Chapter 9

Regional Trade in Services in South Asia

Selim Raihan

9.1 Introduction

Even though the services sector is the major contributor to gross domestic product (GDP) in most South Asian countries, trade in services in South Asia is low. However, even at the global level, compared to the trade in goods, trade in services has a much lower share in total world trade. The 'intangibility' and 'unstorability' factors were considered the main impediments to trade in services. The services sector was not included in the multilateral trading system until the inception of the Uruguay Round of General Agreement on Tariffs and Trade. Following the conclusion of the Uruguay Round, the General Agreement on Trade in Services (GATS) was the first initiative that aimed at the progressive liberalisation of trade in services. Since January 1995, the World Trade Organization (WTO) has been administering this agreement and finally, services trade is getting the necessary importance in the multilateral trading system.

Since the late-1980s, the services sector has boomed in the South Asian countries. Alongside the growth, liberalisation of the services trade too has become a critical economic agenda for these economies. Some of their services sectors have been liberalised as part of their commitment under GATS. Under the request–offer process of GATS, there have been requests from other developing and developed countries to open up services sectors of the South Asian countries. Additionally, they have also taken steps for the unilateral liberalisation of the sector. South Asian countries have also taken initiatives to liberalise trade in services among themselves. The latest development of these initiatives is the South Asian Association for Regional Cooperation (SAARC) Agreement on Trade in Services (SATIS) in 2010.

Against this backdrop, the chapter explores the issues and concerns related to liberalisation of trade in services in South Asia. The chapter is divided into the following sections: Section 9.2 provides an overview of the services sector in South Asian countries, highlighting the growth of the sector and its contribution to the economy in terms of output, employment, trade and investment flows. Section 9.3 deals with the experiences of South Asian countries in terms of multilateral commitments and offers made and in this regard, the issues and concerns of domestic preparedness for further opening up of the services sector. Section 9.4 presents the scenarios of services trade liberalisation negotiations in South Asia. Section 9.5 analyses the current state of domestic preparedness in different services sub-sectors in terms of their competitiveness and the likely outcomes of liberalisation in South Asia. Finally, section 9.6 concludes.

9.2 Overview of the services sector in South Asia

9.2.1 Growth in the services sector value added

Table 9.1 compares the growth rates in the services sector of South Asian countries for different time periods. Bangladesh, India and Nepal have experienced a persistent rise in the growth of the services sector. In contrast, Bhutan, Pakistan and Sri Lanka have experienced a rather fluctuating trend in the growth of their services sectors. During the 2000s, the average growth rate in the services sectors increased by 78 per cent in Nepal compared with that of the 1980s. The corresponding rates for Bangladesh, India and Sri Lanka are 64 per cent, 41 per cent and 23 per cent, respectively. However, growth rates decelerated for Bhutan and Pakistan during the same period – by 13 and 23 per cent, respectively.

9.2.2 Contribution to GDP

South Asian countries have witnessed a significant shift in the structure of their economies towards the dominance of the services sector in national production. Table 9.2 suggests that during the 2000s, with the exception of Afghanistan, the share of the services sector in the GDP had been more than 50 per cent in these countries. The most significant services sub-sectors in terms of output are distribution (wholesale, retail trade, restaurants and hotels), transport-storage and communication, construction, and community-social and personal services within other activities. These sub-sectoral trends in service output reflect the importance of a variety of factors in shaping services sector performance in the South Asian countries. These factors include deregulation and policy reforms in areas such as telecommunications, and the role of rising incomes and domestic demand in driving growth in segments such as trade and distribution services or community, personal and social services.

9.2.3 Contribution to trade

Bangladesh, India, Maldives and Sri Lanka experienced consistent rises in the growth rates of services exports and imports (Table 9.3). In contrast, Nepal and Pakistan

Table 9.1 Average annual growth rates in service sector value added in South Asian countries

Country	1981–1990	1991–2000	2001–2010
Afghanistan	n/a	n/a	12.86
Bangladesh	3.71	4.48	6.10
Bhutan	10.59	6.96	9.24
India	6.47	7.42	9.11
Maldives	n/a	15.28	7.16
Nepal	3.70	6.44	6.59
Pakistan	6.62	4.50	5.12
Sri Lanka	4.74	6.04	5.81

Note: n/a=data not available.
Source: Author's calculation based on WDI data

Table 9.2 Sectoral composition of GDP: South Asian perspective

Country	Sub-sector	1981–1990	1991–2000	2001–2010
Afghanistan	Total	100.00	100.00	100.00
1	Agriculture, hunting, forestry, fishing (ISIC A–B)	66.04	60.37	37.67
2	Mining, manufacturing, utilities (ISIC C–E)	15.20	11.68	16.29
3	Construction (ISIC F)	2.21	4.53	8.98
4	Wholesale, retail trade, restaurants and hotels (ISIC G–H)	7.20	9.36	8.74
5	Transport, storage and communication (ISIC I)	4.10	6.29	14.60
6	Other activities (ISIC J–P)	5.25	7.77	13.72
	Total services (ISIC F–P)	***18.76***	***27.95***	***46.04***
Bangladesh	Total	100.00	100.00	100.00
1	Agriculture, hunting, forestry, fishing (ISIC A–B)	29.60	24.19	20.14
2	Mining, manufacturing, utilities (ISIC C–E)	14.13	16.95	19.32
3	Construction (ISIC F)	4.88	6.14	8.02
4	Wholesale, retail trade, restaurants and hotels (ISIC G–H)	13.67	13.48	14.79
5	Transport, storage and communication (ISIC I)	9.68	9.82	10.87
6	Other activities (ISIC J–P)	28.04	29.42	26.86
	Total services (ISIC F–P)	***56.27***	***58.86***	***60.54***
Bhutan	Total	100.00	100.00	100.00
1	Agriculture, hunting, forestry, fishing (ISIC A–B)	54.32	36.23	22.17
2	Mining, manufacturing, utilities (ISIC C–E)	14.96	23.25	24.58
3	Construction (ISIC F)	3.63	7.63	16.09
4	Wholesale, retail trade, restaurants and hotels (ISIC G–H)	5.29	3.90	5.79
5	Transport, storage and communication (ISIC I)	6.62	10.22	10.56
6	Other activities (ISIC J–P)	15.17	18.77	20.80
	Total services (ISIC F–P)	***30.71***	***40.52***	***53.24***
India	Total	100.00	100.00	100.00
1	Agriculture, hunting, forestry, fishing (ISIC A–B)	34.38	27.12	18.39
2	Mining, manufacturing, utilities (ISIC C–E)	19.14	21.09	20.62
3	Construction (ISIC F)	6.92	6.58	7.53

(*continued*)

Table 9.2 Sectoral composition of GDP: South Asian perspective (continued)

Country	Sub-sector	1981–1990	1991–2000	2001–2010
4	Wholesale, retail trade, restaurants and hotels (ISIC G–H)	12.24	13.75	16.41
5	Transport, storage and communication (ISIC I)	4.62	5.42	8.27
6	Other activities (ISIC J–P)	22.70	26.04	28.78
	Total services (ISIC F–P)	***46.48***	***51.79***	***60.99***
Maldives	Total	100.00	100.00	100.00
1	Agriculture, hunting, forestry, fishing (ISIC A–B)	12.43	7.52	6.11
2	Mining, manufacturing, utilities (ISIC C–E)	5.05	5.27	7.40
3	Construction (ISIC F)	2.61	3.04	5.17
4	Wholesale, retail trade, restaurants and hotels (ISIC G–H)	27.88	32.21	30.42
5	Transport, storage and communication (ISIC I)	6.39	11.22	15.23
6	Other activities (ISIC J–P)	45.65	40.73	35.66
	Total services (ISIC F–P)	***82.53***	***87.20***	***86.48***
Nepal	Total	100.00	100.00	100.00
1	Agriculture, hunting, forestry, fishing (ISIC A–B)	45.22	37.02	34.18
2	Mining, manufacturing, utilities (ISIC C–E)	6.69	10.34	10.44
3	Construction (ISIC F)	5.42	6.37	6.59
4	Wholesale, retail trade, restaurants and hotels (ISIC G–H)	18.41	19.04	15.76
5	Transport, storage and communication (ISIC I)	5.89	7.22	9.27
6	Other activities (ISIC J–P)	18.37	20.01	23.76
	Total services (ISIC F–P)	***48.09***	***52.64***	***55.38***
Pakistan	Total	100.00	100.00	100.00
1	Agriculture, hunting, forestry, fishing (ISIC A–B)	26.44	24.36	21.79
2	Mining, manufacturing, utilities (ISIC C–E)	19.53	21.51	23.38
3	Construction (ISIC F)	3.54	3.22	2.68
4	Wholesale, retail trade, restaurants and hotels (ISIC G–H)	17.87	17.84	16.83
5	Transport, storage and communication (ISIC I)	12.98	13.14	12.69
6	Other activities (ISIC J–P)	19.64	19.94	22.64
	Total services (ISIC F–P)	***54.03***	***54.14***	***54.84***

(*continued*)

Table 9.2 Sectoral composition of GDP: South Asian perspective (continued)

Country	Sub-sector	1981–1990	1991–2000	2001–2010
Sri Lanka	Total	100.00	100.00	100.00
1	Agriculture, hunting, forestry, fishing (ISIC A–B)	21.32	16.05	12.16
2	Mining, manufacturing, utilities (ISIC C–E)	17.72	21.93	23.30
3	Construction (ISIC F)	6.68	6.45	7.00
4	Wholesale, retail trade, restaurants and hotels (ISIC G–H)	21.14	22.99	23.18
5	Transport, storage and communication (ISIC I)	10.85	10.16	11.98
6	Other activities (ISIC J–P)	22.28	22.43	22.38
	Total services (ISIC F–P)	*60.95*	*62.03*	*64.54*

Source: Author's calculation based on UNSTAT data (http://unstats.un.org/unsd/snaama/dnlList.asp, accessed on 4 March 2013)

Table 9.3 Annual average growth rate of services exports and imports (%)

Country	Services exports (balance of payments, current US$)			Services imports (balance of payments, current US$)		
	1981–1990	1991–2000	2001–2010	1981–1990	1991–2000	2001–2010
Bangladesh	6.81	7.94	11.95	4.38	10.17	11.36
India	4.73	14.07	23.69	7.54	12.57	20.90
Maldives	7.01	13.80	25.69	0.23	11.33	16.33
Nepal	3.17	12.85	5.21	7.03	2.73	16.78
Pakistan	9.13	0.11	19.57	9.14	1.74	15.23
Sri Lanka	7.33	8.27	11.11	6.36	9.94	7.37

Source: Author's calculation based on WDI data

encountered some fluctuating growth rates. The impressive growth of services exports helped India achieve healthy surpluses in the services trade during the 2000s, whereas, during the 1980s and the 1990s, India encountered a deficit in services trade (Table 9.4). High growth in services exports during the 2000s also helped Maldives to widen trade surpluses. In contrast, Bangladesh, Nepal, Pakistan and Sri Lanka experienced deterioration in balance in trade in services during the same period.

In terms of the contribution of the services trade to total trade, South Asian countries had mixed experiences (Table 9.5). During the 2000s, Bangladesh, Nepal and Pakistan observed a decline in the share of services exports in their total exports compared with the 1980s. For Bangladesh and Pakistan this has been mainly because of much better export performances of the manufacturing sectors. For Nepal, however, the

Table 9.4 Trade balance in services (US$ million)

Country	1981–1990	1991–2000	2001–2010
Bangladesh	–274.43	–533.56	–1,117.30
India	–904.50	–2,524.36	6,742.96
Maldives	35.31	168.99	608.41
Nepal	63.57	310.79	–38.81
Pakistan	–376.31	–980.78	–2,592.19
Sri Lanka	–163.55	–377.93	–577.97

Source: Author's calculation based on WDI data

Table 9.5 Significance of services in total trade (% of country's total trade)

Country	Services exports (balance of payments, current US$) as % of total exports			Services imports (balance of payments, current US$) as % of total imports		
	1981–1990	1991–2000	2001–2010	1981–1990	1991–2000	2001–2010
Bangladesh	21.87	15.96	12.16	17.56	18.54	15.79
India	23.45	21.39	31.67	22.38	25.68	25.83
Maldives	67.71	66.58	78.21	33.78	23.31	23.42
Nepal	56.60	57.76	36.59	19.90	17.82	17.02
Pakistan	22.13	17.29	20.00	17.03	23.52	26.02
Sri Lanka	19.11	17.59	20.74	20.13	20.25	21.35

Source: Author's calculation based on WDI data

growth rate in services exports fell during the 2000s. India and Maldives managed to register remarkable growth in their share of services exports in total exports thanks to their impressive growth performance of services exports during that period. In the case of share of services imports in total imports, Bangladesh, Maldives and Nepal experienced falls whereas, India, Pakistan and Sri Lanka experienced rises.

According to Chanda (2011a), the sub-sector composition of services exports for Bangladesh, India, Pakistan and Sri Lanka reveals that there has generally been a trend away from traditional services exports, such as travel and transport, towards other services. However, within the 'other services' segment, only India and Sri Lanka reveal a commercial services orientation to their services export basket, with commercial services accounting for the bulk of other services exports and also for more than 90 per cent of total services exports. In the case of Bangladesh and Pakistan, the shift towards other services exports has been dominated by government services and, overall, commercial services exports constitute only about half of total services exports. A common feature, however, is that computer and information services show the most significant increase in share across all four countries. This suggests that, notwithstanding differences in trade orientation and competitiveness across the four countries, the software services sub-sector has been an important driver of services exports in all four countries. This reflects their common source

Table 9.6 Importance of workers' remittances (% of GDP)

Country	1981–1990	1991–2000	2001–2010
Bangladesh	2.77	3.36	8.21
India	0.99	1.86	3.11
Nepal	n/a	1.39	14.45
Pakistan	7.16	2.53	4.30
Sri Lanka	5.24	6.10	7.67

Note: n/a = data not available.
Source: Author's calculation based on WDI data

of comparative advantage in this sub-sector, i.e. the availability of low-cost skilled labour and government policies that boost software services exports.

Workers' remittances are gaining importance for the region, especially for these low-income countries, reflecting the significance of labour-based services exports (Table 9.6). For, Nepal, during the 2000s, the share of remittances in GDP increased to more than 14 per cent. South Asia's large labour endowment, including low-skilled, semi-skilled, high-skilled categories, results in a regional comparative advantage in exporting labour-based services under the Mode 4 of GATS – that is, the temporary movement of workers.

9.2.4 Contribution to employment

In all South Asian countries service sector employment has shown a rising trend (Table 9.7). During the 2000s, countries like Bangladesh, Maldives and Nepal experienced large rises in this share thanks to the liberalisation in some key services sectors, such as telecommunications and financial services. Studies have indicated that services sector liberalisation has helped employment growth with the most dynamic sub-sectors exhibiting the highest rates of employment growth (Raihan 2008). However, the employment elasticity of services is lower than that of manufacturing and agriculture in most of the South Asian countries. Therefore, though the share of the services sector in total employment had increased substantially during the 2000s,

Table 9.7 Share of services sector in total employment (%)

Country	1981–1990	1991–2000	2001–2010
Bangladesh	22.88	21.57	36.94
Bhutan	n/a	n/a	28.68
India	n/a	23.25	25.85
Maldives	48.50	50.30	58.35
Nepal	n/a	14.40	20.70
Pakistan	28.04	34.14	35.92
Sri Lanka	29.07	34.53	38.28

Note: n/a = data not available. For other years the averages have been calculated based on the available data.
Source: Author's calculation based on WDI data

its contribution to total employment has been much lower than its contribution to the GDP in all South Asian countries.

Chanda (2008), however, observes that official statistics on services sector employment in the developing countries when juxtaposed with the dynamic nature of sub-sectors such as trade and distribution services or construction services, may also suggest that part of the employment growth in services has been informal in nature. Therefore, the official estimates of the services sector's contribution to overall employment may, to some extent, understate the actual contribution of this sector to total employment due to their failure to capture informal employment.

9.2.5 Services sector and FDI

In South Asia, during the years 2005 and 2010, India saw a huge inflow of FDI in the services sectors, while Bangladesh experienced a slight rise and Afghanistan and Pakistan encountered a significant fall (Table 9.8). In several South Asian countries, increased FDI in the services sector has been associated with increased liberalisation (Raihan 2008). In the case of Bangladesh, since 2003–04 the services sector has been able to attract a large inflow of FDI and, as a result, by 2005–06 the FDI inflow in the services sector accounted for 81 per cent of total FDI inflows in the country. The services sub-sectors, which received the highest share of FDI in recent years, are telecommunication, energy and financial sectors. The experience of India suggests that among the services sub-sectors, financial, IT and telecommunication services appear to be the most important recipients of FDI. The majority contribution of FDI to Pakistan appears to be in telecommunication and financial services. In Sri Lanka a large amount of FDI went to the telecommunication sector.

9.2.6 Revealed comparative advantage (RCA)

The identification of readiness of key services sectors to face international competition after liberalisation is a difficult task due to the unavailability of data. Whether a sector is prepared for international competition or not, we need to explore the competitiveness of that sector in terms of price competition, technical standard, capacity of the existing firms, etc. Given the fact that there is a lack of these types of data in almost all South Asian countries, this study takes into consideration the best available data to construct the Balassa Index of Revealed Comparative Advantage (RCA) for the services sectors in South Asian countries (Balassa 1965). Table 9.9

Table 9.8 FDI inflows in the services sectors (US$ millions)

Country	2005	2010
Afghanistan	166	67.7
Bangladesh	623.8	660.9
India	2,630	1,0904
Pakistan	1,682.7	633.8
Sri Lanka	n/a	405.3

Source: Author's calculation based on investment map data (www.investmentmap.org/prioritySector.aspx, accessed on 4 March 2013)

Table 9.9 Revealed comparative advantage of services sub-sectors in South Asia

		Bangladesh			Bhutan			India		
	Description	**2000**	**2005**	**2010**	**2000**	**2005**	**2010**	**2000**	**2005**	**2010**
1	Transportation	0.50	0.41	0.39	0.78	0.92	1.63	0.99	0.65	0.54
2	Travel	0.19	0.21	0.17	1.28	1.82	2.46	1.22	0.70	0.51
3	Communications services	0.00	0.80	5.47	0.28	0.75	0.38	6.05	1.65	0.50
4	Construction services	0.00	0.52	0.00	0.00	0.00	0.00	3.32	0.39	0.20
5	Insurance services	0.00	0.20	0.15	1.28	4.55	0.82	1.63	1.26	0.58
6	Financial services	0.25	0.20	0.27	0.17	0.16	0.19	0.62	0.40	0.68
7	Computer and information services	0.16	0.34	0.31	0.00	0.00	0.00	14.01	12.18	8.18
8	Royalties and licence fees	0.00	0.00	0.00	0.01	0.06	0.00	0.11	0.09	0.02
9	Other business services	0.60	0.70	1.14	0.00	0.00	0.00	0.18	0.89	0.74
10	Personal, cultural and recreational services	0.13	0.08	0.07	0.00	0.00	0.00	0.43	0.30	0.41
11	Government services, n.i.e.	32.51	29.47	22.35	17.52	8.88	1.58	3.53	0.39	0.22

		Maldives			Pakistan			Sri Lanka		
	Description	**2000**	**2005**	**2010**	**2000**	**2005**	**2010**	**2000**	**2005**	**2010**
1	Transportation	0.25	0.30	0.25	2.61	1.31	1.03	1.83	1.95	2.23
2	Travel	2.85	3.30	3.92	0.18	0.18	0.20	0.82	1.04	0.98
3	Communications services	0.00	0.00	0.00	6.50	3.24	1.50	2.29	1.19	1.38
4	Construction services	0.00	0.00	0.00	0.00	0.22	0.13	0.00	0.86	0.75
5	Insurance services	0.12	0.09	0.06	0.19	0.46	0.25	2.32	2.52	1.22
6	Financial services	0.00	0.00	0.00	0.11	0.18	0.10	0.00	0.00	0.00
7	Computer and information services	0.00	0.00	0.00	0.68	0.36	0.49	0.00	1.19	1.79
8	Royalties and licence fees	0.18	0.42	0.16	0.00	0.07	0.01	0.00	0.00	0.00
9	Other business services	0.00	0.00	0.00	0.47	0.37	0.40	0.93	0.51	0.39
10	Personal, cultural and recreational services	0.00	0.00	0.00	0.00	0.06	0.09	0.00	0.00	0.00
11	Government services, n.i.e.	0.42	0.90	0.40	3.35	21.11	29.73	1.21	0.66	0.46

Note: n.i.e. = not included elsewhere.
Source: Author's calculation based on UNSTAT data (http://unstats.un.org/unsd/servicetrade/, accessed on 4 March 2013)

reports the results of such an exercise for Bangladesh, Bhutan, India, Maldives, Pakistan and Sri Lanka. The exercise suggests that in 2010, RCAs greater than 1 were observed in communication services, other business services and government services for Bangladesh, in transportation, travel and insurance services for Bhutan, in computer and information services for India, in travel services for Maldives, in transportation, communication and government services for Pakistan and in transportation, communications services, insurance services and computer and information services for Sri Lanka. The striking feature is that in 2000, India had RCAs greater than 1 in sectors like travel, communications services, construction services, insurance services and government services which by 2010 declined to less than 1, indicating India's deterioration in comparative advantage in these sectors.

9.2.7 Backward and forward linkages of the services sectors

Using the Social Accounting Matrix (SAM) and associated multiplier model it is possible to calculate the backward and forward linkages of the services sectors in the South Asian countries. The basic idea of backward linkages is to trace the output increases which occur in supplying sectors or accounts when there is a change in the sector or account using their outputs as inputs. Similarly, with forward linkages the output increases could be traced which occur or might occur in using industries or accounts when there is a change in the sector or account supplying inputs (Bulmer-Thomas 1982). The South Asian countries have different magnitudes of backward and forward linkages in different services sectors (Table 9.10). For example, in the case of energy, the largest backward linkage is found in Bangladesh and the lowest one is observed in Pakistan; and the largest forward linkage is observed in India and the lowest one is in Nepal. Bangladesh has also the largest backward linkages in transport, housing, private service and public service. Nepal has the largest backward linkages in construction and trade. In the case of forward linkages, India has the largest ones in energy, construction and trade, Pakistan has the largest ones in

Table 9.10 Backward and forward linkages in the services sectors in South Asian countries

	Bangladesh		India		Pakistan		Nepal		Sri Lanka	
	BL	FL	BL	FL	BL	FL	BL	FL	BL	FL
Energy	9.55	4.40	9.03	13.15	3.97	6.34	9.52	3.30	7.08	5.80
Construction	10.27	2.17	8.62	16.08	6.33	3.48	10.61	3.00	6.88	3.25
Trade	10.18	31.99	7.96	65.20	7.95	32.18	10.72	22.74	7.40	33.71
Transport	10.49	9.06	8.34	12.63	6.24	25.27	10.09	7.83	7.10	16.99
Housing	10.60	30.88	8.42	2.68	8.63	7.15	10.18	12.89	7.58	6.50
Private Service	10.59	9.59	8.27	8.80	7.47	22.40	9.67	10.78	7.31	5.06
Public Service	10.69	3.13	7.68	2.00	7.90	6.22	10.09	9.90	8.05	3.77

Note: BL=backward linkage, FL=forward linkage.
Source: Author's calculation from the social accounting matrices of Bangladesh, India, Pakistan, Nepal and Sri Lanka for the year 2007 from Raihan and Khondker (2010).

transport and private services, Bangladesh has the largest one in housing and Nepal has the largest one in public services.

9.3 Experiences of South Asian countries in General Agreement on Trade in Services negotiations

Article IV of GATS stresses that, in order to increase the participation of developing countries in global services trade, there is a need to strengthen the domestic service capacity of these countries and its efficiency and competitiveness, inter alia, through access to technology on a commercial basis; to improve these countries' access to distribution channels and information networks; and to liberalise market access in sectors and modes of supply of export interest to them. Such calls were re-emphasised by the WTO in the Doha Ministerial Declaration of 2001 as well as in the July 2004 Framework of the Doha Round of negotiations. In the Hong Kong Ministerial Declaration of 2005, particular attention to sectors and modes of supply of export interest to developing countries was highlighted again.

It is, however, important to note that a large number of developing countries have been facing difficulties in identifying sectors of their specific interest. Moreover, registering any meaningful liberalisation commitment in the negotiations has achieved little progress. There is serious concern about developing countries' lack of capacity to evaluate the requests received from other member countries and the development of their own requests. A major challenge has been the determination of their national policy objectives and the competitiveness of each sector or sub-sector. In the case of liberalisation of Mode 4 services, in the categories and skill levels of interest to developing countries, no real progress has been achieved. Further to this, no progress has been achieved with respect to streamlining or increasing the efficiency of processing mechanisms for visas and work permits.

Negotiations under GATS are important for the South Asian countries, as they are facing constraints in economic development due to poor infrastructure, institutional settings and governance deficits. Hence, the services sector is the dominant segment in these economies. In addition, there is huge growth potential of the domestic services market in these economies. Among the major supply constraints that prevent the building of a competitive services sector in the South Asian countries are the lack of human resources and technology to ensure that professional and quality standards are met, the lack of a national strategy for export of services, the lack of government support to help service firms, especially SMEs, and the lack of financial capacity of firms.

The outcomes of ongoing GATS negotiations will have significant implications for the national development initiative. The South Asian countries should have clearly defined negotiation strategies, based on a clear conceptual framework and understanding in order to make GATS negotiations conducive for the economic development of a country. Every strategy should have a fallback position if it becomes necessary. Most of the relevant literature emphasises Mode 4, as these countries have comparative advantage on the movement of temporary workers. But there are other areas in the services sector that also have huge growth potentials.

Bangladesh has made certain specific horizontal commitments on market access and national treatment with some limitations relating to commercial presence (Mode 3) and movement of natural persons (Mode 4) in the cases of the communications and tourism sectors. GATS classified the tourism sector into four sub-sectors and Bangladesh made commitments in one sub-sector, namely luxury hotels. In the ongoing services trade negotiations, India is very much on the offensive in seeking market access in developed countries, particularly under Mode 1 (cross-border trade) covering business process outsourcing and Mode 4, which deals with the movement of temporary workers. India has been receiving requests from all major developed countries as well as several developing countries on a wide range of services. Most of the requests are to enter the Indian market through commercial presence (Mode 3) with importance being given to financial and telecommunication services, though offers in the field of education and environmental services have also been made. Nepal became the 147th member of the WTO in April 2003. Under the WTO, Nepal has committed to liberalise 11 services sectors. Pakistan has received collective requests from several WTO members on services in the areas of energy, environment, financial services, architectural and engineering services, integrated engineering, maritime transport, construction, telecommunication services, air transport services and logistic services. Sri Lanka's initial commitment in GATS was limited to tourism and travel services. This was expanded in 1997 to include financial services and telecommunications.

9.4 Services trade liberalisation negotiations in South Asia

Ratna (2010) presented a summary of the negotiations for services trade liberalisation in South Asia. The importance of services, especially tourism, was recognised in the Tenth SAARC Summit, in Colombo in July 1998. The Thirteenth SAARC Summit, in Dhaka in November 2005, recognised the potential of trade in services, especially informal trade, and decided on a study to see how services could be integrated into the SAFTA process. The First Meeting of the SAFTA Ministerial Council, in Dhaka in April 2006, approved the course of action including the completion of a study on services in a time-bound manner. The Second Meeting of the SAFTA Ministerial Council, in Kathmandu in February 2007, approved the recommendations made by the SAFTA committee of experts (CoE) and directed the Secretariat to ensure that the Study on Trade in Services should be WTO plus and WTO compliant. The Fourteenth SAARC Summit, in New Delhi in April 2007, stressed that to realise its full potential, SAFTA should integrate trade in services. They called for a finalisation of an agreement in the services sector at the earliest time possible. The Third Meeting of the SAFTA CoE, in New Delhi in March 2008, took note of the Revised Regional Study done by the co-ordinator of the study 'Research and Information System for Developing Countries' (RIS), New Delhi. The Third Meeting of the SAFTA Ministerial Council, in New Delhi in March 2008, considered the Study on Potential of Trade in Services under SAFTA including the recommendations of the Third Meeting of the SAFTA CoE thereon. The Meeting endorsed the recommendations of the Third Meeting of SAFTA CoE and decided that RIS be requested to draft the text of the Draft SAARC Framework Agreement on Trade in Services (SAFAS) by 30 June 2008. It also decided to constitute an Expert Group by 30 June 2008 to commence negotiation on the Framework Agreement on Trade in Services. The Fifteenth SAARC Summit, in Colombo in August 2008, expressed satisfaction at the conclusion of the Study on Trade in Services and welcomed the decision of SAFTA Ministerial Council to commence negotiation on the Framework Agreement on Trade in Services. At the Sixteenth SAARC Summit, in Thimpu in April 2010, SATIS was signed with the aim of the liberalisation of intra-regional trade in services. The objectives of the Agreement are to promote and enhance trade in services among the contracting states in a mutually beneficial and equitable manner by establishing a framework for liberalising and promoting trade in services within the region in accordance with Article V of GATS.

Member states are yet to schedule their specific liberalisation commitments under SATIS. Negotiations for a schedule of specific commitments will take place keeping in view the national policy objectives, the level of development, and the size of the economies of contracting states and individual sectors. The Agreement will progressively cover the liberalisation of trade in services with broad-based and deeper coverage of the majority of services sectors/sub-sectors with a view to fulfilling the objectives of Article V of GATS, for example, that a positive approach be followed. Negotiations for specific commitments for progressive liberalisation would be based on a ‘request and offer’ approach.

Chanda (2011b) called for four necessary steps for services trade integration in South Asia. The first step is to improve information about services, not only in individual member countries but also generally with regard to bilateral trade and investment flows with other South Asian countries. A second step would be to undertake more regional discussions on regulatory and institutional issues so as to facilitate cross-country learning in the development of regulatory frameworks and enable an eventual move towards greater harmonisation of standards in the region. A third step, which would need to underpin much of the regional efforts in services (and also in goods), would be the development of regional transport services infrastructure and trade facilitation measures in the region. A final critical step would be to engage in capacity-building efforts regionally. This would take the form of joint research and development (R&D) activities, joint projects in selected services such as health care, environment, education, renewable energy and tourism, regional training and development of human resources, sharing and exchange of ideas and information and sharing of best practices.

Raihan and Angkur (2012) argued that, greatly endowed with low- and semi-skilled labour and reliance on human resources exports, the South Asian countries would need greater co-operation on Mode 4. Deeper regional integration in services trade would provide huge welfare gains for the South Asian countries, as almost all South Asian countries were net importers of services. Services would continue to play a key role in the eradication of poverty because of their social, cultural and welfare-enhancing functions, so further studies on these issues would be needed. Negotiations among nations should focus on important sectors such as education, health, communication, tourism and IT. South Asian countries should also co-operate in the formulation of uniform regulatory measures to enhance trade in services. Lack of data, regulatory capacity and maturity of the services sector are some key issues that need to be addressed. Finally the agreement made for regional co-operation should provide special treatment and technical assistance for least developed countries (LDCs).

9.5 Domestic preparedness of services trade liberalisation in South Asia[1]

Bangladesh adopted a cautious approach in making commitments on trade in services on market access, national treatment and MFN treatment. It was guided by a number of considerations. Like many LDCs, it found that GATS allows the developed countries greater market access in developing countries through Mode 3, while market access to unskilled or semi-skilled labour of developing countries through Mode 4 is restricted. The services sector in Bangladesh, like in other LDCs and developing countries, is far less developed, and hence, under free trade in services, the country is likely to be in a disadvantageous position. Moreover, the existing legal and regulatory infrastructure should undergo minimum structural changes.

A number of concerns have been raised with regard to liberalisation in different services sub-sectors in Bangladesh. For example, in the case of the *construction* sector low capacity and capability of local contractors and consultants, due to a weak resource base and inadequate skills and experience, were considered the major concerns. Poor working environments, including low standards of safety and occupational hazards at construction sites, weak and non-facilitative policies and regulatory framework, low productivity and quality of domestic firms due to a low technology base and limited skills and experience, are the major constraints in construction services that contribute to its disadvantageous position. Moreover, there is a lack of supporting institutional mechanisms to facilitate easier access to key inputs including access to finance and equipment. Lack of a regulatory framework, intense competition among well-funded and equipped foreign operators and a lack of access to finance and equipment as well as inexperienced management are issues that should be addressed to reverse this situation. Analysts in this sector have been arguing that economic opening will lead to the introduction of new financing instruments that can increase the local firm's access to critical assets and will expose the labour force to skills and management experience critical for the growth and consolidation of the domestic operators.

In the *banking* sector in Bangladesh, competition has been enhanced due to the announcement of the opening of markets to new entrants, and, as a result, interest rates have been lowered and loan quality (i.e. the share of non-performing loans in the banks' balance sheets) has improved. It appears that the activities in the banking sector, dominated by inefficient nationalised commercial banks, are being replaced by relatively more efficient and competitive private commercial banks and foreign commercial banks. However, absence of prudential regulation may result in an economic crisis with serious social impact, as the Asian financial crisis of 1997 indicates. Hence, stakeholders consider that Bangladesh should exercise caution and slow down the process of liberalisation in the banking sector. The regulatory agency of the *insurance* sector in Bangladesh is not equipped with adequate staff and resources to supervise this growing industry, which limits the agency's role in the development of the sector. Insurance analysts consider that while opening this sector, apart from introducing efficiency and better regulation, the insurance companies also need to be innovative in expanding their business activities in order to reach the general public. In the *travel and transport* sector, major weaknesses in the regulatory framework include poor co-ordination between authorities and poor governance (corruption and poor enforcement). According to analysts, Bangladesh can liberalise this sector under Mode 4 only after setting up a proper regulatory body. Because of its unique geographical location, Bangladesh has the potential to become a 'transport hub' to serve the entire hinterland comprising Nepal, Bhutan and North East India.

In India, there is a strong sentiment in *legal* services that permitting foreign law firms entry to the market, even in a limited manner, would lead to the shrinking of the opportunities available to domestic lawyers (Kumar and Jatkar 2008). It has been highlighted that there is a need for a strategy for this sector as there is scope for Indian law firms to take advantage of the expanding global business and there is also a danger that if the process is not judiciously planned and necessary structural changes are not undertaken, the opening up of this sector may result in a fiasco for the domestic sector. India did not schedule *education* services either in the Uruguay Round or in its revised commitments under the ongoing Doha Round. Although India, in its revised offer, included higher education, many sections, such as civil societies, have opposed such a move. Whatever liberalisation has occurred in this area, such as allowing 100 per cent FDI on an 'automatic route' and permitting foreign participation through twinning, collaboration, franchising and subsidiaries, has been autonomously driven. In the Doha Round of negotiations, India had both an offensive and defensive interest in the *accountancy* sector. In the Uruguay Round, India did not make any commitments on accounting. However, in its revised offer for accountancy services, India offered full commitments on accounting and book-keeping services under Mode 1 and Mode 2 while keeping Mode 4 subject to horizontal commitments. Supply of services under Mode 3 has been 'unbound'. Many considered India's revised offer defensive because it was very little. It appears that although there are some significant potential gains from further trade liberalisation, India has adopted a cautious approach. Also, the strengthening of the domestic regulatory rules in some of the services sectors, and capacity building in a few of them, seem to be necessary to face global competition.

In Nepal, as the *insurance* sector already has a few foreign companies with 100 per cent equity and a few joint venture companies, liberalisation under the WTO does not expose the country to a completely new scenario. However, the need for a sound regulatory system is still necessary to maintain an efficient, safe, fair and stable insurance market and to promote growth and competition in the sector, as insurance markets have developed at a much faster pace than the process of insurance supervision. Over the years, the *banking* sector of Nepal has slowly transformed from a heavily state-owned sector to a vibrant one dominated by private companies. Under the Financial Sector Reform Programme, Nepal has undertaken various institutional reforms. However, Nepal Rastra Bank (the Central Bank of Nepal) needs to address gaps in its supervisory framework and enhance cross-border supervision mechanisms. In addition, before any further liberalisation of the financial sector, Nepal needs to resolve a few issues, such as loan recovery from large, wilful defaulters, and improve the financial condition of the two government-owned commercial banks. Nepal's commitments under the WTO remove all limitations on the number of suppliers in various *telecommunication* services. In addition, Nepal has committed to allow foreign participation of up to 80 per cent in the sector. These changes seek to make telecommunication services reliable and accessible throughout the country at a reasonable cost. However, the liberalisation process has to be accompanied by the setting up of regulators to ensure that competition is fair and consumers are not exploited. In addition, as Nepal is moving from a government-owned monopolistic market into a liberalised competitive market, a major challenge is to establish an independent regulator with adequate expertise, information, authority and accountability.

The *communication* sector in Pakistan, particularly telecommunication, has witnessed comprehensive reforms and robust growth, contributing to a large share of the country's total GDP. As a result, it is often considered one of the most successful services sectors to have gained substantial benefits from liberalisation. Regarding communications, primarily the telecommunication and IT industries, Pakistan has negotiated extensively at the WTO and formulated a comprehensive schedule of commitments, further shaping Pakistan's policy framework concerning trade liberalisation in these sectors. The legislation dealing with licensing in this sector does not distinguish between domestic and foreign service providers, since Pakistan provides national treatment to all telecommunication service providers. Another sector that has witnessed strong growth and subsequent liberalisation is the *financial* sector, particularly banking services. Pakistan's central bank, the State Bank of Pakistan, has pursued reforms aimed at liberalisation and privatisation since the beginning of the 1990s, and has achieved considerable progress. There are no restrictions on the establishment or operation of foreign banks in Pakistan. In order to further strengthen and synchronise the domestic legislative framework in relation to multilateral trade negotiations and commitments, the Government of Pakistan has established a commission to review the country's financial sector. There are various regulatory bodies governing *engineering, construction and architectural* services in Pakistan. The regulations governing construction services aim to encourage joint ventures and collaboration with local service providers. Licences are granted for projects where local firms do not have the requisite technical capacity. In effect, this works as a safeguard to local construction and engineering firms, who do not face undue competitive pressures.

Despite the fact that Sri Lanka has made commitments in GATS and scheduled conditional offers at the Doha Round of negotiations, its *telecommunications* sector is far from perfect in terms of regulatory rigour. This is unfortunate as Sri Lanka stands to gain by locking in reforms and providing investors with security for the much-needed investment in this sector. While Sri Lanka has made additional commitments to implement the Telecom Reference Paper, in practice, most of the commitments have not been met. This, in fact, could make Sri Lanka liable to international arbitration. The level of implementation of the Reference Paper commitments is a good indication of domestic preparedness for further liberalisation. Weak implementation has resulted in many of Sri Lanka's scheduled commitments (for instance the liberalisation of the external gateway) being made redundant. The implication is that Sri Lanka should focus on tightening its domestic regulatory framework and improving the capacity of the regulatory bodies through increased financial independence. Only then would further commitments in the telecommunications sector be realistic and useful.

There is much work to be done in other sectors to improve domestic preparedness for the liberalisation of services. Many professional service associations lack regulatory and legislative capacity to effectively regulate even local service providers. This is unfortunate given the fact that Sri Lanka stands to gain if there is increased foreign participation in many services sectors. This would provide greater access to foreign expertise and technology whilst triggering competition and investment that would be beneficial to consumers in Sri Lanka. In order to enjoy these potential benefits, the regulatory environment needs to be improved.

9.6 Concluding remarks

This chapter highlighted the importance of services trade liberalisation in South Asia. Since the 1980s, South Asian countries have witnessed a significant shift in the structure of their economies towards the dominance of the services sector in national production. Despite this, services trade constitutes a low share of total trade for most of the South Asian countries. It is also important to highlight the fact that workers' remittances, as a per cent of GDP, are increasing in most of the countries of this region, especially for low-income countries, reflecting the significance of labour-based services exports. This study has also indicated the fact that in all South Asian countries services sector employment has shown a rising trend.

The chapter highlighted that, based on the calculated RCAs, in 2010 RCAs were greater than 1 in communication services, other business services and government services for Bangladesh, in transportation, travel and insurance services for Bhutan, in computer and information services for India, in travel services for Maldives, in transportation, communication and government services for Pakistan, and in transportation, communications services, insurance services and computer and information services for Sri Lanka. However, the striking feature is that, though in 2000 India had RCAs greater than 1 in such sectors as travel, communications services, construction services, insurance services and government services, by 2010, RCAs in those sectors declined to less than 1, indicating India's deterioration in comparative advantage in those sectors.

The chapter also calculated the magnitudes of backward and forward linkages in different services sectors in the South Asian countries. Among the South Asian countries, Bangladesh has the largest backward linkages in energy, transport, housing, private service and public service; Nepal has the largest backward linkages in construction and trade. In the case of forward linkages, India has the largest ones in energy, construction and trade; Pakistan has the largest ones in transport and private services; Bangladesh has the largest one in housing and Nepal has the largest one in public services.

It is evident that competitiveness of the services sectors and a well-functioning regulatory system are essential for ensuring gains from services trade liberalisation in South Asia. It can be argued that development of skills and technologies in the services sub-sectors can improve the competitiveness of these South Asian countries.

There is no denying that in most instances, these countries lack established and well-functioning regulatory and institutional frameworks when it comes to services trade liberalisation. As for policy stance, a common position of these countries is the need for adequate time to frame appropriate domestic regulation policies considering the specific economic requirements and, at the same time, to ensure necessary technical assistance for capacity building. There should also be considerations on ensuring adequate regulatory flexibility for these countries to promote liberalisation. According to Article XIX of the GATS Agreement, the developing countries are allowed appropriate flexibility on an individual country basis. This implies that the South Asian countries should consider country-specific interests to take an appropriate policy stance.

Complications relating to services negotiations call for the South Asian countries to identify ways to deal with intricate matters associated with specific details of various provisions. It is also important for policy-makers to be able to assess the potential implications arising out of certain provisions. Furthermore, effective participation in services trade requires enacting and implementing the necessary domestic regulations. All these will require technical assistance and effective utilisation of domestic regulation.

Note

1 Benefitted from Raihan (2008).

References

Balassa, B (1965), 'Trade liberalisation and "revealed" comparative advantage', *The Manchester School*, Vol. 33 No. 2, 99–123.

Bulmer-Thomas, V (1982), *Input–Output Analysis in Developing Countries*, John Wiley & Sons Ltd., New York.

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

Chanda, R (2011a), 'Impact of services trade liberalization on employment and people movement in South Asia', ADBI Working Paper No. 339, Asian Development Bank Institute, Tokyo.

Chanda, R (2011b), 'Prospects for a services agreement in South Asia: trade, investment and development issues', Regional Bureau for Asia and the Pacific, United Nations Development Programme.

Kumar, P and A Jatkar (2008), 'Domestic preparedness of India in trade in services', paper prepared as part of the WTO Doha Round and South Asia: Linking Civil Society with Trade Negotiations. Phase 2 Project, CUTS, Jaipur.

Raihan, S (Ed.) (2008), *Domestic Preparedness of Services Trade Liberalisation in South Asia: Are South Countries Prepared for Further Trade Liberalisation*, CUTS International, Jaipur, India.

Raihan, S and M Angkur (2012), 'Liberalization of services trade in South Asia', paper presented at the 5th South Asia Economic Summit, Islamabad, Pakistan, 11–13 September 2012.

Raihan, S and BH Khondker (2010), 'Backward and forward linkages of the textile and clothing industry in India, Bangladesh and Pakistan', MPRA Paper No. 41231, University Library of Munich, Germany.

Ratna, RS (2010), 'Services trade in South Asia: Contours a liberalisation into SAFTAD modalities of liberalisation', 3rd South Asia Economic Summit, Kathmandu, 17–19 December 2010.