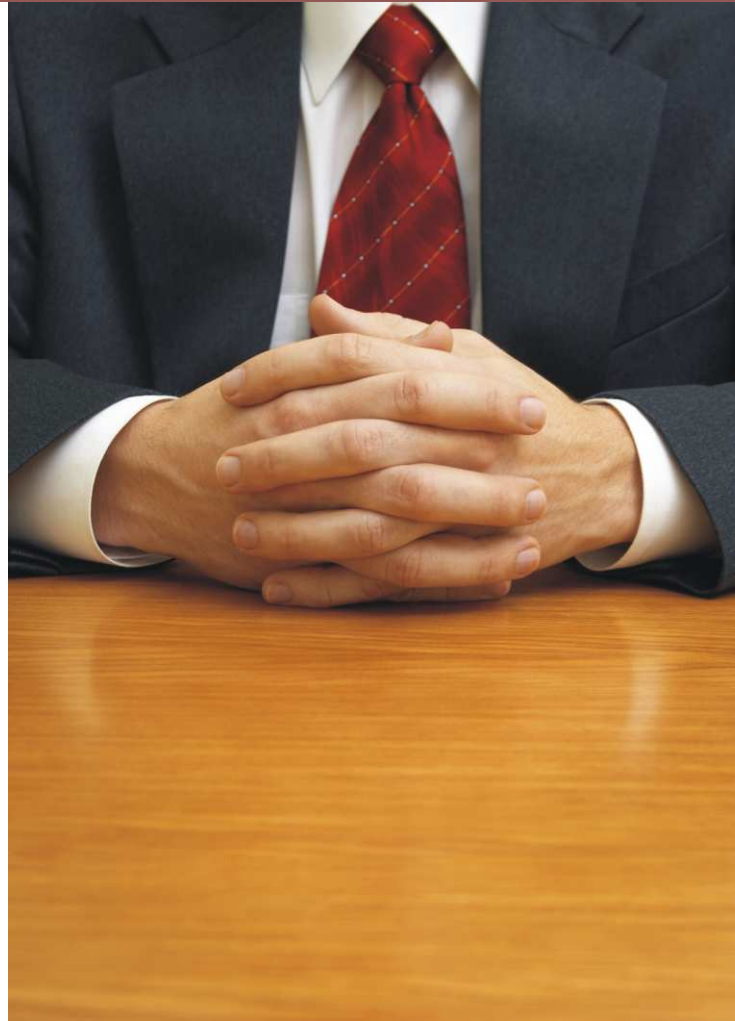


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Services and Domestic Regulation

- Liberalization in services should be accompanied by sound, sensible regulation. Liberalization does not mean abandonment of market regulation. Indeed, a sound regulatory system is essential to an open market. This is the case for both developed and developing countries, which must ensure that competition takes place within a transparent, predictable set of rules. Regulatory best practices applied fairly and transparently to all economic actors ensure healthy, long-term competition.
- Regulatory best practices also help to hedge risks, protect the environment, and safeguard consumers and intellectual property rights. Developing an effective regulatory system for a service in any country takes time and accumulated knowledge based on experience. But it should not be the basis for forestalling services liberalization.



- Some developing countries have resisted liberalization of services because they lack the regulatory capacity to manage the presence of foreign services companies and the more competitive environment that accompanies them. There is little question that the introduction of competition requires changes to regulatory frameworks, and a different level of licensing and supervision. This can be a challenge for developing country regulators, but it is surmountable. Developing the capacity to design and enforce new rules for competition is likely to be far less costly to taxpayers, businesses, and consumers than the costs of protectionism and weak competition.
- Improved regulation is critical to reap the full benefits of services liberalization, but many developing countries need assistance to shape the new regulatory environment brought about by competition. According to Aaditya Mattoo of the World Bank, “regulatory institutions ... require sophisticated skills” but “policy advice and assistance for regulatory reform ... provided by multilateral institutions and other agencies” are often not linked to trade liberalization. Mattoo suggests that developed countries can help this process by establishing a voluntary mechanism, funded by public and private donors, to provide policy advice and to diagnose and remedy regulatory inadequacies for developing countries that are considering liberalizing commitments.⁹

