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Services Trade Liberalisation in South Asia¹

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I. INTRODUCTION

Even though the services sector is the major contributor to GDP in most of the countries, trade in services is a relatively new phenomenon and has a negligible share in the total world trade. The 'intangibility' and 'unstorability' factors were considered the main impediments to services trade. The services sector was not included in the multilateral trading system till 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 Organisation (WTO) has been administering this agreement and finally, services trade is getting the necessary importance in the multilateral trading system.

Over the last three decades, 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 initiative is the South Asian Agreement on Trade in Services (SATIS) in 2010.

Against these backdrops, this study explores the issues and concerns related to liberalisation of trade in services in South Asia. The study is divided into the following sections: Section II provides an overview of the service 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 III 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 IV presents the scenarios of services trade liberalisation negotiations in South Asia. Section V 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 VI concludes.

II. OVERVIEW OF THE SERVICES SECTOR IN SOUTH ASIA

2.1. Growth in the services sector value added

Table 1 compares the growth rates in the services sector in South Asian countries for different time periods. Bangladesh, India and Nepal have experienced a persistent rise in the growth of the services sector over the last three decades. In contrast, Bhutan, Pakistan and Sri Lanka experienced a rather fluctuating trend in the growth of their services sector. During the 2000s, the average growth rate in services sectors increased by 78 percent in Nepal compared to that during 1980s. The corresponding rates for Bangladesh, India and Sri Lanka are 64 percent, 41 percent and 23 percent respectively. However, growth rates

decelerated for Bhutan and Pakistan during the same period, and they decelerated by 13 and 23 percent respectively.

Table 1: Average annual growth rates in service sector value added in South Asian countries

| Country | 1981-90 | 1991-00 | 2001-10 |
|-------------|---------|---------|---------|
| Afghanistan | na | na | 12.86 |
| Bangladesh | 3.71 | 4.48 | 6.10 |
| Bhutan | 10.59 | 6.96 | 9.24 |
| India | 6.47 | 7.42 | 9.11 |
| Maldives | na | 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: na = data not available

Source: Author's calculation based on WDI data

2.2 Contribution to GDP

Over the last three decades, South Asian countries witnessed a significant shift in the structure of their economy towards the dominance of the services sector in national production. Table 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 percent in these countries during the 2000s. The most significant service subsectors 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 subsectoral trends in services output reflect the importance of a variety of factors in shaping service sector performance in the South Asian countries. These factors include deregulation and policy reforms in areas such as telecommunications, 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.

Table 2: Sectoral composition of GDP: South Asian perspective

| Country | Sub-sector | 1981-90 | 1991-00 | 2001-10 |
|--------------------|--|---------------|---------------|---------------|
| 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 |
| | <i>Total services (ISIC F-P)</i> | <i>18.76</i> | <i>27.95</i> | <i>46.04</i> |
| 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 |
| | <i>Total services (ISIC F-P)</i> | <i>56.27</i> | <i>58.86</i> | <i>60.54</i> |
| 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 |

| Country | Sub-sector | 1981-90 | 1991-00 | 2001-10 |
|------------------|--|---------------|---------------|---------------|
| 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 |
| | <i>Total services (ISIC F-P)</i> | <i>30.71</i> | <i>40.52</i> | <i>53.24</i> |
| 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 |
| 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 |
| | <i>Total services (ISIC F-P)</i> | <i>46.48</i> | <i>51.79</i> | <i>60.99</i> |
| 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 |
| | <i>Total services (ISIC F-P)</i> | <i>82.53</i> | <i>87.2</i> | <i>86.48</i> |
| 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 |
| | <i>Total services (ISIC F-P)</i> | <i>48.09</i> | <i>52.64</i> | <i>55.38</i> |
| 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 |
| | <i>Total services (ISIC F-P)</i> | <i>54.03</i> | <i>54.14</i> | <i>54.84</i> |
| 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 |
| | <i>Total services (ISIC F-P)</i> | <i>60.95</i> | <i>62.03</i> | <i>64.54</i> |

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

2.3. Contribution to trade

Bangladesh, India, Maldives and Sri Lanka experienced consistent rises in the growth rates of services exports and imports over the last three decades (Table 3). In contrast, Nepal and Pakistan 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 1980s and 1990s, India encountered deficit in the services trade (Table 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 2000s.

Table 3: Annual average growth rate of services exports and imports (%)

| Country | Services exports (BoP, current US\$) | | | Services imports (BoP, current US\$) | | |
|------------|--------------------------------------|---------|---------|--------------------------------------|---------|---------|
| | 1981-90 | 1991-00 | 2001-10 | 1981-90 | 1991-00 | 2001-10 |
| 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

Table 4: Trade balance in services (million US\$)

| Country | 1981-90 | 1991-00 | 2001-10 |
|------------|---------|----------|----------|
| Bangladesh | -274.43 | -533.56 | -1117.30 |
| India | -904.50 | -2524.36 | 6742.96 |
| Maldives | 35.31 | 168.99 | 608.41 |
| Nepal | 63.57 | 310.79 | -38.81 |
| Pakistan | -376.31 | -980.78 | -2592.19 |
| Sri Lanka | -163.55 | -377.93 | -577.97 |

Source: Author's calculation based on WDI data

In terms of the contribution of the services trade to the total trade, South Asian countries had mixed experiences (Table 5). Bangladesh, Nepal and Pakistan observed decline in the share of services exports in their total exports during the 2000s compared to those during 1980s. For Bangladesh and Pakistan this has been mainly because of much better export performances of the manufacturing sectors. For Nepal, however, the 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 during the 2000s 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 during the 2000s.

Table 5: Significance of services in total trade (% of country's total trade)

| Country | Services exports (BoP, current US\$) as % of total exports | | | Services imports (BoP, current US\$) as % of total imports | | |
|------------|---|---------|---------|---|---------|---------|
| | 1981-90 | 1991-00 | 2001-10 | 1981-90 | 1991-00 | 2001-10 |
| 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

According to Chanda (2011a), the subsector 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 percent 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 subsector has been an important driver of services exports in all four countries. This reflects their common source of comparative advantage in this subsector, 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 6). For, Nepal, during the 2000s, the share of remittances in GDP increased to more than 14 percent. 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, temporary movement of workers.

Table 6: Importance of workers' remittances (% of GDP)

| Country | 1981-90 | 1991-00 | 2001-10 |
|------------|---------|---------|---------|
| Bangladesh | 2.77 | 3.36 | 8.21 |
| India | 0.99 | 1.86 | 3.11 |
| Nepal | Na | 1.39 | 14.45 |
| Pakistan | 7.16 | 2.53 | 4.30 |
| Sri Lanka | 5.24 | 6.10 | 7.67 |

Note: na = data not available

Source: Author's calculation based on WDI data

2.4. Contribution to employment

In all South Asian countries service sector employment has shown a rising trend (Table 7). During 2000s, the 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 services sector in total employment had increased substantially over the last decade, its contribution to total employment has been much lower than its contribution to the GDP in all South Asian countries.

Table 7: Share of services sector in total employment (%)

| | 1981-90 | 1991-00 | 2001-10 |
|------------|---------|---------|---------|
| Bangladesh | 22.88 | 21.57 | 36.94 |
| Bhutan | Na | na | 28.68 |
| India | Na | 23.25 | 25.85 |
| Maldives | 48.50 | 50.30 | 58.35 |
| Nepal | Na | 14.40 | 20.70 |
| Pakistan | 28.04 | 34.14 | 35.92 |
| Sri Lanka | 29.07 | 34.53 | 38.28 |

Note: na = data not available. For other years the averages have been calculated based on the available data

Source: Author's calculation based on WDI data

Chanda (2008), however, observes that official statistics on service 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 service sectors' 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.

2.5. Services sector and FDI

In South Asia, during 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 significant fall (Table 8). In several South Asian countries, increased foreign direct investment (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 large inflow of FDI and as a result, by 2005-06 the FDI inflow in the services sector accounted for 81 percent 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 major contribution of FDI to Pakistan appears to be in the telecommunication and financial services. In Sri Lanka large FDI went to the telecommunication sector.

Table 8: FDI inflows in the services sectors (millions US\$)

| | 2005 | 2010 |
|-------------|--------|-------|
| Afghanistan | 166 | 67.7 |
| Bangladesh | 623.8 | 660.9 |
| India | 2630 | 10904 |
| Pakistan | 1682.7 | 633.8 |
| Sri Lanka | | 405.3 |

Source: Author's calculation based on Investmentmap data

(<http://www.investmentmap.org/prioritySector.aspx>, accessed on March 4, 2013)

2.6. Revealed comparative advantage (RCA)

The identification of readiness of key services sectors to face international competition after liberalisation is 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 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's Index of Revealed Comparative Advantage (RCA) for the services sectors in South Asian countries.² Table 9 reports the results of such an exercise for Bangladesh, Bhutan, India, Maldives, Pakistan and Sri Lanka. The exercise suggest 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.

Table 9: Revealed Comparative Advantage of Services Sub-Sectors in South Asia

| | Description | Bangladesh | | | Bhutan | | | India | | |
|----|---|------------|-------|-------|----------|-------|-------|-----------|-------|------|
| | | 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 license 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 license 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 |

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

² Refer, Balassa (1965). Mathematically, RCA can be calculated based on following: $\frac{\sum_d x_{isd} / \sum_s X_{sd}}{\sum_d x_{iwd} / \sum_s X_{wd}}$, where *s* is

the country of interest, *d* and *w* are the set of all countries in the world, *i* is the sector of interest, *x* is the services export flow and *X* is the total services export flow. The numerator is the share of service sector *i* in the total services exports of country *s*, while the denominator is the share of service sector *i* in the total services exports of the world.

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

Table 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)

III. EXPERIENCES OF SOUTH ASIAN COUNTRIES IN GATS NEGOTIATIONS

Article IV of GATS stresses that in order to increase the participation of the developing countries in global services trade, there is a need to strengthen domestic service capacity of these countries and its efficiency and competitiveness, *inter alia* through access to technology on a commercial basis; improve these countries' access to distribution channels and information networks; and liberalise market access in sectors and modes of supply of export interest to them. Such calls were re-emphasised by the WTO at 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. Besides, registering any

meaningful liberalisation commitment in the negotiations has achieved little progress. There is serious concern about the developing countries' lack of capacity to evaluate the requests received from other member countries and regarding 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. Even, no progress has been achieved with respect to streamlining or increasing the efficiency of processing mechanisms for visa 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. Also, there is a 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, lack of a national strategy for export of services, lack of government support to help service firms, especially small and medium enterprises, and lack of financial capacity of firms.

The outcomes of ongoing GATS negotiations will have a significant implication on 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 on Mode 4 as these countries have comparative advantage on the movement of temporary workers. But there are other areas in 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 case of communications and tourism sectors. GATS classified 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 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 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 area 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.

IV. SERVICES TRADE LIBERALISATION NEGOTIATIONS IN SOUTH ASIA

Ratna (2010) presented a summary of the negotiations for services trade liberalisation in South Asia. Importance of services especially tourism was recognised in the Tenth SAARC Summit in Colombo in July, 1998. Thirteenth SAARC Summit in Dhaka in November, 2005 recognised the potential of trade in services, especially informal trade and decided for a study to see how services could be integrated into the SAFTA process. First Meeting of the SAFTA Ministerial Council in Dhaka in April, 2006 approved the course of action including completion of study on Services in a time bound manner. 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 realize its full potential, SAFTA should integrate trade in services. They called for a finalisation of an Agreement in the services sector at the earliest. Third Meeting of the SAFTA Committee of Experts in New Delhi in March, 2008 took note of the Revised Regional Study done by the Coordinator of the Study "Research and Information System for Developing Countries" (RIS), New Delhi. 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 recommendations of the Third Meeting of the SAFTA Committee of Experts thereon. The Meeting endorsed the recommendations of the Third Meeting of SAFTA COE and decided that RIS be requested to draft the text of 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 16th SAARC Summit in Thimpu in April, 2010, the South Asian Agreement on Trade in Services (SATIS) was signed with the aim of liberalization 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 liberalization commitments under SATIS. Negotiations for schedule of specific commitments shall take place keeping in view of the national policy objectives, the level of development, and the size of economies of Contracting States and individual sectors. The Agreement shall progressively cover liberalization of trade in services with broad based and deeper coverage of majority of services sectors/sub-sectors with a view to fulfilling the objectives of Article V of GATS. A positive list approach to be followed. Negotiations for specific commitments for progressive liberalization would be based on '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 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 harmonization 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 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 labours and reliance on manpower exports the South Asian countries would need a greater cooperation 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 cooperate for formulating 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 cooperation should provide special treatment and technical assistance for LDCs.

V. DOMESTIC PREPAREDNESS OF SERVICES TRADE LIBERALISATION IN SOUTH ASIA³

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 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. For example, in the case of the *construction* sector, low capacity and capability of local contractors and consultants, due to weak resource base and inadequate skills and experience were considered the major concerns. Poor working environment, including low standards of safety and occupational hazards at construction sites, weak and non-facilitative policies and regulatory framework, and low productivity and

³ Benefited from Raihan (2008)

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 regulatory framework, intense competition among well-funded and equipped foreign operators and 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 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 banks' balance sheets) has improved. It appears that the activities in the banking sector, dominated by inefficient nationalised commercial banks (NCB), are being replaced by relatively more efficient and competitive private commercial banks (PCB) and foreign commercial banks (FCB). However, absence of prudential regulation may result in economic crisis with serious social impact as the Asian financial crisis of 1997 indicates. Hence, stakeholders consider that Bangladesh should follow cautious 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 manpower and resources to supervise this growing industry, which limit 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 need to be innovative in expanding their business activities in order to reach the common people. In the *travel and transport* sector, major weaknesses in the regulatory framework include poor coordination between authorities, poor governance (corruption and poor enforcement). According to analysts, Bangladesh can liberalise this sector on 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 Northeast India.

In India, there is a strong sentiment in the *legal* services that permitting foreign law firms 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 a scope for the Indian law firms to take advantage of the expanding global business and there is also be a danger that if the process is not judiciously planned and necessary structural changes 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 on-going 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 percent FDI on 'automatic route' and permitting foreign participation through twinning, collaboration, franchising and subsidiaries, has been autonomously driven. In the Doha Round of negotiations, India has both 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 the revised offer of India as defensive as it was very little. It appears that though there are some significant potential gains from further trade liberalisation, India has adopted a cautious approach. Also, there is a need to strengthen the domestic regulatory rules in some of the service sectors and in few services sector capacity building seems to be necessary to face global competition.

In Nepal, the *insurance* sector already has few foreign companies with 100 percent equity and 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 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 removes all limitations on the number of suppliers in various *telecommunication* services. In addition, Nepal has committed to allow foreign participation of up to 80 percent 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 telecom, has witnessed comprehensive reforms and robust growth in recent years, contributing to a large share to the country's total GDP. As a result, it is often considered one of the most successful service sectors to have gained substantial benefits from liberalisation. Regarding communications, primarily the telecom and IT (information technology) 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 in recent years 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. At present, there are no restrictions on the establishment or operations of foreign banks in Pakistan. In order to further strengthen and synchronise 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 the *engineering, construction and architectural services* in Pakistan. The regulations governing construction services aim to encourage joint ventures and collaboration with local service providers. Licenses 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 *telecom* sector is far from perfect in terms of regulatory rigour. This is unfortunate as Sri Lanka stands to gain by locking in reforms and provide investors 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 improve 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 service 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.

VI. CONCLUDING REMARKS

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 the developing countries. The South Asian countries like India, Pakistan and Sri Lanka have competitive edge in few services sub-sectors, while Bangladesh and Nepal are lagging behind compared to her South Asian counterparts in almost all categories of services trade. It can be argued that development of skill and technologies in the services sub-sectors can improve the competitiveness of these South Asian countries.

There is, however, 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 appropriate policy stance.

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

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