related to the definition of universal service obligations (USOs), which is an important aspect of the liberalisation of services of general economic interest for the society at large. Second, liberalisation will cause industrial restructuring, which is often opposed by vested interests. Even if this is not insurmountable, restructuring will entail adjustment costs. Third, all the sectors reviewed here display “network characteristics”; these pose major challenges to the liberalisation process. Since, unlike for most goods, liberalisation of such service sectors must deal with regulatory problems arising from this market imperfection there is a need for national and supra-national *ex ante* or *ex post* regulatory intervention. These service sectors are also the ones that may benefit most from a concerted regional approach.

10. The successful conclusion of the Uruguay Round trade negotiations has brought services under the framework of multilateral trade agreements for the first time. The *General Agreement on Trade in Services* (GATS) seeks to liberalise in a progressive manner trade in all services (except those supplied in the exercise of governmental authority and air traffic rights in air transport) through all modes of delivery: cross-border supply, consumption abroad, commercial presence and the movement of natural persons. At the same time, the GATS explicitly recognises the “right of Members to regulate, and to introduce new regulations, on the supply of services within their territories in order to meet national policy objectives, and given asymmetries existing with respect to the degree of development of services regulations in different countries, the particular need of developing countries to exercise this right” (*Preamble*).

11. The experience of GATS negotiations and subsequent negotiations with respect to basic telecommunications and financial services at the WTO suggest that many Asian countries have been reluctant to open up the service sectors to international competition. Following the 1997-98 economic crisis, this situation may have changed significantly in some countries of the region. Nonetheless, for a variety of reasons, most notably infant-industry protection, the costs of adjustment and national security considerations, services liberalisation often encounters strong domestic resistance.

12. It is therefore important to demonstrate the benefits to be derived from liberalisation and competition in the services sector. Such benefits may materialise in terms of increased trade in both goods and services, higher inward investment in the service sectors and, above all, better access to services by consumers at lower prices. These benefits have an important implication for national strategies to reduce poverty: recent experience suggests that insufficient liberalisation in service sectors has been detrimental to attracting private foreign investment in Asia.<sup>5</sup> In this report, Asian experiences in three most important sectors, namely *telecommunication, financial*

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5. For further discussion, see OECD Development Centre (2002), *FDI and Development: Where do We Stand?* (Chapter 5), Working Paper prepared in collaboration with the Japan Bank for International Cooperation (JBIC), OECD, Paris.

and energy services, will be discussed (see Part III for details).<sup>6</sup> Here, the central question for Asian countries is *not* whether to liberalise the service sector but how best to do so. In this regard, the European experiences since the late 1980s provide a useful example of the liberalisation of services of general interest. These experiences can be used to demonstrate the aforementioned benefits, as well as to pinpoint some of the policy failures that can pervert outcomes.

### ***C. Factors Driving Services Liberalisation***

13. There are two broad sets of factors underlying recent trends in services liberalisation. In the European context, key common external and sector-specific factors are illustrated in Table 4. In addition to these, Asian economies are also facing the similar pressures for liberalisation, globalisation of markets, rapid advances in information and communication technologies and multilateral and regional pressures for further liberalisation.

14. As far as the European Community is concerned, from the outset, removing obstacles to trade in services was regarded as an integral part of the internal market process.<sup>7</sup> Yet, substantial undertakings to this end had to wait until the 1980s, because many service sectors were to a considerable extent subject to domestic regulation. This was a reflection, in part, of the (proclaimed) desire on the part of national governments to protect consumer interests. Various licenses and qualification requirements were usually applied to providers of professional and other business services (e.g., lawyers, auditors, engineers and traders). As for services of general interest, namely, telecommunication, energy, postal and transport services, the direct provision through public agencies was quite common at that time, due to natural monopoly characteristics.

15. Note that services were not fully part of the EC 1992 Programme, as first conceived in 1985. According to one close observer, the liberalisation process may be described as “recent, gradual, uneven and complex”.<sup>8</sup> A key aspect of major regulatory change stems from the separation of non-competitive and competitive segments in a vertically integrated industry (see Table 5). A recent OECD report<sup>9</sup> highlights the benefits to an economy that can be accrued

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6. Part II of this report does not cover the case of financial services in Europe. However, interested readers should consult a recent report prepared for European Financial Services Round Table by Heinemann, F. and M. Jopp (2002), *The Benefits of a Working European Retail Market for Financial Services* (available on [www.zew.de/erfstudyresults/](http://www.zew.de/erfstudyresults/)).

7. See Article 3 (1c) of the EC Treaty. The Treaty defines “services” very broadly as the activities that “are normally provided for remuneration, insofar as they are not governed by the provisions relating to freedom of movement for goods, capital and persons” (Article 50). There are, however, some exceptions to this principle in the following areas: (1) the exclusion of employment in the public service (Article 39 (4)); (2) the progressive abolition of restrictions regarding medical and pharmaceutical professions which are dependent upon co-ordination of the conditions for their exercise in various member states (Article 47(3)); (3) transport services to be governed by the provisions relating to transport (Article 51(1)); and (4) banking and insurance services whose liberalisation shall be effected in step with the liberalisation of movement of capital (Article 51(2)). Free movement of services is guaranteed by securing the right of establishment and free movement of goods, persons and capital. However, unlike the case of goods in which products coming from a third country are allowed in free circulation, it only stipulates that the Council may extend the freedom to provide services to nationals of a third country who are established within the Community (Article 49).

8. See Pelkmans, J. (2001), “Making EU Network Markets Competitive”, *Oxford Review of Economic Policy*, Vol.17 (3).

9. See OECD (2001), *Restructuring Public Utilities for Competition*, Paris.

through the introduction of competition to potentially competitive activities. These benefits are (a) the stimulation of innovation and efficiency in the competitive activities; (b) an increased range and variety of services available to consumers and end-users; and (c) the possibility of targeting regulatory interventions on the core part of the underlying market failure (such as “wire” networks in electricity).

16. As regards the liberalisation process at the EU level, the European Commission and the European Court of Justice have played a crucial role in devising and supporting such instruments as mutual recognition (of the quality of control in the home country), minimum EU-wide harmonisation and a single licensing system. At the same time, the EC Treaty also recognises that some Member States may wish to undertake the liberalisation of services beyond the extent required by the directives issued by the Council.<sup>10</sup> With respect to the remaining restrictions in place on a national basis, each Member State is required to apply them without distinction on grounds of nationality or residence to all EU persons providing services.<sup>11</sup>

#### ***D. Lessons from Europe***

17. Part II of the Report reviews key policy initiatives for liberalisation at the EU level, assesses the impact of the liberalisation achieved so far and discusses the current state of play in each of the four sectors (telecommunication, electricity, postal and transport services). The European experiences point to a number of important lessons. First of all, the regional approach is complementary to the multilateral approach. This is particularly the case in which physical access to infrastructure networks is needed (electricity, railways). The European experience also demonstrates that the process of internal and external (from the intra-European point of view) liberalisation can be conducted simultaneously. The flexible structure for the implementation of the Single Market bears many useful lessons for other countries (subsidiarity principle, the importance of competition law, etc.).

18. Second, services liberalisation needs to strike a balance between regulatory convergence and regulatory competition. It has been argued that the Single Market has been more an exercise in harmonisation than in market access, as convergence has been negotiated, but competition has remained weak.<sup>12</sup> However, services liberalisation has not been conducted without a certain focus on competition. The application of EC competition laws has provided a strong impetus towards reform. One lesson from the EC experience is the importance of giving competition laws a wide scope of application, which will then act as a safeguard against any capture of the liberalisation process. A corollary is to be cautious on the number and the nature of the safeguard clauses incorporated in the liberalisation process.

19. Third, there still remain important differences among Member States over such fundamental issues as universal service obligations, public vs. private ownership (on which the EC Treaty is silent) and the general approach towards regulation (Germany is reluctant to support *ex ante* regulation). While a diversity of approaches could be an expression of a needed flexibility, it also underlines the capacity of some countries to escape from the liberalisation process.

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10. See the EC Treaty, Article 53.

11. See the EC Treaty, Article 54.

12. See Messerlin, P. (2001), *Measuring the Costs of Protection in Europe: European Commercial Policy in the 2000s*, Washington: Institute for International Economics.

20. Fourth and related to the above, the EU's gradualist approach to services liberalisation has both advantages and disadvantages. One advantage of gradualism is that it allows Member States to accommodate differences in the liberalisation approach noted above and to ensure that every country is included in one single process. Another advantage is that it makes the transition period less painful by providing a breathing space for adjustment. However, Europe's gradualism also entails some costs. An obvious disadvantage is that the gradual approach is too often synonymous with a slow, and sometimes stalled, process. Politics can often "highjack" the process by starting a new negotiation at every stage of the liberalisation process. This is very hazardous and costly. Uncertainty and the lack of vision of the entire outcome of liberalisation make the process less predictable. In particular, this may impair the preparation of the transition process.

21. Fifth, the European process of liberalisation in services could be reversible. This danger arises for a number of reasons. These include, the persistence of state subsidies, the use of new protectionist instruments, the extensive interpretation of safeguards (such as the one protecting universal service obligations), the collusive behaviour of incumbents and the possibilities that exist for the harmonisation of restrictive rules.<sup>13</sup>

22. Last but not least, the overall positive effects of liberalisation certainly suggest that liberalisation is an attractive option. A reduction in the price of services is generally steeper in more liberalised markets (e.g., electricity). A significant drop in the price of equipment has been observed as well in some service sectors (notably, telecommunications). In addition, liberalisation has made available to consumers a greater diversity of services (notably in postal services and air transport). It is, however, hard to isolate the impact of liberalisation *per se* from other causes. Unilateral initiatives undertaken by liberalising countries have contributed a great deal to the positive outcome. Industrial restructuring in many service sectors also shows that intra-European establishment is relatively free. Cross-border exchanges, on the other hand, remain relatively weak (electricity being an obvious case in point).

### ***E. Recent Experiences in Asia***

23. An examination of the process of deregulation of the *telecommunication* sector in five Asian economies (China, Indonesia, Korea, Malaysia, Thailand) suggests that despite a common move to greater openness, policy choices towards this goal have varied markedly.<sup>14</sup> While the Asian economies have been among the first to liberalise the *fixed line* segment, the paths taken have varied. Korea is the only country to have committed itself to liberalising almost all telecommunication service sub-sectors (with the maximum number of commitments in GATS among the five countries concerned). China has also made commitments in all but two basic telecommunication services (*viz.*, telex and telegraphic services), though it remains to be seen whether it will in fact liberalise these services within the agreed time frame. Malaysia, too, has made commitments in all but two value-added telecom services: electronic data interchange (EDI) and on-line information and/or data processing services. In contrast, Thailand has offered the least number of specific sub-sector commitments for liberalisation. Indonesia too has taken a rather cautious attitude to liberalising value-added telecom services, compared with basic services. This is partly due to the fact that the state-owned enterprises PT Telkom (the sole local and long distance service carrier), 'PT Indosat' and 'PT Satelindo' (exclusive providers of

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13. *Ibid.*

14. See Part III of this Report for a detailed discussion.

international services) are among the few firms that remain financially viable in the aftermath of the 1997-98 economic crisis.<sup>15</sup>

24. Regulatory functions in Indonesia, Korea, Malaysia and Thailand continue to be exercised by the sector ministry or other government bodies. The regulator remains responsible for the arbitration of disputes. It is commonly recognised that by far the most challenging task for regulators is to deal with interconnection. There is a high degree of variability in the pattern of regulation both in terms of the degree of autonomy and the domain of the regulator.<sup>16</sup>

25. In the case of the *mobile networks*, its rapid growth is due more to the introduction of digital cellular technologies along with reforms to open up mobile service provision to new operators. In Korea, there are now more mobile than fixed-line telephone subscribers. Governments appear more willing to open up this segment of the telecommunication sector, as there is less political need to protect state-owned incumbents. The mobile markets in the region are expected to receive a further impetus from the introduction of third generation (3G) mobile technology launched initially in Japan.

26. As regards the liberalisation commitments for *financial services*, it has been pointed out that in broad terms governments have adopted three different approaches to multilateral negotiations. These are (i) to bind the *status quo*; (ii) to make binding commitments that represent less than the *status quo* in policy terms; and (iii) to promise future liberalisation, which may or may not have been planned prior to the negotiations.<sup>17</sup> These categories are not necessarily mutually exclusive when the set of a country's commitments is taken as a whole, nor is it always easy to determine the precise category in which a policy position falls. This observation would appear to be equally applicable to all five of the Asian economies under consideration.

27. Many Asian economies have bound their multilateral obligations at less than the *status quo*. These include Korea – one that has recently undertaken aggressive steps towards liberalisation. This is a reflection of the government's dual objectives, namely to encourage foreign investment in the financial sector, while simultaneously avoiding a repeat of the turmoil and instability following the premature and ill-sequenced liberalisation prior to the regional crisis of 1997-98, not to mention providing some degree of protection to the incumbent national suppliers from immediate competition. That said, all these economies, especially Korea and Thailand, have continued to take important steps towards the *de facto* relaxation of limits on foreign equity. There appears to be a clear policy preference for promoting foreign equity investments over the promotion of market competition.

28. With regard to the *insurance* sector, entry limitations are accompanied by restrictions on foreign equity in Indonesia, Malaysia and Thailand. Though the acquisition by foreigners of stocks listed on the Korean stock exchanges is restricted, their participation in new direct investment is not. There appears to be a relatively greater willingness to undertake more liberal

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15. See Abrenica, J. and T. Warren (1999), "Towards the Millennium Round: East Asia and International Trade in Telecommunications Services", paper presented at *East Asia and Options for WTO 2000 Negotiations*, PECC TPF Meeting in co-operation with the World Bank, Manila, July, p.8.

16. See Fink, C., A. Mattoo and R. Rathindran (2001), "Liberalising Basic Telecommunications: the Asian Experience", *Policy Research Working Paper*, No.2718, the World Bank.

17. See Mattoo, A. (1999), "Financial Services and the World Trade Organisation; Liberalisation Commitments of the Developing and Transition Economies", *Policy Research Working Paper*, No.2184, the World Bank.

commitments in the banking sector than the insurance sector, and there has been a relatively greater willingness on the part of these economies to allow consumption abroad than to permit cross-border supply.

29. Turning to *energy services*, it should be noted that despite its strategic importance, this sector has been relatively neglected in the GATS arena. The “Services Sector Classification List” issued by the WTO does not include a separate comprehensive entry for energy services.<sup>18</sup> Consequently, there have been few commitments by WTO Members in energy services – the sector often being considered beyond the scope of international negotiations. Indeed, the energy sector has hitherto largely been considered a domestic issue with “in-house” supply by state-owned enterprises (SOEs) or government-linked companies with monopoly positions that often control both production and distribution with exclusivity<sup>19</sup>. Domestic regulations governing this sector have been relatively non-transparent and, in some cases, rather under-developed and *ad hoc*, being administered at political levels. The energy sector at the international level is characterised by a complex myriad of institutional and regulatory barriers, with security, politics and diplomacy heavily influencing decisions in energy markets.

30. Yet, there is growing recognition that, as with other services, the liberalisation and trade of energy services is an area to which considerable attention needs to be paid. Here there are two complementary objectives: firstly, to use them as effective instruments in these countries’ development strategies, and secondly, to improve the economic efficiency of these services, by including measures to facilitate competition in some of the activities they involve. In the Asian context, there is no doubt that ensuring stable and low-cost energy supply is paramount to sustaining growth in the many Asian economies that continue to be net importers of oil from outside the region.

31. Partly in response to this situation, some noteworthy steps towards introducing market competition and privatisation have been undertaken by the five Asian countries. Most of them have permitted private foreign participation in areas such coal mining, production and exploration of oil and natural gas fields and production of electric power. At a domestic level, Korea has taken the lead, having deregulated its oil refining industry and “conceived the most comprehensive energy reform strategy in the region, with one of the most progressive and committed electricity deregulation programs in Asia”.<sup>20</sup> China too has begun to take ambitious steps towards opening up the power generation sector with a view to attracting FDI. Nonetheless, there remains considerable scope for further liberalisation. For instance, the distribution and transmission of these energy products that constitute energy services remains largely state controlled in these economies.

32. In Asia, both ASEAN and APEC have played an important role in expanding the scope of services liberalisation and enhancing technical co-operation in individual service sectors. For example, since 1995 the Member States of ASEAN have established the ASEAN Framework

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18. WTO (1998), “Energy Services”, Background Note by the Secretariat, S/C/W/52, Geneva.

19. In addition to this, the intricate nexus between the energy industry and environmental protection has further complicated multilateral agreements in this area. That said, a number of international treaties governing the energy industry have come into force. These include the UN Declaration on Permanent Sovereignty over Natural Resources and the 1991 Energy Charter Treaty (which has been a Euro-centric focus until recently).

20. See Jaffe, A. and J. Barnes, (2000), “Energy Trade in Asia”, *SAIS Policy Forum Series*, No.06/00, John Hopkins University, p.12.

Agreement on Services (AFAS), with initial negotiations focused on a number of service sectors (telecommunications, financial services, professional business services, tourism and transport).<sup>21</sup> In the area of energy services, ASEAN has also been very active in attempting to ensure the security and sustainability of energy supplies as well as the efficient use of natural energy resources and the development of Trans-ASEAN energy networks. Besides ASEAN, APEC launched in 1990 an Energy Working Group (EWG) which is engaged in various projects involving power infrastructure, energy standards and energy efficiency. However, these activities are not strictly comparable to the EU approach, since they lack the enforcement capacity that the EU has in place.

33. The available empirical evidence on Asian countries emphasises that there are significant economic gains from liberalisation of services, though the gains may be somewhat unevenly distributed across countries.<sup>22</sup> Much of the gains arise from the introduction of competition, rather than from the change of ownership *per se*. However, as with the case of liberalisation of trade in goods, services liberalisation could involve short-term adjustment costs, which need to be appreciated and appropriately managed. In addition, services liberalisation in particular requires that the institutional and regulatory environment be strengthened prior to and during the process of liberalisation.

#### ***F. Concluding Remarks***

34. Many countries both in Europe and Asia tend to share the so-called gradualist approach to services liberalisation. As noted earlier (par. 20), this approach has both advantages and disadvantages. To minimise the risk of liberalisation being stalled, the regional institutions in Europe (notably the European Commission and the European Court of Justice) have played a critical role in injecting dynamism into the liberalisation process over recent decades, repeatedly when deemed necessary. In Asia, without comparable institutions, the countries of the region would need to develop further an effective mechanism through which national and regional initiatives for services liberalisation can be sustained beyond GATS commitments.

35. In recent years an increasing number of empirical studies have attempted to quantify the impact of liberalisation in services, involving both developed and developing countries. While further refinement and improvement are required in terms of both methodology and data, empirical evidence so far seems to support the view familiar from earlier studies regarding trade in goods: countries with the most restrictive regimes will benefit most from liberalisation. As noted earlier (para. 22), evidence from Europe also shows that liberalisation is associated with cheaper and better-quality services and products, greater product diversity and new services, while at the same time providing consumers and end-users with a wider choice of service providers.

36. It is important to recognise at the same time that ill-conceived and flawed liberalisation would do more harm than good. A few recent incidents in Europe and elsewhere, such as the bankruptcy of Britain's rail infrastructure operator (Railtrack) and California's power crisis point to the potential risk of restructuring network service industries for greater competition, though in both cases deregulation *per se* was not the primary cause. A key message for Asian developing

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21. See Part III for a further discussion.

22. See Part III of this Report.

countries is that these mistakes must be avoided by ensuring the integrity and sustainability of regulatory reform associated with liberalisation.

Table 1. The Service Sector<sup>1</sup> as Percentage of Gross Value Added and Total Employment in OECD countries

Country	Gross value added (%)		Total employment (%)	
	1990	2000	1990	2000
Austria	62	65	54	62
Belgium	65	71	71	75
Denmark	69	70	70	74
Finland	60	62	61	66
France	66	71	66	73
Germany	60	67	59	69
Greece	64	71	56	59
Ireland	55	55	61	64
Italy	63	68	60	66
Luxembourg	73 <sup>f</sup>	78	71	76
Netherlands	65	70	74	77
Portugal	60	66	57	56
Spain	60	66	64	64
Sweden	64	70	73	73
United Kingdom	63	70	72	78
<b>EU 15 Average</b>	63	68	65	69
Australia	67	70	70	73
Canada	65	67 <sup>a</sup>	72	74
Czech Republic	43	55	43	54
Hungary	56 <sup>e</sup>	61	54	58
Iceland	58	60 <sup>b</sup>	60	65
Japan	58	67	58	64
Korea	46	51	47	61
Mexico	64	67 <sup>c</sup>	52	54
New Zealand	65	66 <sup>d</sup>	65	77
Norway	61	55	71	75
Poland	49 <sup>g</sup>	61	42	46
Slovak Republic	56 <sup>h</sup>	61	50	54
Switzerland	..	68 <sup>a</sup>	61	65
Turkey	49	55	32	34
United States	70 <sup>j,k</sup>	74 <sup>j,k</sup>	76	78
<b>Other OECD Average</b>	58	63	57	62
<b>OECD Average</b>	61	65	61	65

Note:

.. not available

1. Excluding financial intermediation services indirectly measured.

a. 1998 f. 1995

b. 1997 g. 1992

c. 1999 h. 1993

d. 1996 j. Sanitary and similar services are included under industry

e. 1991 k. Includes government enterprises.

Extracted from *OECD in Figures 2002* (forthcoming).

Source: OECD (2002), *National Accounts of OECD Countries*, Paris.

Table 2. **The Service Sector as Percentage of GDP in Selected Asian Economies**

<b>Region</b>	<b>Country Name</b>	<b>1980</b>	<b>1990</b>	<b>2000</b>
Asian economies	Bangladesh	43	50	51
	Cambodia	..	33	39
	China	21	31	33
	Hong Kong, China ( a )	68	74	85
	India	36	40	49
	Indonesia	32	41	36
	Malaysia	..	43	40
	Nepal	26	32	38
	Pakistan	46	49	51
	Philippines	36	44	53
	Singapore	61	65	66
	Thailand ( b )	48	50	49
	Vietnam ( b )	27	39	39
<b>Group average</b>		40	45	48

*Note:*

(a) 1999; (b) provisional:

*Source:* Asian Development Bank (2001), *Key Indicators 2001*, Table 13.

**Table 3. Trade in Goods and Trade in Commercial Services as Percentage of GDP in OECD countries and Selected Asian Economies**

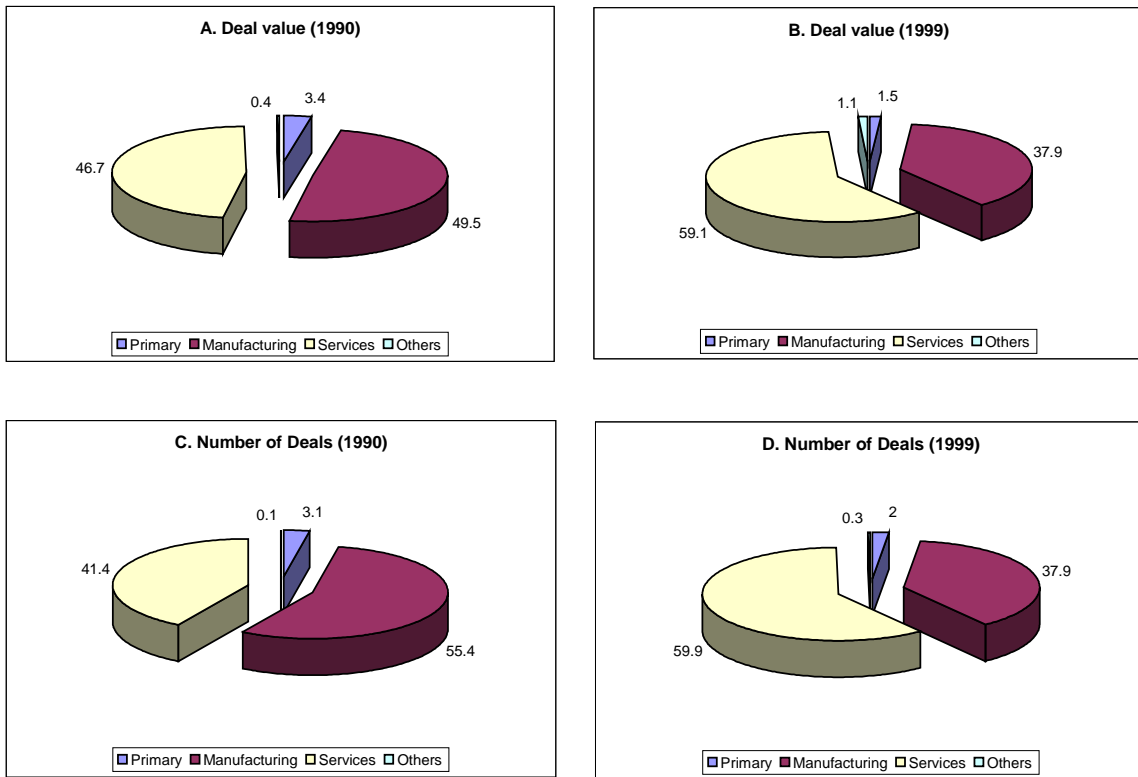
Region	Country Name	Goods Trade (% of GDP) <sup>(1)</sup>		Commercial Services Trade (% of GDP) <sup>(2)</sup>	
		1990	1999	1990	1999
EU 15	Austria	27	32	11	14
	Belgium ( b )	55	61	12	13
	Denmark	25	27	9	9
	Finland	19	28	4	5
	France	18	20	5	5
	Germany	n.a.	24	n.a.	5
	Greece ( b )	14	13	5	6
	Ireland	45	59	9	21
	Italy	16	19	4	5
	Luxembourg	n.a.	50	n.a.	n.a.
	Netherlands	42	47	10	13
	Portugal	28	29	6	7
	Spain	14	21	4	7
	Sweden	23	33	6	9
United Kingdom	20	20	5	6	
<b>Group Average</b>		27	32	7	9
Other OECD	Australia	13	15	4	4
	Canada	22	36	4	6
	Czech Republic	n.a.	51	n.a.	12
	Hungary	27	47	7	10
	Iceland	25	25	8	10
	Japan	8	8	2	2
	Korea, Rep.	26	32	4	6
	Mexico	16	29	3	3
	New Zealand	20	23	7	8
	Norway	26	25	11	11
	Poland	23	24	5	6
	Slovak Republic	n.a.	55	n.a.	10
	Switzerland	36	35	6	8
	Turkey	12	19	4	7
	United States	8	9	2	2
<b>Group Average</b>		20	29	5	7
<b>OECD Average</b>		23	31	6	8
Asian Economies	Bangladesh	9	15	1	2
	Cambodia ( c )	18	36	3	5
	China	13	18	1	3
	Hong Kong, China	110	111	19	19
	India	7	10	2	3
	Indonesia	21	29	4	6
	Lao PDR	15	30	2	8
	Malaysia	63	92	10	17
	Nepal	11	18	4	7
	Pakistan ( d )	15	15	4	3
	Philippines	23	41	5	8
	Singapore	151	129	29	25
	Sri Lanka	26	31	7	7
	Thailand	31	40	7	11
Vietnam ( b )	27	39	2	11	
<b>Group Average</b>		36	44	7	9

*Note:*

(1) (Goods export + imports)/(2\*GDP); (2) (Commercial services export + imports)/(2\*GDP); (3) 1998; (4) 1989.  
*Source:* World Bank, *World Development Indicators* CD-ROM (2001).

Figure 1. Cross-Border M&As by Sector: 1990 and 1999

(percentage)



Source: OECD (2001), *New Patterns of Industrial Globalisation*, Paris (Annex Tables 1.3 and 1.4).

**Table 4. Factors Driving Services Liberalisation in Europe**

Common External Factors	
<ol style="list-style-type: none"> <li>1. Globalisation of markets</li> <li>2. Technical changes</li> <li>3. “Europeanisation” of national firms in the EU</li> <li>4. EU initiatives to create the Single Market</li> <li>5. GATS/WTO Negotiations on Services</li> </ol>	
Sector-Specific Factors	
Telecommunication Services	<ol style="list-style-type: none"> <li>1. The break-up of national monopolies and liberalisation trends that set forth in the US and the UK in the early 1980s had spread globally to many other countries.</li> <li>2. Technological advances led to the emergence of new services and a multiplication of service providers.</li> <li>3. A loss of European firms’ market share in the global ICT sector increased public awareness for telecom liberalisation.</li> <li>4. Political pressures for liberalisation increased during Uruguay Round trade negotiations.</li> </ol>
Electricity Services	<ol style="list-style-type: none"> <li>1. Economic arguments have been made in favour of establishing a new regulatory framework, based on: <ul style="list-style-type: none"> <li>• Separation of generation and transmission;</li> <li>• Private ownership;</li> <li>• Competition in generation and in retail markets;</li> <li>• Non-discrimination and transparency in access to transmission and distribution networks; and</li> <li>• An independent regulator.</li> </ul> </li> <li>2. Necessity to complete the Internal Market has appeared.</li> </ol>
Postal Services	<ol style="list-style-type: none"> <li>1. New forms of communications (e.g., fax, e-mail and the Internet) are competing with direct (advertising) mails and have changed the classical natural monopoly paradigm in the postal sector.</li> <li>2. The influence of liberalisation of other network industries.</li> <li>3. The growth of competition in the competitive segments in the postal service sector (express mail, parcel delivery and financial services) has led private operators to claim that public operators are using their reserved markets to finance their competitive activities.</li> <li>4. Incumbent operators tend to move outside the traditional geographical and product boundaries of postal services.</li> </ol>
Transport Services	<ol style="list-style-type: none"> <li>1. The objective of free movements of good and people, as envisaged by the creation of the Single European Market, can not be achieved without liberalising transport services.</li> <li>2. The 1985 ruling by the European Court of Justice underlined the absence of common provisions specific to this sector.</li> <li>3. Air transport in the US was completely liberalised in 1978, which increased pressures on the EU to follow suit.</li> <li>4. A relative decline in rail transport for more than 30 years under public monopoly has led to restructuring of this industry by allowing for the entry of private operators.</li> </ol>

Source: See Part II of the Report.

**Table 5. Industries Featuring both Non-competitive and Competitive Components**

Sector	Activities which are usually non-competitive	Activities which are potentially competitive
Telecommunications	The provision of a ubiquitous network Local residential telephony in rural areas <sup>a</sup>	Long-distance services Mobile services Value-added services Local loop services to high-volume business customers, especially in high-density areas Local loop services in areas served by broadband (e.g., cable TV) networks
Electricity	High-voltage transmission of electricity <sup>b</sup> Local electricity distribution <sup>a</sup>	Electricity generation Electricity “retailing” or “marketing” activities Electricity market trading activities
Postal Services	Door-to-door delivery of non-urgent mail in residential areas <sup>a</sup>	Transportation of mail Delivery of urgent mail or packages Delivery of mail to high-volume business customers, especially in high-density areas
Air services	Airport services such as take-off and landing slots	Aircraft operations Maintenance facilities Catering services
Railways	Track and signalling infrastructure <sup>b</sup>	Operation of trains Maintenance facilities
Maritime transport	Port facilities (in certain cities)	Pilot services, port services

Note:

a. Services in lower-density, lower volume residential areas are less likely to be competitive than services to high-density, higher volume commercial areas.

b. Scope for competition varies depending on geography and nature of demand, amongst other things.

Source: OECD (2001), *Restructuring Public Utilities for Competition*.