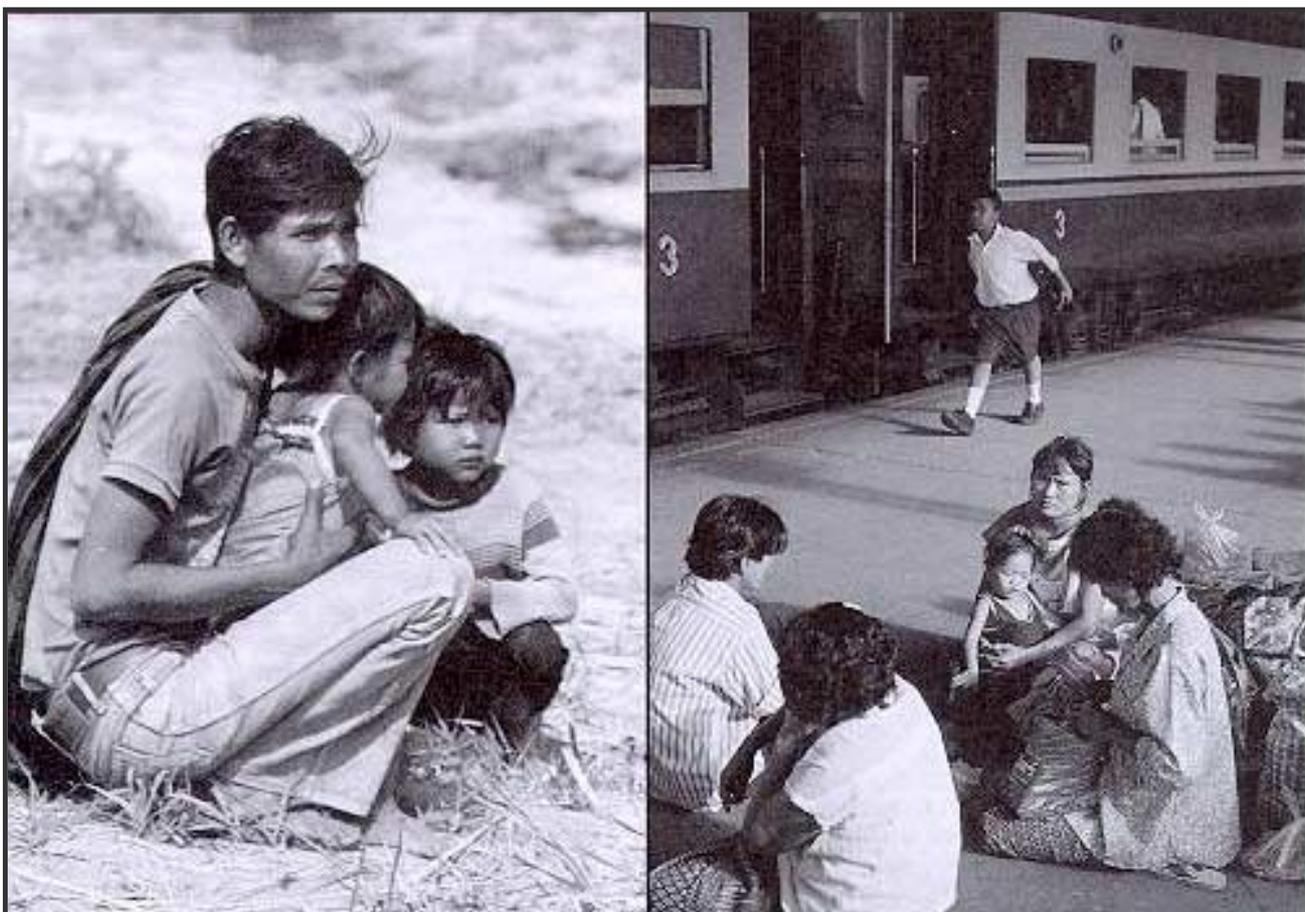


TDRI

Quarterly
Review

Contents

-
- Opening Speech of The 2001 Year-end Conference on “Poverty Reduction Strategies”
by H.E. Mr. Anand Panyarachun 3
-
- What Is Poverty And How To Measure It?
by Somchai Jitsuchon 7
-
- Service Liberalization in ASEAN
by Deunden Nikomborirak 12
-



The meaning of poverty has become a subject of intense debate over the last few years. In an attempt to reconcile the seemingly different definitions, definitions of poverty, as proposed by three distinct groups of stakeholders: the poor, the academics and the policy makers, are gathered and presented in the article on page 7.

Opening Speech of The 2001 Year-end Conference on "Poverty Reduction Strategies"*

by

H.E. Mr. Anand Panyarachun**

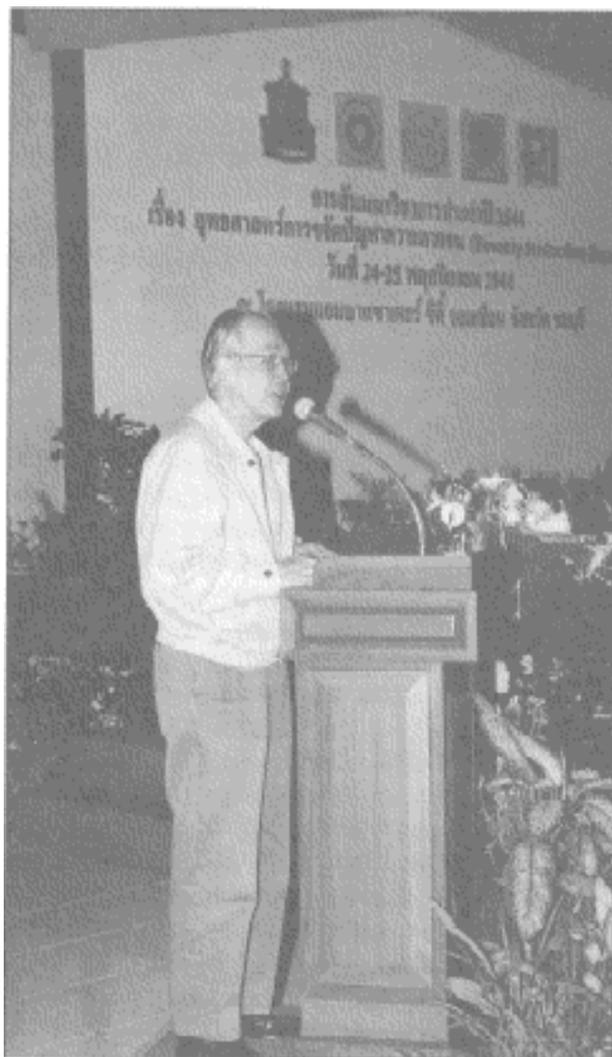
This is a translation of speech given at the Opening Session of the 2001 Year-end Conference on "Poverty Reduction Strategies," co-organized by the Chai Pattana Foundation, the Community Organizations Development Institute, the Office of the National Economic and Social Development Board, the Bureau of the Budget, and the Thailand Development Research Institute, at the Ambassador City, Jomtien, Chon Buri, November 24-25, 2001.

Honored Guests,

I am very pleased that the Thailand Development Research Institute (TDRI), in association with the Chai Pattana Foundation, the Community Organizations Development Institute, the Office of the National Economic and Social Development Board, generally known as the NESDB, and the Bureau of the Budget, is organizing the 2001 Year-end Conference on "Poverty Reduction Strategies," starting today.

First of all I would like to welcome my member colleagues from the Economic and Social Advisory Council, of which I am Chairman. This organization was established about four or five months ago, in accordance with the present Constitution, and this year is the first occasion that the TDRI has invited members of the Economic and Social Advisory Council to take part in the Year-end Conference. Appropriately, the topic of today's Conference which is poverty, must be of special interest to development organizations, whether they be of the government sector, the private sector or the people sector.

I believe it a very good omen that different organizations, for example, from the government sector the core ones such as the NESDB and the Bureau of the Budget, from the research sector such as the TDRI, and from the organizations which have produced concrete results in the development and well being of the rural areas and communities such as the Chai Pattana Foundation and the Community Organizations Development



Institute, have joined hands in organizing this Conference. Without working together along the same direction and without supporting one another from every sector, the serious, complex and sensitive problem of poverty will be most difficult to solve or even to be reduced. Poverty brings with it a feeling of insecurity in life, causing fear and fright—a condition of people without freedom. Even ignoring the fact that poverty brings

* This speech is translated into English by Mr. Viravudhi Vajrabhaya.

** H.E. Mr. Anand Panyarachun is Chairman of the TDRI Council of Trustees and the Board of Directors.

about all kinds of economic problems and social ills, when millions of our population are living under such a condition, our society is already suffering from erosion and imbalance. It is therefore the duty of everyone of us to reduce as much as possible the number of people living in such poverty.

From the time I started my career several decades ago as a civil servant, I remember that poverty eradication has been an important policy of the government of every age and era. It can be said that such a policy is, to use current terms, a people's policy. It is an age-old problem but, while statistics generally showed a continuous reduction of poverty in Thailand during the decade 1987-1997, why does this problem still remain very serious? We have to ask ourselves what the problem is and how we are going to get to the heart of the problem to solve it.

Firstly, I would like to make an observation. Poverty today looks different from that of the time when the people of my age were children or were young or were familiar with. This is due to the fact that the conditions causing poverty, or which make a person feel destitute, impoverished and hopeless, have become more complex. Currently those who suffer from "lack of money" also suffer from "lack of opportunities," "lack of knowledge" and "lack of quality of life." In reverse, those suffering from "lack of opportunities" and "lack of knowledge" eventually cannot avoid suffering from "lack of money." This is our first issue.

My second observation is: throughout the past 40 years, we have been aiming at the growth of our economy, expecting that the economic growth would bring about income, which, in turn, would help reduce poverty. This concept is not a wrong concept. However, during such a process in the past 30 years, we did not include the management of certain aspects, resulting in a widening of the income gap between the rich and the poor. The wider the income gap, the slower the development of Thailand in general, and the country lacks stability. The chance of the poor enjoying a better life through economic growth is proportionately reduced. Moreover, the widening of the income gap between the rich and the poor usually leads to other social problems, such as the problem of conflict, violence and crimes. What I have just said does not occur only within the national context, but also in the international arena, in terms of international relations. According to the history of the last 100 years, the gap between a rich and a poor country, was already noticeable in the old days, yet it has become more widened at present, in the same way as the gap between the rich and the poor in the national society. Therefore, as the gap widens at the international level, the outcome is just what I have mentioned earlier, that is to say, conflicts in the principles and in the policies of free trade, in the policy of globalization, conflicts arising from inferiority, indignity, landlessness of individuals or of nations. As regards international politics, recent events in Afghanistan is another consequence, perhaps not a direct one, but nevertheless a consequence of the conditions between the rich and the poor countries. It

arises from the condition of having no rights—the right of having one's own land, the right of living within one's national boundary with confidence and security. Whenever there is a conflict, there will be violence and other problems will follow. Therefore, the problem of income gap, between countries, between individuals or between regions, should receive our special attention.

How can we reduce the income gap? Experiences from all over the world show that the important factors are the policies of the state, the government policies, including the direction of development, the increase of opportunities and potentials of individuals and societies, as well as the increase in the participation of people of every group, every area and every region in the society, particularly the poor.

Now comes my third observation. Though the policy direction of the state is very important in solving the poverty problem, it is not sufficient to rely on the policy or wait for the action from the government sector, or leave it to the government to manage it all. Not only is it not sufficient, but it is also dangerous. It means waiting for external factors, like in a dream. Right now we cannot tell whether it is a dream with a vision or merely a sweet dream; but we will wait for uncertainties. The reduction of poverty must be viewed from several levels. At the level of individuals, it may be an attempt on self-reliance or an extensive search by oneself for opportunities. At the community level, co-operative grouping should be formed to gain strength and enable the learning process. At the level of state policy, effort and co-operation should be built up at all the three sectors participating in the development process, i.e., the government sector, the business sector and the people's sector. It is most important to listen to the poor themselves. This is the key to the strategies which are practical and sustainable in solving the problem of poverty.

Yesterday I read an article in the *Far Eastern Economic Review* on the solving of the fishery problems along the southern coast which have continued for several years. Recently, 170 private organizations, mostly small ones, joined together to solve the problems by themselves, without the state taking any part, and they succeeded in their effort. One aspect is interesting. These private organizations were set up within their own localities, out of the goodwill and concern of the people who wish to safeguard the local interest, without any direction from the higher-ups, or any persuasion from private organizations from the central region. What is significant is the fact that they remain small organizations but which have joined their hands. Were they to become too large, the meaning of being a people's organization, in the true sense, would soon be lost. They would equally be drawn into the bureaucratic system, that is, the working process or indeed the thinking process would be similar to that of a ministry.

In my life, I have been quite frustrated by the bi-polarization of the Thai society, which appears to be greater than in other societies. Problems, or issues, or situations, are viewed superficially. The bi-polarization

To reflect the viewpoints of the poor and the deprived as much as possible, the first session of the conference "Voice of the Poor" featured a video presentation and a panel discussion by representatives of the poor.



takes place, whether it be in the political ideology or in the economic ideology, as in the past. In the current decade, the global trend or the trend of the Thai society is likewise bi-polarized, that is, the bi-polarization between the rich and the poor. It is not merely between the rich and the poor in terms of wealth, but also in terms of opportunities, of knowledge and the learning process, and in terms of life patterns. Hence, now is probably the time for us to search for ways to solve this problem. At least there are four ways, namely:

First, reduce the number of the poor in money, either by assistance measures provided by the state, or by creating whatever opportunities possible in order to increase their income and decrease expenditure. The income must exceed the expenditure, and the conditions for raising the income or the expenditure should not depend solely on actual money.

Second, sever or weaken the relationship between "money," "opportunity," "knowledge" and "life pattern." We must guard against allowing poverty in one area to bring about or reflect poverty in another area.

Third, build up "opportunity," "knowledge" and "life pattern" which can work smoothly and sufficiently in a community, particularly in a way that money need not be the only leading condition.

Lastly, set up conditions in the society—conditions which would reduce the social gap as much as possible, whether in terms of money, income, opportunity, knowledge and ability to lead a life of quality and sufficiency.

In my view, one of the main causes of poverty in the city is poverty in the rural area, and the main cause of poverty in the rural area is lack of arable land. Also, the conditions for earning a living have changed. The poor have only manual labor to offer, and they are employed without permanent sources of income. They have to change their ways of life. Many have to migrate, changing from poor rural life to city life which they hope would be better. Once in the city, they would find out that being poor in the city has numerous limitations, and various social problems follow.

What can we do to enable every Thai citizen, even without money, to own a small piece of land, in an environment conducive to leading a life of sufficiency? What conditions should be set to enable the poor to be self-sufficient, to have an opportunity to live in this society with dignity, not as beggars, but able to confront unforeseen circumstances with reasonable stability? It is true that men are not born with the same degree of preparedness, but society must provide everyone with equal opportunity, or almost equal opportunity—opportunities to search for knowledge and education, to seek life opportunities, to participate in giving opinions, in making decisions and taking actions. The poor need not be deprived of opportunities or to stay poor forever. It is not a matter of being rewarded for past good deeds and punished for past bad deeds. These conditions must be created, and we must create them in our society.

My final observation is the following. As you are fully aware, the problem of poverty cannot be separated from other social problems. Likewise, the topic of the Year-end Conference of one year cannot be entirely isolated from those of other years. In 1998 we discussed the topic "From Crisis to Sustainable Development," and in 1999 "Sufficiency Economy" was the topic. Last year it was "Transparent and Uncorrupt Society," or in simple Thai, the problem of corruption. The objective of the Conference organizers is to set in motion a continuous process to reach the same goal, that is, the problem of sustainable development, which will enable the members of the society to live in peace, in a society which is just, which honors one and all, and in which everyone enjoys an equal opportunity to develop oneself to attain better things in life.

Another important objective of the Year-end Conference is to set up a forum for every participant to discuss and exchange experiences in the conference room, in the hotel lobby, or at dining tables. Such interaction is meant to inspire people to solve problems, and to develop a sense of involvement, a feeling that one is not trying to solve the problem alone, that there are others who are doing their duties. I hope that our Con-

ference will be the starting point and will continue to promote the exchange of ideas on the issue of poverty, leading onto concrete and sustainable co-operative actions. It is my hope, therefore, that after our departure from Pattaya this time, we will have identified measures, and most importantly, networks—networks of individuals and of organizations whose ways of thinking and operational directions are in line with one another. We will also have identified ways to put into operation these measures and strategies and refine them further so as to move forward toward appropriate operational actions.

This Conference is attempting to reflect the viewpoints of the poor and the deprived as much as possible. In fact this year, as Chairman of the Institute's Council, I pleaded with the organizers not to ask me to speak and to declare the Conference opened. I wish that at this gathering, the person who opens this Conference or makes the opening speech would be truly a representative of the poor. All of you must be quite bored having to listen to my speeches in the past 10 years. Even I myself sometimes get bored listening to my own voice. I would like to listen to voices of others, particularly the voice and true feeling of those deprived of opportunities in their lives. In the end we found a way out. They asked me to speak but not for too long. But what is important this morning is that we will have a videotape reflecting the voice of the poor. This videotape will in fact be the official opening of the Conference today. In preparation for this Conference, we have also encouraged community members to analyze the poverty situation in their

localities. Workshops were organized twice to hear the viewpoints of the representatives of the poor and researchers were sent out to collect and analyze data by actually living in 10 villages in various regions for two months. The TDRI is interested in the views of others, since we consider that any individual, whoever he or she may be, has the right to give opinions, and the TDRI considers it our duty and responsibility to listen and to hear. What the deprived in our society want is listeners who listen to what they say. Do not be suspicious of their reasons. Do not suspect that they have anything to hide, or something bad. Do not suspect that they are enemies or foes. But we should listen to them, listen as fellow human beings. If we do not listen to them, they may express themselves in ways which may not be appropriate, whether by marching on the streets or by blocking the traffic, which in the end would not do any good to anybody, and may cause violence, conflict, casualties, and, most importantly, more and more distrust, thus thinning the thread that ties our society into one. Whenever the thread snaps, our beloved society, encompassing the rich, the poor, or the rich today poor tomorrow, or the poor today and rich tomorrow—a society which, we hope, will be livable, may not be livable any longer. These are the observations that I would like to make today.

Now that the appropriate time has come, I declare open the Year-end Conference of 2001.

Thank you.

What Is Poverty And How To Measure It?*

Somchai Jitsuchon**

INTRODUCTION

The true meaning of poverty has become a subject of intense debate over the last few years. This is particularly the case in Thailand, where there is a growing criticism of the past and present path of economic development and its alleged ability to bring true welfare to the country's people, especially the less fortunate ones. Naturally, this kind of criticism calls for a re-examination of the definition of poverty in the Thai context. The participatory approach, which has recently gained momentum in the policy planning forum as evident in the formulation of the Ninth National Economic and Social Development Plan (2002-2006), requires that a serious effort is made at reconciling various meanings of poverty. This would also be instrumental for constructing future poverty reduction policies.

This paper is an initial step to reconcile the seemingly different definitions of poverty. It does so by gathering in one place the poverty definitions, or the characteristics of the poor, proposed by three distinct groups of stakeholders: the poor, the academics, and the policy makers.

WHAT IS POVERTY? THE POOR'S VIEWS

Tables 1 and 2 present the characteristics of the poor described by the representatives of the poor and the poor themselves. The first results (Table 1) are obtained from the surveys conducted by the representatives of the poor. The surveys were organized and facilitated by the Community Organizations Development Institute (CODI) and the Thailand Development Research Institute (TDRI). The second results (Table 2) are based on the information collected by 10 young TDRI researchers who spent two months living in some of the country's poorest villages and communities, interviewing the poorest, the key informants and the village leaders of these villages. Both activities were financially supported by the

World Bank under the WB/TDRI Poverty Reduction Partnership.

The following points are worth noting.

- First, the poor themselves tend to emphasize factors close to their everyday lives, and easy to understand, as defining characteristics of poverty. Of these factors, some stand out as most frequent responses: not enough to eat, low income, no land for agriculture, indebtedness, illness, poor general health or disability.
- Second, most characteristics can be classified as 'causes,' 'effects,' or both, of poverty. For example, lack of land for agriculture causes low income and hence low consumption (not enough to eat) or indebtedness. Low education and poor health can be both causes and effects of poverty, creating a vicious circle.
- Third, there are some slight differences between the two results. For example, the TDRI live-in field surveys did not find the poor as being as much indebted as the CODI/TDRI surveys by the representatives of the poor indicate. Being unable to borrow as well as not wanting to borrow (fearing one's inability to pay back) are cited as the main reason. This is possibly because the sample village and the sample population in the TDRI live-in field surveys were deliberately selected to be very poor.
- Fourth, the TDRI live-in field survey found that compared to the urban poor, the rural poor are being less at risk of not having enough to eat. Help from other members of the community and relatives as well as the still-abundant natural resources which one can fall back on during hard times are the possible explanations.

* The article was presented at the 2001 Year-end Conference on Poverty Reduction Strategies held at the Ambassador City Jomtien, Chon Buri, on November 24, 2001.

** Dr. Somchai is Research Director for Macroeconomic Development and Income Distribution, Macroeconomic Policy Program, TDRI.

Table 1 Characteristics of the Poor: The Poor's View (by the representatives of the poor)

Characteristics	Rural Villages				Bangkok Communities	
	1	2	3	4	1	2
General Economic Characteristics						
Not Enough to Eat		✓	✓		✓	✓
Low and Insufficient Income	✓			✓		✓
Uncertain Income					✓	
Too Few Earners in the Household						✓
High Expenditure				✓		
Debts and Assets						
Indebtedness	✓	✓		✓		
No/Low access to loans (Unable to Borrow)			✓			
Debts keep increasing	✓					
Unable to Reduce Debts			✓	✓		
Can not Borrow/Do Not Want to			✓			
No Land To Use for Agriculture	✓		✓	✓		
No Assets			✓			
Poor House Condition			✓			
No Home Appliances				✓		
Occupations/Personal Characteristics						
"Earn Morning, Eat Evening"					✓	
Mostly Work for Others	✓		✓			
Unemployed						✓
No or Low Education			✓			
No Job Skills				✓		
Old, No One to Depend on	✓					✓
Ill, Poor Health, Disabled	✓		✓			✓
Household Characteristics						
Large Family, Too Many Children		✓				
Burden Raising Children						✓
Illness in the House						✓
Behavior						
Struggle for Survival					✓	
Over-Consume, Consumerists				✓		
Buy Lottery (gambling), Drunkard, Lazy				✓		✓
Non-socializing, remain aloof		✓	✓			
Fake Poverty to Get Help					✓	

Sources: Summarized from the presentation of surveys of the poor by representatives of the poor, 4-5 October 2001, Pattaya.

Table 2 Characteristics of the Poor: The Poor's View (collected by TDRI field researchers)

Characteristics of the Poor	Rural	Urban
No Land To Use for Agriculture	✓	
No or Insecure Shelter		✓
Uncertain Job Opportunities	✓	✓
Not Enough to Eat		✓
Degraded Natural Resources	✓	
Unfortunate (Cheated, Denied by Family)	✓	
Greedy (Tried to Invest and Failed)	✓	✓
Self-Made Poverty (Lazy, Drunkard, Gambles, etc.)	✓	✓
Can not Borrow/Do Not Want to (unable to pay back)	✓	
No Access to Utilities or Pay High Price to get		✓
Disabled or Chronically Ill	✓	✓
Indebtedness		✓
Old	✓	✓

Sources: The poor's and key informants' views collected by TDRI field researchers in 10 poor communities during September-October 2001.

WHAT IS POVERTY? THE ACADEMIC AND EXPERTS' VIEWS

Box 1 presents one example of what the academics and the so-called "experts" on poverty think about the factors or characteristics that one should look for when defining poverty. One striking point is that poverty now involves more dimensions and goes beyond the factors close to the everyday life of the poor. They are, however, not necessary in conflict with the poor's definitions. Income, assets, indebtedness, basic needs, health and education are also the poor's concern. What are added are factors that can potentially "explain" why the poor stay in poverty, and most of them involve the attributes of the social, economic and political structures, such as social acceptance and respect, social capital, basic public services, the right to be heard, (unequal) distribution of capital and income. The academics and experts thus focus more on 'causes' of poverty and when doing so, emphasize on structural causes.

The concern on distribution of income and (asset) capital goes hand in hand with the concepts of *relative poverty*. Some people may 'feel' poor or are perceived as poor if their living standard is much below the social norm, even if their material well-being is constantly improving. This is perhaps one of the factors most responsible for the growing dissatisfaction over the country's development process.¹ It is therefore worth examining how important this concept is to the poor themselves. Table 3 presents the 'self-estimates' by the representatives of the poor of the distribution of the community members' economic status and changes therein over the past 30-40 years. The most striking aspect of these 'self-estimates' is that the representatives of the poor believe that the middle-income class has been vanishing while there is a growing proportion of the poor. The 'poor' in their mind are thus very obviously the relatively poor, not the 'absolute poor,' since all evidence suggests a rapid improvement in the standard of living of Thai people over the past 40 years. One can conclude from this finding that any future poverty reduction policies, or any other development policies for that matter, can not ignore the distributional aspects, as the unequal distribution of the benefits (or losses) from the past development process stands at the heart of the problem.

Box 1 Aspects of Poverty from Academic and Activists' Views (summarized from a seminar at TDRI, December 22, 2000)

- Income and Expenditure
- Distribution of Capital and Income
- Assets and Capability to Consume
- Indebtedness
- Basic Needs, such as Health, Education
- Basic Services, such as Electricity, Clean Water, Basic Health, Life and Asset Security
- Social Capital
- Living Standard relative to Expectation
- Acceptance and Respect from the Society
- Choices and Opportunities in Personal Life and for the Family
- Voices to be Heard
- Spiritual

POVERTY AND ITS MEASUREMENT: THE POLICY MAKER'S OPTIONS

The poverty definition used by the policy makers and the issues related to poverty measurement are discussed in this section. The idea of income poverty has dominated in policy-making circles since the beginning of the research on poverty in the 1960s. In contrast to the definitions offered by the poor and the experts, the official definition of poverty does not lend itself to the causes of poverty; it merely concentrates on understanding and measuring its 'incidence.' The studies on causes of poverty are largely done separately, and are sometimes guided by the 'poverty profile,' which is a by-product of poverty measurement.

In defining income poverty, the policy makers construct 'poverty lines.' Families and their members are deemed poor if their income, or expenditure, at the time of survey are below the poverty lines. Thai officials have traditionally used household income rather than household consumption as a welfare measure, quite possibly due to historical reasons in doing research on poverty in this country. The official poverty measurement has extended to cover new concepts such as ultra-poor, almost poor, vulnerable groups, and chronic versus transient poverty.

Table 3 Self-Estimates of Community Structure by Economic Status and Changes Over the Past 30-40 Years

Region	Ratios of (Poor: Middle Income: Well-to-Do)		
	Year 1957-1967	Year 1991	Year 2001
Northeast	10 : 90 : 0	70 : 15 : 5	70 : 15 : 5
North	10 : 85 : 5	40 : 40 : 20	60 : 30 : 10
Central	25 : 60 : 15	50 : 40 : 10	50 : 40 : 10
South	10 : 80 : 10	40 : 45 : 15	50 : 35 : 10

Source: Representatives of Poor (CODI/TDRI meeting, 2-4 September 2001, Nakhon Nayok).

The poverty lines, and thus the poverty incidences, were recently reconstructed and updated by the National Economic and Social Development Board (NESDB). Table 4 presents the latest poverty incidences measured using this method for selected years in the period 1992-2000. Although the updated poverty lines corrected many of the previous drawbacks, most notably the updating of consumption basket that better reflects the new ways of life of contemporary Thais, criticisms to this methodology remain. Some social critics and experts believe the new official poverty incidences are still too

low, citing the high costs of living in a modern, increasingly urbanized economy as their concern. In response to this concern, one proposal² is to use the average consumption basket in deriving the cost of food for all regions and areas (urban/rural), rather than using only the sanitary district basket as representing the 'least-cost consumption pattern' as in the current official method. Table 5 compares the results from the two methods for the year 2000. The proposed method yields, for the whole Kingdom, 1.8 million more poor people than does the official method.

Table 4 Income Poverty by NESDB Definition (using Sanitary District Consumption Basket)

Region/Area	Head-Count Ratio						Poverty Lines (baht per capita per month)					
	1992	1994	1996	1998	1999	2000	1992	1994	1996	1998	1999	2000
Bangkok Metropolitan Area	2.0	1.0	0.5	0.5	0.2	0.4	721	793	912	1,055	1,050	1,065
Rural	3.3	3.2	0.4	0.7	-	0.1	595	613	713	895	890	885
Urban	1.8	0.7	0.5	0.5	0.3	0.4	739	814	932	1,069	1,064	1,082
Central	12.4	8.6	6.0	7.0	6.5	5.4	597	624	722	887	890	881
Rural	14.8	9.8	7.1	8.0	7.9	6.4	581	603	696	863	868	856
Urban	4.8	5.3	3.0	4.4	3.0	2.7	649	679	789	950	947	946
North	22.7	14.7	9.5	9.0	9.6	12.2	561	581	672	794	785	776
Rural	25.7	16.5	11.1	10.2	10.9	14.0	548	566	657	778	768	757
Urban	9.2	7.8	3.2	4.4	4.8	5.3	620	639	733	858	849	850
Northeast	40.3	29.6	19.7	23.7	28.3	28.0	575	611	707	880	865	862
Rural	42.5	32.2	21.7	26.1	31.3	30.6	568	600	694	868	851	849
Urban	21.8	14.8	8.6	10.1	11.2	13.2	629	675	780	949	945	939
South	20.5	18.3	12.0	13.9	15.0	11.0	578	627	732	845	841	838
Rural	23.1	20.9	13.3	16.2	17.8	12.8	554	597	698	802	798	795
Urban	8.6	8.2	6.6	5.2	4.5	4.0	691	746	864	1,007	1,002	998
Whole Kingdom	23.5	17.1	11.2	12.9	14.6	14.2	598	637	738	889	881	880
Rural	29.7	22.1	14.9	17.2	19.7	19.0	565	593	687	838	829	823
Urban	6.6	5.5	3.1	3.6	3.4	3.7	689	738	852	999	995	1,002

Note: 1999 figures are calculated using two quarters' survey data.

Table 5 Comparison of Poverty Measures in 2000: Sanitary District Basket versus Average Basket

Region/ Area	Poverty Incidence (Head-Count Ratio)		Poverty Line (per capita per month)		No. of Poor (million people)	
	SD Basket	Average	SD Basket	Average	SD Basket	Average
Bangkok Metropolitan Area	0.4	0.4	1,065	1,139	0.04	0.04
Rural	0.1	0.2	885	965	0.00	0.00
Urban	0.4	0.5	1,082	1,155	0.03	0.04
Central	5.4	6.9	881	957	0.63	0.81
Rural	6.4	8.3	856	933	0.54	0.70
Urban	2.7	3.3	946	1,018	0.09	0.11
North	12.2	15.2	776	833	1.38	1.72
Rural	14.0	17.3	757	814	1.26	1.56
Urban	5.3	6.9	850	910	0.12	0.16
Northeast	28.0	32.8	862	940	5.90	6.91
Rural	30.6	35.7	849	927	5.48	6.39
Urban	13.2	16.5	939	1,015	0.42	0.52
South	11.0	13.7	838	914	0.92	1.15
Rural	12.8	16.1	795	870	0.84	1.06
Urban	4.0	5.1	998	1,075	0.07	0.09
Whole Kingdom	14.2	17.0	880	952	8.86	10.63
Rural	19.0	22.7	823	896	8.12	9.71
Urban	3.7	4.7	1,002	1,074	0.73	0.92

Source: Author's calculations

Note that the official poverty incidences can be overestimated as well. Just as the sanitary district consumption basket can underestimate the cost of living in more urbanized areas such as Bangkok or other municipalities, it is also likely to overestimate the cost of living in rural areas. This is because the rural areas constitute those areas classified as 'villages' in the surveyed samples, while the sanitary districts are normally urban. It is very reasonable to think that villagers will do their best to spend the least while getting the most out of what they consume (either buy or get from the nature). The differences in the consumption patterns of villagers and those living in sanitary districts are thus likely to make the poverty lines unrealistically expensive when applied to rural areas. Some preliminary findings of various village surveys seem to confirm this speculation.

FOOTNOTES

- ¹ Some social critics even declare that there are more poor people in Thailand now than there were 50 years ago. Such statements are obviously and outrageously wrong if one means absolute poverty.
- ² This was proposed by Professor N. Kakwani during his Poverty Workshop in July 2001 at the National Statistical Office, Bangkok, Thailand.

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Service Liberalization in ASEAN

Deunden Nikomborirak*

INTRODUCTION

The ASEAN Framework Agreement on Services (AFAS) was born out of the ASEAN Bangkok Summit in 1995, where a decision was made that ASEAN will launch negotiations in trade in seven service sectors, namely, banking, tourism, air transportation, maritime transportation, telecommunications, construction and professional services. It was believed that regional negotiations would solicit bolder commitments from member countries than those made in the General Agreement on Trade in Services (GATS) where the number of parties involved is much greater and the interests much more diverse. The GATS framework was used as the basis for negotiations in the AFAS. Member countries are to place requests and offers on liberalizing their respective service sectors.

The negotiation scheme based on the request-and-offer format did not prove effective, however, simply because most member countries were unwilling to open up their markets. Rather, they were hoping to benefit from prying open member countries' service markets, while protecting their own as much as possible. They, therefore, strategically held back their offers in the hope of being able to strike a better bargain with other members. This is evident in the "Initial Package of Commitments" made in December 1997, where commitments made were rather trivial and concentrated only on the tourism sector, where most member countries display a comparative advantage. Few commitments were made in key sectors such as finance and telecommunications. In light of the clearly unsatisfactory initial offers, an additional requirement was made that commitments made in the AFAS should, at the least, be more advanced than those made in the GATS.

The GATS-plus requirement did much help to improve member countries' offers that became the Final Package of Commitments made in September 1998. Other factors were also responsible. The spread of electronic commerce such as electronic banking and on-line accounting, consulting, insurance services has also forced member countries to open up their service industries with little choice or risk falling behind in the global information revolution. Nevertheless, the Final Package of Commitments were far from being "bold" as had been anticipated by the Coordinating Committee on Services (CCS). The following section will examine in

greater detail the nature of these commitments in key sectors, namely, telecommunications, maritime transport, air transport and tourism. The examination covers five countries of the 10-member ASEAN, namely, Thailand, Malaysia, Singapore, the Philippines and Indonesia.

ASEAN-5 COMMITMENTS IN THE AFAS AND THE GATS

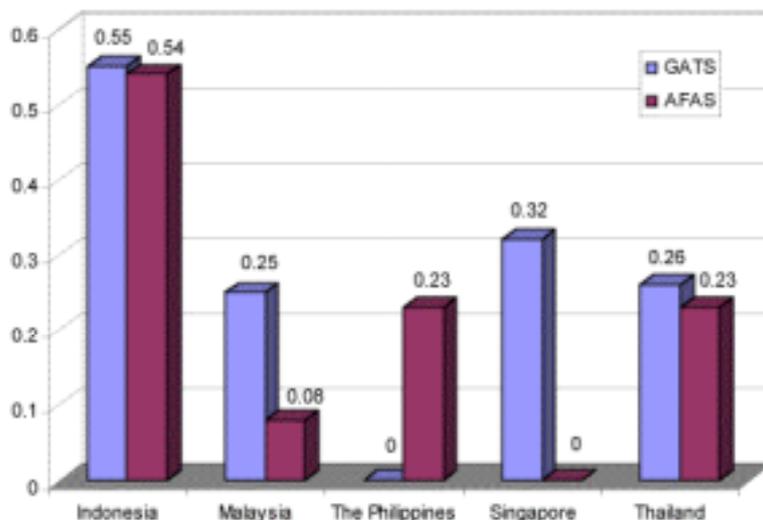
Despite the GATS-plus requirement, actual commitments made in the AFAS are only marginally better than those made in the GATS. And in some sectors, such as telecommunications, commitments in the AFAS are clearly inferior to those made in the GATS, reflecting the members' lack of genuine commitment to open up their service markets to their neighbors. Graphs a, b, c and d compare the AFAS and GATS commitments of the ASEAN-5 in four service sectors, namely, telecommunications, air transportation, maritime transportation and tourism.¹ Some of these commitments are elaborated below.

Comparison of Commitments in the GATS and in the AFAS

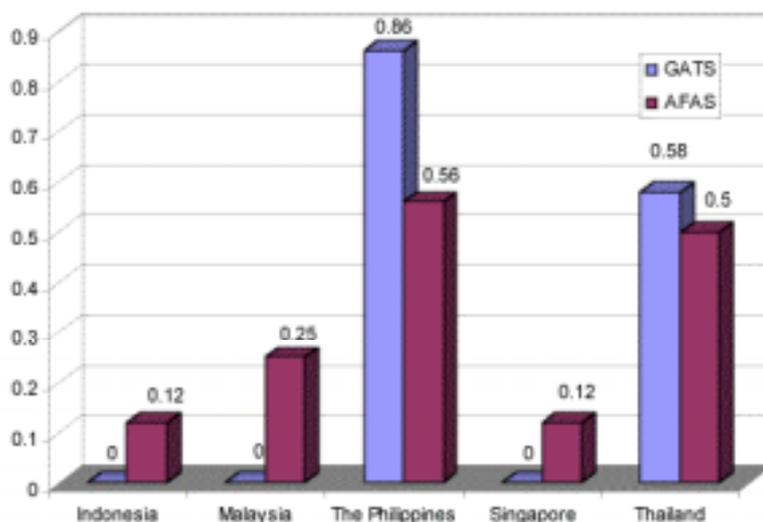
It is in the telecommunications sector that the difference between the GATS and AFAS commitments is most glaring. As can be seen in Graph a, with the exception of the Philippines, the ASEAN members made less progressive commitments in the AFAS than in the GATS. The discrepancies between the two sets of commitments in the telecommunications sector became even wider after more advanced commitments were made in the GATS under the Agreement on Basic Telecommunications (ABT), signed in 1997. Singapore made the most advanced commitment both to liberalize overseas call market in the year 2000 and to allow foreign ownership in local telecom businesses. Malaysia and the Philippines, both of which have already opened up their local markets since 1995, guaranteed market access in the international service sub-sector beginning January 1998 but did not commit to allowing foreign control of local telecom businesses. Thailand and Indonesia are obvious laggards. Indonesia committed to open up its overseas call market in 2005, while Thailand only committed to revise its commitments in 2006.

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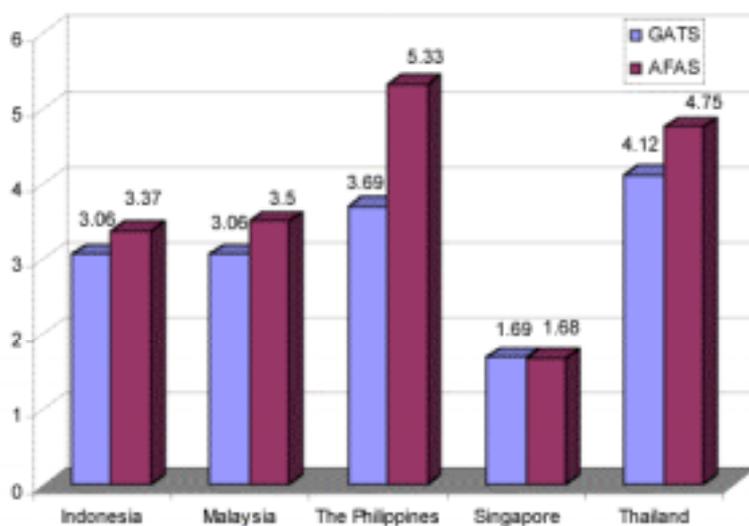
Graph a: Telecommunications



Graph b: Air Transportation

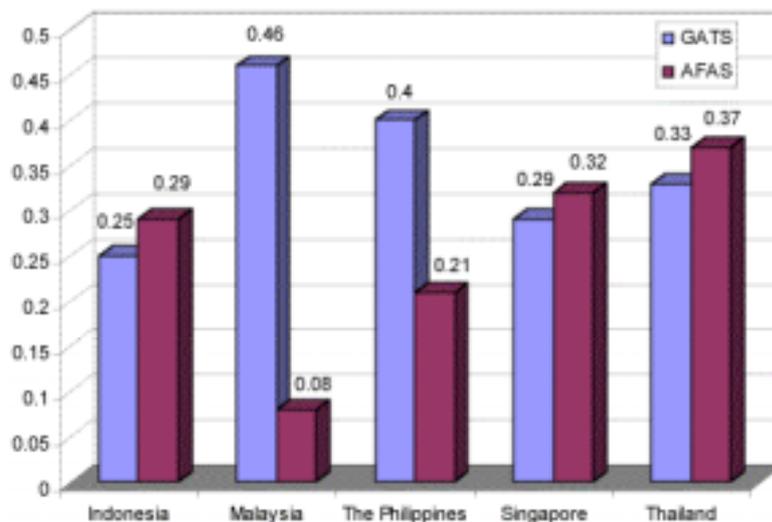


Graph c: Maritime Transportation



Source: Thailand Development Research Institute (TDRI). 2000. A Study of ASEAN Laws to Promote Greater Cooperation and Liberalization in Trade in Services and Investment. Bangkok: TDRI. (in Thai)

Graph d: Tourism



Source: ASEAN Secretariat.

Since the ABT is based on a reciprocal rather than MFN basis, ASEAN member countries that have not opened up their markets are not entitled to benefit from market liberalization as a result of the agreement. For example, since Thailand and Indonesia have not opened up their local markets, they will not be guaranteed access to international service markets in Malaysia, the Philippines and Singapore. Yet, European countries, the US, and other non-ASEAN countries with open markets will be able to access these markets.

Maritime transport service appears to be the only sector where commitments in the AFAS are clearly more advanced than those made in the GATS as can be seen in Graph c. This may be simply because the commitments under the GATS are minimal as negotiations in 1994 failed miserably. The collapsed negotiations were marked by the withdrawal of the United States from the negotiations, citing "unsatisfactory commitments" made by other members as the reason. The other reason for the more advanced commitments under the AFAS is that there is little competition among the ASEAN countries in the maritime sector. Singapore is by far the only leader in the region with the size of its fleet more than twice that of the Philippines, which has the second largest fleet. With not much to protect, the member countries are able to make more advanced commitments. However, as can be seen from Graph c, Singapore made the least commitments.² This would confirm that ASEAN members continue to give priority to protecting their own industry, even a relatively competitive one.

As for air transport service, the Philippines and Thailand made the most advanced commitments in the GATS and less advanced in the AFAS, while the remaining three members made very little commitments in the GATS, but additional ones in the AFAS (see Graph b). This would appear to indicate that both the Philippines and Thailand do not particularly favor regional liberalization in this industry. The picture is

very much similar in the tourism sector. Here, Malaysia and the Philippines made the most advanced commitments in the GATS, but again, less advanced ones in the AFAS.

To conclude, it appears that bold commitments are made in the GATS rather than the AFAS as intended, and that most liberal commitments the ASEAN members made in the GATS are often watered down, rather than furthered, in the AFAS. In the following section, we shall examine the approach to negotiations that the individual member country has taken in the past that may help explain the lack of progress in negotiations.

Member Country's Attitude toward Liberalization and Commitments under the AFAS

Among the ASEAN-5 members, Singapore has the most liberal and competitive service sector and is therefore constantly prodding other members to make progressive liberalization in their respective service sectors. But Singapore does not seem to be taking the existing negotiation framework seriously. As can be seen from the schedules of commitments in Table 1, despite its relatively liberal regime, Singapore's commitments in both the GATS and the AFAS are trivial, be they in transportation, telecommunications or tourism. On the contrary, it did make bold commitments in the GATS under the ABT, where negotiations are more clearly focused and the agreement is based on a reciprocal rather than MFN basis.

Indeed, Singapore appears to prefer more concrete, focused, issue-based negotiations. For example, it has been advocating "regional open sky policy" among ASEAN countries since the landing rights issue is not included in the scope of negotiations in the air transportation sector in the GATS. Its attempt was not met with much success since Thailand, the key player as the current regional aviation hub, refuses to sign an open

sky agreement with its neighbors for fear of losing its geographical advantage by allowing foreign airlines to pick up passengers from the Bangkok International airport. As a result, Singapore has begun to look outside the region. It signed an "open sky" agreement with the United States in 1997. Malaysia followed suit and signed a similar agreement with the United States shortly afterward.

Judging from the depth and coverage of commitments, the Philippines appears to have placed the most efforts in past negotiations. It has made the most advanced commitments both in the GATS and the AFAS in many sectors, particularly in maritime transport (passenger and freight transport) and also in air transport (computer reservation system), where it imposed no restrictions on commercial presence.

Thailand did make commitments in many sectors and sub-sectors, but most are considered trivial. In key service sectors as those shown in Table 1, Thailand committed very little. Moreover, Thailand is the only ASEAN member that requested for MFN exemptions for almost all service sectors, although this fact is not apparent in the schedule of commitments shown in Table 1. Thus, Thailand's commitments in the GATS are not as deep and wide as they would appear to be. This reflects the country's preference for selective liberalization.

Similar to Thailand, Malaysia and Indonesia did not make advanced commitments in the GATS or the

AFAS. However, these two countries have far fewer MFN exemptions than does Thailand.

TYPE OF BARRIERS TO TRADE AND INVESTMENT IN SERVICES IN ASEAN COUNTRIES

Since the service sector remains largely non-traded despite the emergence of the electronic revolution, provision of services continues to rely mainly on foreign direct investment. Thus, barriers to market access and national treatment (equal treatment of foreign and local business entities) in services take the form of investment restrictions, in particular, control of foreign equity share in domestic enterprises, types of commercial establishment allowed (branches, subsidiaries or joint ventures), scope of service, and employment of foreign personnel.

To illustrate the types of barriers found in the service sector in the ASEAN region, the schedules of commitments of the five member countries under both the GATS and the AFAS in four key service sub-sectors chosen from each of the four service sectors examined in this study are presented in Table 1. The four sub-sectors include hotels (from the tourism sector), international services (telecommunications), passenger and freight transportation (maritime transport) and computer reservation systems (air transport).

Table 1 Commitments made by the ASEAN-5 in Key Service Sectors in the GATS and the AFAS

Country	Type of restrictions			
	Tourism (Hotel)		Telecommunications (International Services)	
	GATS	AFAS	GATS	AFAS
Indonesia	<ul style="list-style-type: none"> Limitation on the size of the area of operation 	<ul style="list-style-type: none"> Double the size of the area 	<ul style="list-style-type: none"> Joint venture required Foreign equity capped at 25% 	<ul style="list-style-type: none"> No commitments
	<ul style="list-style-type: none"> Restrictions on employment of foreign personnel except for positions of managers and specialists 	<ul style="list-style-type: none"> Same as in GATS 	<ul style="list-style-type: none"> Restrictions on employment of foreign personnel except for positions of managers and specialists Number of foreign employees limited to under 20 in joint ventures 	<ul style="list-style-type: none"> No commitments
Malaysia	<ul style="list-style-type: none"> Foreign ownership restrictions Joint venture with Malaysian control required No commitments made for employment of foreign nationals 	<ul style="list-style-type: none"> Same as in GATS 	<ul style="list-style-type: none"> No commitments 	<ul style="list-style-type: none"> No commitments
Philippines	<ul style="list-style-type: none"> Foreign ownership capped at 40% Restrictions on type of position and length of stay of foreign employees. A letter of guarantee issued by relevant state authority also required. 	<ul style="list-style-type: none"> Same as in GATS 	<ul style="list-style-type: none"> No commitments 	<ul style="list-style-type: none"> No commitments
Singapore	<ul style="list-style-type: none"> Mode 3 — No commitments Mode 4 — As in horizontal restrictions 	<ul style="list-style-type: none"> Same as in GATS No commitments 	<ul style="list-style-type: none"> Number of new operators not exceeding 2 Foreign equity is capped. 	<ul style="list-style-type: none"> No commitments
Thailand	<ul style="list-style-type: none"> No commitments 	<ul style="list-style-type: none"> No commitments 	<ul style="list-style-type: none"> No commitments 	<ul style="list-style-type: none"> No commitments

(Continued on page 16)

Table 1 (Continued)

Country	Type of restrictions			
	Tourism (Hotel)		Telecommunications (International Services)	
	GATS	AFAS	GATS	AFAS
Indonesia	<ul style="list-style-type: none"> Foreign entities can be set up only as representative offices. 	<ul style="list-style-type: none"> Joint venture is allowed with foreign equity not exceeding 60%. 	<ul style="list-style-type: none"> No commitments 	<ul style="list-style-type: none"> Foreign entity not allowed
	<ul style="list-style-type: none"> Restrictions on employment of foreign personnel except for positions of managers and specialists Fee for issuance of work permit is applied. 	<ul style="list-style-type: none"> Same as in GATS 		
Malaysia	<ul style="list-style-type: none"> Foreign ownership restrictions Type of legal entity is restricted. Type of ship—i.e., the minimum size of ship—is required. Ship must be registered in Malaysia. Restrictions on employment of foreign personnel except for positions of managers, specialists and business negotiators 	<ul style="list-style-type: none"> Same as in GATS 	<ul style="list-style-type: none"> No commitments 	<ul style="list-style-type: none"> Foreign entity not allowed
Philippines	<ul style="list-style-type: none"> No restrictions 	<ul style="list-style-type: none"> Same as in GATS 	<ul style="list-style-type: none"> No commitments 	<ul style="list-style-type: none"> No restrictions except in the case that operator wished to set up won telecommunications network. Foreign nationals are not allowed into this particular business.
Singapore	<ul style="list-style-type: none"> No commitments 	<ul style="list-style-type: none"> No commitments 	<ul style="list-style-type: none"> No commitments 	<ul style="list-style-type: none"> Same as in GATS
Thailand	<ul style="list-style-type: none"> Foreigners are not allowed to set up legal entities to operate a fleet raising Thai flag. Foreign equity restrictions Type of legal entity restrictions Foreign crew not allowed Only transfer of staff at the managerial and specialist level allowed 	<ul style="list-style-type: none"> Same as in GATS 	<ul style="list-style-type: none"> No commitments 	<ul style="list-style-type: none"> Foreign entities and persons are not allowed into this particular business.

The most common type of restriction found is the cap on foreign equity share, which is applicable to almost every service sub-sector examined. The only exceptions shown in Table 1 are the hotel sub-sector in Indonesia and passenger and freight sea transportation in the Philippines, in both cases there being no ceiling on the foreign equity share in local businesses.

The second most common type of restriction is that on the type of commercial establishment a foreign company is allowed to set up. For example, in the case of passenger and foreign maritime transport, only representative offices are allowed to be set up in Indonesia under the GATS. However, commitments under the AFAS allow for joint ventures. Joint ventures are mandatory for establishing a hotel business in Malaysia. Similar restrictions apply to many sub-sectors across different services.

The third most common type of barrier to trade in services among the five ASEAN countries involves the movement of natural persons (mode 4). As can be seen from Table 1, many ASEAN countries do not commit themselves when it comes to mode 4. For example, in the computer reservation system sub-sector, none of the five members made commitments with regard to employment of foreign personnel. In other service sectors or sub-sectors, employment of foreign nationals is often allowed only in the managerial and specialist positions.

To conclude, there remain many barriers restricting cross-border flows of capital and labor among the ASEAN countries. Ironically, such restrictions have indeed served well to protect the commercial well-being of local businesses and preserve employment among local nationals. However, the restrictions have also

contributed to inefficiency and uncompetitiveness in the region's service industries.

OBSTACLES TO SERVICE LIBERALIZATION IN ASEAN

It has been six years since the birth of the AFAS, yet very little has been achieved in prying open the service sector in this region. This by no means suggests that ASEAN countries have not made any progress toward liberalizing their service sectors; rather, these regional and multilateral negotiations played a trivial role, or none at all, in encouraging deeper and wider liberalization. Most moves toward liberalization are the results of the member countries' own domestic policies. These include the decision by Malaysia and the Philippines to liberalize their respective telecommunications market in 1995, or Thailand's decision to lift the foreign ownership restriction for commercial banks in 1998 out of sheer necessity due to the financial crisis.

The lack of progress in the AFAS can be attributed to four key factors, namely, the lack of political will and genuine commitment to open up the service market, weaknesses in the negotiation framework, legal restrictions and institutional limitations.

Most ASEAN countries—with the exception of Singapore—do not have comparative advantages in services, except for a few services such as tourism and movement of natural persons. This is often the case because many service sectors such as telecommunications, transportation and utilities are still dominated by inefficient state-owned enterprises or monopolistic private operators. Recognizing the inability of the domestic operators to compete internationally, the government tries to protect these uncompetitive industries from formidable foreign competition. Thus, in the absence of privatization, deregulation and free and fair domestic competition, it is hard to imagine how such industries can ever become competitive. Under such circumstances, the prospect for opening up these markets to foreign, or even regional, competition is certainly bleak.

While protectionist policies pose obvious obstacles to regional liberalization, the inadequacies in the negotiation framework are also responsible for the lack of achievements in the AFAS. As mentioned earlier, the AFAS negotiation framework is based on the GATS framework. There has been extensive discussion in the World Trade Organization (WTO) about how the GATS negotiation framework can be made more effective. The current framework does not facilitate progressive liberalization. To begin with, little is known with respect to the extent of liberalization in member countries. The height of the barriers to trade in services, unlike tariffs in the case of merchandise trade, are difficult to estimate since they come in many different forms as the examples described earlier show. As a result, many commitments made in the GATS are in fact inferior to the status quo, rendering these commitments trivial. Second, there are

neither a targeted level of achievement in liberalization nor a specific target date set for dismantling the multitude of barriers that exist. As a result, unfocused commitments are often marginal and are made in inconsequential service sub-sectors that have little impact on the overall industry. Third, sector-specific negotiations are sometimes constrained by horizontal restrictions that are not easily removed. For example, the movement of natural persons is certainly a sensitive issue that involves social and security concerns. Fourth, there are no clear measures to safeguard developing countries against the negative impacts of liberalization that could be worse than what had been originally anticipated. Finally, concerns were raised about domestic regulations that can pose serious obstacles to market access even when barriers to services trade are lowered.

Several suggestions have been made on how the existing GATS negotiation framework can be improved. To begin with, the status quo of the member countries' extent of liberalization need to be properly assessed to ensure that commitments made are not inferior to the status quo. This can be done through the Trade Policy Review Mechanism in much the same way as the case for trade in goods. Suggestions have also been made to adopt the negotiation framework employed in the ABT, in which specific sub-sectors to be negotiated (e.g., basic telecommunications) and the specific date of liberalization are determined. On the other hand, negotiations at the horizontal level, such as investment and movement of natural persons, are also crucial for the success in liberalizing these markets.

Besides the lack of genuine willingness among the members to liberalize their economies and the inadequate negotiation framework, domestic laws and regulations, as they exist today, represent another major constraint to successful liberalization. The many sets of rules and regulations that govern the service sector often tend to limit the scope of commitments negotiators are able to make. For example, Thailand is marked as the laggard in opening up its telecommunications market because of its least progressive commitment in the ABT. However, this can be explained by the fact that the existing law dictates state monopolies in the telecommunications sector. Making commitments that may contradict existing domestic laws would be equivalent to making a legal commitment to change those laws, which is certainly well beyond the scope of the WTO. Therefore, much legal overhauling is required before any bold movements can be expected in the regional as well as multilateral fora.

Finally, unlike the goods sector, the service sector is plagued with complicated domestic rules and regulations that come under the purview of many departments and ministries. For example, in the case of Thailand investment comes under the purview of both the Ministry of Commerce and the Board of Investment, which is under the Office of the Prime Minister. Regulations regarding employment of foreign nationals are set by the Ministry of Labour and Welfare and the Immigration Bureau, which is part of the Royal Thai

Police under the Office of the Prime Minister. Sector-specific regulations are concerns of the respective ministries. With the multitude of government authorities involved, coordination is indeed extremely difficult.

POSSIBLE MOVES TO ENHANCE REGIONAL SERVICE SECTOR LIBERALIZATION

While protectionist policies will no doubt continue to prevail in this region, the pressure to liberalize services is growing stronger each day with the advancement in technology that threatens to tear down century-old barriers to services trade. For example, with the development of long-haul aircraft, it will soon be possible to fly non-stop from the United States or Europe to Singapore. If so, Bangkok will lose its geographical advantage that has served it well in keeping the local airline and airport protected from the onslaught of competition from competing airports such as those in Malaysia and especially Singapore. Thailand, then, may not have much choice but open up its air transport market and lose its status as the regional hub to Singapore, as appears to be the case.

The advancement of electronic commerce will also have a deep and wide impact on trade in services. The emergence of the internet protocol (IP) telephony threatens to wipe out revenues of traditional international service operators. Already, overseas calls made through the internet have been snatching away a considerable portion of operator revenues. Similarly, e-commerce is tearing down all the barriers to a multitude of services, including banking, insurance and business services (accounting, legal, managerial advice, etc.), whose transactions can be conducted digitally. It is thus important for ASEAN countries to realize that the days of protecting domestic industries are numbered and that they should start thinking about saving the entire economy rather than protecting a few interest groups of local operators.

There are certain moves that can facilitate the ASEAN member countries in making more meaningful commitments.

First, the ASEAN seriously lacks information and data on the service sector. In keeping with the suggestion made in the GATS about enhancing the Trade Policy Review Mechanism, the ASEAN Secretariat may consider building a database on the status of key service sectors among member countries. The database could presumably include relevant laws and regulations that can potentially pose barriers to trade in services. In fact, the ASEAN Inter-parliamentary Organization (AIPO) has initiated preliminary studies to "take stock" of various laws governing services trade and investment in this region. This effort should be continued. ASEAN members should also cooperate in bringing more clarity, transparency and cross-comparability in their basic laws and regulations governing services trade and investment.

Second, considering the importance of the service sector to the national economy and the complexity of the laws and regulations involved, it may be necessary to

negotiate trade in services and liberalization at the highest level of policy-making body that can initiate the required legislative changes.

Third, with reference to the suggestion made in the GATS, the ASEAN is also considering a different negotiation framework that is similar to the one used in the negotiation of trade in goods in the ASEAN or the ASEAN Free Trade Area (AFTA). That is, all services will be grouped according to a 5- or 7-digit code similar to the one used for manufactured products. A target date will be set for a certain percentage of the services to be liberalized, taking into account the set target date for an ASEAN Free Trade in Service Area in the year 2020. Also, as is the case in AFTA, services will be divided into two groups: fast track and slow track. Services listed under the fast track will have a shorter time horizon for liberalization. This particular negotiation framework is currently being considered in the ASEAN.

An alternative strategy would be to focus negotiations on specific sub-sectors that are of importance to the ASEAN economy with specific dates set for planned liberalization. Basic principles with regard to the rules and regulations governing the negotiated services should also be part of the agreement to ensure effective competition in the market *ex post* liberalization. This approach is similar to that used in the ABT that proved to be the most successful service negotiation in the GATS.

It is also important for the ASEAN to establish a working group for each of the service sectors to undertake in-depth industry study as well as assess and monitor member countries' progress in liberalizing the service sector according to the commitments they have made.

Finally, the ASEAN seriously needs a dispute settlement mechanism to ensure that commitments made are not backtracked, as seems to be the case in trade in goods. Without a credible settlement mechanism, commitments will not be as binding as they are designed and intended to be.

ENDNOTES

- ¹ The commitment index is calculated from individual country's schedule of commitment. A "0" score is given to all "unbound" entries, which imply no commitments made. A "1" score is given to "none" entries, which imply no restrictions to market access nor equal treatment between foreign and local commercial entities. Scores between 0 and 1 are based on the number of restrictions to market access or national treatment (equal treatment between local and foreign companies) listed in the schedule of commitment for each mode of service and for each sub-service category. The index represents the "average level of commitment to liberalize" in the particular service sector. However, the number of sub-sectors committed and the degree of commitment in each service sub-sector that may vary

greatly across countries are not reflected in the index.

- 2 Although Thailand appears to have a lower score, but this is only because it had made less liberal commitments in many insignificant sub-sectors. Singapore, on the other hand, failed to make any meaningful commitment in major sub-sectors, which are passenger and cargo transportation as can be seen in Table 1.

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