

# Trade in Services in South Asia : Scheduling Priorities

by

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## Outline

1. Significance of services in South Asia
2. Identifying potential sectors for negotiation
  - Growth, value added, trade performance
  - Reform and liberalization trends
  - Intraregional developments
3. Status of multilateral and other commitments: A feasibility check
4. Modalities and approaches

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## 1. Significance of Services in South Asia

- Contribution of services to GDP and growth
  - Over 50% of GDP in all South Asian countries
  - Highest share in Maldives (82.93%), lowest in Nepal (53.01%)
  - Steady increase in share of services in GDP in all countries from 1970
  - CAGR of services > CAGR of total GDP for all countries in the 1995-2007 period
- In absolute terms considerable difference among countries in region
  - India's service sector GDP exceeded US\$ 50 billion in 2007, 8 times larger than that of second largest (Pakistan), many times larger than smallest (Maldives)

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- Growing contribution of services to region's trade basket and high growth rate of services exports
  - Consistent increase in S. Asia's share in world services trade over last 15 years
  - Although S. Asia accounts for only 3% of world services exports, its services exports have grown more rapidly than world services exports since 1993
  - Region's RCA in services has risen steadily and improved over RCA in merchandise
- But asymmetries across countries in services trade performance and significance
  - India main contributor to region's services exports (89%), imports (75%) (2007)
  - Only India shows consistent increase in share of services in total trade and in total exports
  - For other countries, variable services export performance, some with consistent decline (Bangladesh)
  - India's penetration in world services exports risen from 0.7% in 1980 to 2.5% in 2007

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## 2. Identifying Potential Sectors for Negotiation

- Various ways of identifying potential sectors for negotiation
  - Based on growth, GDP contribution, trade and investment growth and composition
  - Based on scope and nature of reforms and liberalization undertaken
  - Based on intraregional initiatives and commercial and other relations already existing or under consideration

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### 2.1(a) Growth and value added contribution

- Several sectors emerge among all/most countries in region where high growth and high share in GDP or high growth but low share in GDP:
  - implies potential for trade and investment in general
    - Transport, communication, energy
- Several sectors where complementarities across countries in terms of growth and GDP share characteristics
  - implies potential for intraregional trade and investment/collaboration
    - Tourism, financial, construction, business services

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2.1 (b) Trade performance

- Some services where commonality/complementarity of trade interest evident from export growth and contribution to services trade
  - Business services
  - Tourism and travel related services
  - Transport
  - Computer and information services
- But asymmetric reliance/significance of certain services (tourism, computer and information) in some countries, implying some will primarily export, others will primarily import - scope for collaboration to expand relations in those services
- Potential for investment and movement of persons in selected services within region

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Cross-cutting issues

1. Movement of service providers

- Importance of labour exports, including labour-intensive services though mostly outside region
- But indicates potential for movement of service providers within region in selected services

2. Investment in Services

- Services an important destination for FDI in region
- India is a potentially important source of FDI within region- asymmetry

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2.1 (b) Reform and liberalization trends

- Several service sectors where significant reforms and liberalization in most of the countries in the region
- Several services where long term action plans, new policy and regulatory frameworks introduced to improve competitiveness, strengthen infrastructure
- These are potential sectors for inclusion in a regional FTA as autonomous liberalization already undertaken and long term interest and commonality of approach
- Some such sectors include:
  - Telecommunications
  - Power
  - Banking
  - Transport
  - IT-ITES

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2.1(c) Intraregional developments

- Some services where regional initiatives, collaboration charters, limited extent of trade and investment relations exist or have been proposed/recognized
- Related movement of persons, service providers, and investment flows though clear asymmetry among countries in terms of export potential
- Many of these services correspond to areas where reforms and liberalization undertaken and also where GDP growth and contribution potential evident
- Various kinds of regional stakeholders involved- private sector, governments, and regional agencies
- Existing commercial and non-commercial ventures reflect areas where likely potential for increasing intraregional relations in services, and where prior ground for furthering discussions under SAFTA

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Telecom services

- Regional discussions and forums
  - CEO Conclave – annual meeting of SAARC industry leaders in the telecom industry – has completed 7 summits
    - lower tariffs, better roaming facilities, high speed services, sharing of regulatory best practices , building knowledge and capacity on latest technology in the sector, standardization of telecom monitoring methods
  - SAARC industry Forum launched in Telecom sector
  - Revised SAARC Plan of Action on Telecom
    - Lower tariffs, use either direct links or hubbing/transit facility for intraregional traffic,
  - SATRC (South Asian Telecom Regulators’ Council) formed in 1997, discusses and coordinates issues of common interest to Telecom Regulators in these countries
    - Radio frequency coordination, standards, regulatory trends, strategies for telecom development
    - To identify and promote areas of potential cooperation in telecom within region, information exchange via capacity building activities

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- Several private sector initiatives, though mostly Indian companies
  - Airtel signed roaming agreement with Pakistan’s Mobilink to provide mobile roaming facilities for its pre paid and post paid customers (2004)
  - Reliance Infocomm and Bharti Airtel showed interest in bidding for a license for GSM 2 D cellular services in Bhutan (2006)
  - BSNL cut international call rates to SAARC countries by 15-35 % enabling BSNL mobile and landline customers, to make calls to Pakistan, Bangladesh, Maldives and Bhutan at cheaper rates (2008)
  - Airtel entered Sri Lankan mobile market (2009), keen to enter Bangladesh too

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- Thus potential for mutually advantageous trade exists in South Asia
- Bangladesh's reserves of LNG estimated at 10.6 trillion cubic feet and net proven reserves of 15.3 trillion cubic feet, undiscovered reserves of 32.1 trillion cubic feet
- Bhutan's hydropower potential estimated at 30,000 MW, of which 16,000 MW safe and exploitable
- Nepal's hydropower potential estimated at 43,000 MW, of which only 244 MW developed
- Considerable prospects for developing regional electricity grid connecting India, Bangladesh, Nepal, Bhutan in the East
- Transit possibilities to deliver gas from Iran through Pakistan to India, also meeting Pakistan's additional gas needs, with transit fees accruing to Pakistan (but security of transit and international relation issues)

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- Several bilateral cooperation arrangements in form of energy exchanges
- Indo – Bhutanese Hydel Cooperation*
- Indian infrastructure & energy sector companies (Jaiprakash Associated, GMR, Tata Power, Reliance Energy) eyeing Bhutanese hydropower sector for projects
  - Essar Group has begun work on a 500 MW hydel project in Bhutan, estimated cost of Rs 4000 crores, either entirely on BOOT basis or in collaboration with Bhutanese government.
  - India's Power Grid Corporation and Tata Power involved in Bhutan's Tala Hydropower Project since 2003- transmission project that would evacuate power from the 1020 MW Tala project and transmit to India's Northern and NE states
- Indo – Sri Lanka Petroleum cooperation*
- Lanka IOC, Indian Oil's subsidiary in Sri Lanka, only private company other than state-owned Ceylon Petroleum Corporation to be operational in retailing petroleum and petroleum products for commercial and industrial purposes since 2003

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*Indo – Nepal Hydel cooperation*

- India's GMR group in association with Italian – Thai Development Project Co signed MoU with the Govt of Nepal to develop 300 MW Upper Karnali Hydropower project on a BOOT basis
- Indian company IL&FS acquired 15% stake in Nepal's 750 MW West Seti project – one of the biggest hydropower projects in Nepal, valued at \$1.6 billion
- Indian PSU bagged 402 MW Arun III project estimated to be over Nepali Rs 450 million (\$7 million).
- In 2006-07, Nepal Electricity Authority and IL&FS entered a deal
  - 2 Joint Venture companies set up, one each in India & Nepal
  - for development, operation and maintenance of portions of the cross-border transmission system in the respective countries for four projects (Butwal- Gorakhpur, Duhabi - Purnea, Dhalkebar - Muzaffarpur and Anarmani—Siliguri Cross Border Transmission Line Projects)

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- Initiative between India and Bangladesh to import gas from Myanmar via Bangladesh fell through
  - India was to set up a pipeline to link gas field in Myanmar with state of Tripura, crossing Bangladesh to West Bengal
  - Bangladesh to have earned \$100 mn in annual transmission fees, another \$100 mn in one-off right of way charges from project, \$25 mn per year for sharing management expertise, and would have had \$350 million in investment
  - But due to failure to agree on terms and conditions for transit via India to Nepal and Bhutan from Bangladesh and sale of electricity from these countries to Bangladesh via India, pipeline agreement failed, separate ones laid in each country raising costs

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Tourism and hospitality

- Regional efforts
  - Tourism initiative under SASEC (South Asian Subregional Economic Cooperation initiative of ADB), comprises of India, Nepal, Bhutan, Bangladesh, Sri Lanka
  - Development of joint tourism products around themes of eco-tourism and Buddhist circuit
  - 22 key destinations listed across region, which could be potential sites for intraregional tourism promotion
- SAARC initiatives
  - Since late 1980s tourism area of cooperative interest
  - Technical committee organized in 1991 within SAARC framework
  - Tourism Council established by SAARC Chamber of Commerce and industry to represent private tourism sectors of all member countries, increase cooperation, contribute to development of regional economy
  - Working Group on Tourism established by Council of Ministers in 2004
    - Recommendations such as printing of SAARC Travel Guide, production of documentary movie on tourism in SAARC, promoting sustainable development of eco, cultural, and nature tourism, exchange programs for capacity building

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- Adoption of SAARC Cox's Bazar SAARC Action Plan on Tourism in 2006 to promote SAARC as common destination, increase involvement of private sector
  - Promote direct air links among members
  - Develop road and rail links
  - Separate counters for SAARC nationals at international airports in region
  - Recognize National Driving License among members on reciprocal basis
  - Reduce entrance fee for SAARC nationals at public tourist sites
  - Simplify visa formalities for SAARC citizens
- Regional discussions recognize the overall need to:
  - liberalize air access among SAARC countries
  - Facilitate ocean and other water based, road, highway, and railway transport, undertake joint programmes at regional and bilateral levels to develop infrastructure and institutions for tourism operations
  - facilitate investments by private sector and PPP ventures
  - need to learn from other regional groupings (ASEAN and EU)

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- Some private sector ventures, though mostly by Indian companies
- Indian hospitality major Taj Hotels has range of hotels in other South Asian countries
  - 3 in Sri Lanka, 2 in Maldives and 1 in Bhutan
  - Has 33% stake in a Nepal's Hotel De La Annapurna
- The Oberoi Group to enter Bhutan with a plan to build two luxury hotels in a joint venture with local partners Chhundu Travels at an estimated cost of about US\$ 25 million
  - one at Chengaydaphu, Thimphu, other at Paro
- The Leela Group with its alliance partners – Kempinski set to operate a luxury resort in Maldives to be operational in 3 years
- Aitken Spence – Sri Lanka's pioneering hospitality services player has ventured into India and the Maldives
  - Operates Poovar Island Resort in Trivandrum, Barefoot Island Resort in the Andaman Islands, Hotel Athithi in Pondicherry

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Relative importance of intra-SAARC travel to SAARC countries

- For some countries in the region, intraregional tourism important
- For other countries potential exists
- Considerable untapped potential

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Trade Facilitation

- Important issue in SAFTA with member commitments to TF reform
- Service sector infrastructure and related issues key to TF in region
  - Integration of transport systems
    - Address lack of cross border transit points and connections
  - Improvement of transport infrastructure in road, rail, air, and port networks
  - Initiatives to improve efficiency of trade logistics
    - Reduce cargo dwell time at ports
    - Lower transactions costs by improving port infrastructure and efficiency
    - Focus on maritime, transshipment, and regional hub ports
  - Use of IT and e-commerce
- Capacity building, information exchange, training issues
- Empirical estimates indicate improvements in service infrastructure and unilateral liberalization by member countries would yield largest gains

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Banking services

- Limited regional presence of financial institutions, highly asymmetric nature
- 4 Indian commercial banks with branches in South Asia (RBI, 2008)
  - SBI (4 in B'desh, 5 in SL and 1 in Maldives), Indian Bank (2 in SL) and Indian Overseas Bank & ICICI Bank (1 each in SL)
  - India's Punjab National Bank and Nepal's Everest Bank have collaborated to share ATMs in both countries
- 1 foreign bank from SA (Bank of Ceylon) with branch in India
- In 2005, India and Pakistan agreed to cooperate by permitting two commercial banks to open 2 branches in each country
  - SBI and Bank of India had planned to open branches in Pakistan
  - Later dropped owing to political reasons
  - National Bank of Pakistan had plans to open 1<sup>st</sup> India branch in New Delhi, dropped
- Bangladesh's Grameen Bank setting up 3 branches in Assam to provide microcredit to people below poverty line

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Social services- education and health

- Regional cooperation in social services has received focus (health care and education related services)
- Recognized as important for realizing national objectives of equity and human development and common goals in these services
- Regional cooperation in education services
  - Social charter under SAARC, Technical Committee on Education, SAARC Teachers Forum, SAARC Consortium of Open and Distance Learning created to standardize curricula, mutual recognition of courses, promote transfer of credits
  - Recommendations to strengthen cooperation in joint development of educational programs, promote access to knowledge, SAARC Chair, Fellowship and Scholarship scheme, proposal to set up South Asian University
  - Facilitate ICT use in social sector
  - Intraregional exchange, capacity building
- Private sector exports of higher education services through mode 2

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- Regional cooperation in health services
  - SAARC Tuberculosis Centre
  - SAARC signed MoU with WHO to attain objective of health for all
  - Collaboration among institutions in South Asia, especially on diseases of the poor
  - Various potential areas for research, exchange, and capacity building
- Private sector ventures in health services
  - Apollo Hospitals made its first big investment outside India, in Colombo, supported by movement of doctors from India to Sri Lanka (but project was later abandoned)
  - Management of hospitals in region by premier hospital chains (Apollo)
  - Hinduja group plans to set up hospital in Sri Lanka
  - Medical tourism to reputed hospitals in region (especially to India)
- Potential in all modes- movement of patients, telemedicine, investment (acquisitions and greenfield), and movement of professionals within region

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**3. Status of multilateral and other commitments:  
A feasibility check**

- Given growth, GDP contribution, trade, investment, and intraregional developments, certain sectors are likely to be of interest in SAFTA
  - Telecommunications
  - Tourism and travel related services
  - Transport (trade facilitation more generally)
  - Energy
  - Computer and information services
  - Other services (professional)
    - Education and training, healthcare
- Status of commitments under GATS, regional, and bilateral agreements indicate what can be realistically expected under SAFTA
  - willingness to negotiate and schedule different services
  - likely nature of commitments under SAFTA, whether GATS+, whether status quo or less

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GATS commitments

- Generally low coverage of services by South Asian countries under the GATS
- On average, around 5 out of 12 GATS sectors committed
- Very small fraction of total potential subsectors committed
- Reflects unwillingness to schedule and negotiate services multilaterally
  
- Some willingness to improve upon earlier UR commitments evident for a few South Asian countries
- Mainly by expanding scope within already scheduled sectors, not by scheduling many additional sectors
- Reflects unwillingness to negotiate wide range of services

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Summarizing nature of GATS commitments

- Most liberally committed sectors include computer and information services, telecom, tourism, accountancy services
- Moderate liberalization commitments in health and higher education services, to some extent in construction services
- Modes 1 and 2 tend to be more liberally committed
- Mode 3 partially liberalized in important services such as IT, telecom, banking, insurance, tourism, health services
  - Most prevalent limitations include equity caps, ENTs, registration, local incorporation requirements
- No willingness to commit in mode 4 across all services
- Key services such as energy, transport not scheduled or key subsectors (pipeline transport) excluded
- Overall, both scope and depth of commitments very limited
- Indicates South Asian countries not prepared to negotiate services liberalization multilaterally or to bind in what has been done unilaterally

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Regional and bilateral commitments

- Although several bilateral trade and economic cooperation agreements have been signed between individual member states of SAARC, most are in the range of cooperation and transit agreements
- These agreements do not include concrete commitments on trade in services
- The two agreements with significant scope and commitments in the service sector involve extra-regional partners (India-Singapore CECA, Pakistan-Malaysia FTA)
- Among other sub-regionals, BIMSTEC has made more progress in several key service sectors, but negotiations currently limited to cooperation issues

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*Pakistan-Malaysia FTA*

- Commitments gone beyond Pakistan's 2005 services offer under Doha Round
- In most sectors where foreign equity participation limit placed, Pakistan has offered Malaysia upto 60% foreign equity participation compared to 51% in its GATS offer
- Additional sub-sectors scheduled in construction, telecommunication, tourism services
- Additional sectors scheduled:
  - Recreational, Cultural and Sporting services:
    - Libraries, archives, museums
    - Sporting services (cricket, football and hockey) – allowing commercial presence
  - Transport services:
    - Railway services - passenger transportation/freight/container terminal/supporting services – allowed 60% equity participation in Modes 1, 2 and 3
    - Road Transport Service – passenger/freight/rental of commercial vehicles/maintenance & repair of road transport equipment/supporting services – opened up Mode 1, 2 and 3 with FDI participation of 60%
    - Services Auxiliary to all modes of transport

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*Indo – Singapore CECA*

- India's commitments go beyond its 2005 revised offer under Doha round
- Additional sub-sectors scheduled in:
  - Professional services (advisory taxation services), rental/leasing services
  - Recreational services
- Other business services scheduled extensively
  - sale of leasing services of advertising space of time, Management & Consulting especially relating to legal consultancy, services incidental to electricity distribution, convention services, specialty design services, photographic services
- Scheduled some additional services
  - Internal freight transport by air
  - Special clause on air services on Open Skies
- Specific chapter of Cooperation on Education
  - Facilitate collaborations between IITs and/or IISc and universities in Singapore, post-graduate research and education, industrial linkages
  - MRAs for selected degrees and occupations
- Specific chapter on E-Commerce
- Cooperation Agreement in the area of Media

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#### 4. Modalities and Possible Approaches

- Given existing levels of liberalization in service sector, high growth in and high contribution of several services, and synergies and common interests in several services, SAFTA would benefit from inclusion of services
- Could adopt GATS positive list approach to scheduling commitments (covering aforementioned services)
- But feasibility check based on existing GATS and commitments under other agreements suggests that a phased and gradual approach to services negotiation may be warranted with gradual expansion of scope and depth of commitments
- Approach may need to differ across types of services- infrastructural, social, commercial
- LDCs within region will need differential treatment-exclusions, longer time

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#### Sectoral and modal issues

- Discussions in initial stages and related commitments could cover commercially-oriented services such as tourism and IT-ITES as common interests and goals, and standard and regulatory framework issues likely to be less problematic
  - However, supporting measures to facilitate cross border mobility of persons (professionals and tourists) would be required
  - Cooperation on infrastructure, training, capacity building issues would be required
- In key infrastructure services, focus on infrastructure development and cooperation on regulatory issues may be required initially before commitments are forthcoming
  - Cooperation chapters should be included
  - At later stage, consider possibility of binding in unilateral levels of liberalization given considerable prospects for intraregional trade and investment
- In social service sectors, focus needed initially on cooperation
  - Research, exchange, training, standards, movement of professionals, prospects for insurance portability
- Cross-sectoral and cross-modal linkages, supplementary measures must be addressed

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#### Cross-cutting issues

- Investment liberalization and facilitation of cross border investment key to progress in services under SAFTA
- Need to discuss cross border movement of service providers in selected services and occupations, especially those where cooperation and investment/trade interests exist
- Capacity building, training, human resource development, exchange, regulatory cooperation important across many services
- Need to develop and harmonize data collection on trade and investment in services- general, bilateral, and subsectoral- required

But will political, security, and internal challenges hold back progress on services under SAFTA?

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- Implications in wake of global economic crisis
  - Importance of export diversification in terms of markets and services
  - Importance of regulations, regulatory cooperation even more apparent
  - Joint positions on key issues, modes and sectors, common regional position could be taken forward into multilateral and other discussions
  - Provide opportunity for taking stock of domestic regulations and regulatory preparedness and gaps

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