South Asia and GATS

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Outline

- Overview of services liberalisation in GATS
- Service sector in South Asia
- Possible common interests
- State of play in GATS
- Moving Forward

Overview GATS

- Reduction of barriers to trade in services (market access, national treatment) across for modes
- Mode 1 – Cross border services
- Mode 2 – Consumer travels to supplier
- Mode 3 – Foreign direct investment in services
- Mode 4 – Temporary movement of natural persons

- Bilateral and plurilateral negotiations to exchange requests and offers.
- Offers made by each country are multilateralised
- As of the HK Ministerial in December 2005 there were 69 offers and 30 revised offers – since then 71 offers and 31 revised offers
- Parallel negotiations on rules – emergency safeguards, subsidies and government procurement

Services in South Asia

- Service sector in S.Asia as a whole has growth faster than overall economy 8.3% (2000-2007).
- Sector accounts for close to 50% of regional GDP.
- Compound annual growth rate of services exports from S.Asia was 23.5% (higher than the world average). South Asia's RCA in services has also increased in recent years reflecting the growing competitiveness of the region. (R.Chanda).

- Of course this is dominated by India but others catching up

Bangladesh – 50% of GDP in services

Nepal – 48%

Pakistan - 52%

SL - 59%

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IT and ICT

- IT-IT enabled services in India have grown at a compound annual growth rate of 28% since the 1999-2000 year. Further, India's combined exports of IT and ITES have risen from $4billion to $24billion in 2006 **(Chanda, 2009)**.
- Pakistan witnessed an increase in computer software exports of 19% in 2009, compared to those of 2008. Currently, the country produces 20,000 IT graduates annually **(Ahmed & Mahmood, 2010).**
- Sri Lanka has the highest literacy rate in South Asia. Approx. 1375 IT graduates pass out of national universities and training institutes, while a further 4000 pass out of the private sector ICT related institutions.
- Telecommunications sectors in S. Asia have grown at close to 20% in most countries in the last decade – source of FDI and spillover development impacts.
- Interest in M1 and M4 exports for IT and M3 imports for telecom and IT

Financial Services

- Financial services have been fast growing in many South Asia countries – reflecting recent investment and overall economic growth
- In Sri Lanka, the financial sector grew at 8.1% in 2006 **(De Mel, 2009)**, while in Pakistan, banking and finance grew at 6% for the year 2006 **(Uddin, 2009)**. In Bangladesh, growth in the financial sector **was 9% in 2008.**
- Financial services is one of the most sought after sectors in India and has clocked more than 7% growth in recent years. Recognising this, the Indian government has liberalized ownership rights in financial institutions.
- Given the importance of a vibrant financial sector for overall economic growth, in the interest of competition and technology transfer, M3 imports of financial services becomes useful.

Tourism

- One of the key services exports sectors in South Asia – comparative advantages in Sri Lanka, Nepal, Maldives in particular. Also a source of investment and employment.
- Sri Lanka has a highly developed hotel industry. Tourism accounted for 60,500 direct employment opportunities and 85,000 indirect employment opportunities in Sri Lanka in 2007.
- In 2006-07, 516,000 tourists visited Nepal. Nepal's foreign exchange earnings from the tourism sector for the year were USD 205 million. Earnings from tourism make up 3% of Nepal's GDP **(Dahal, 2009).**
- All South Asian countries have interest in M2 exports – but also in mode 4 exports and mode 3 exports in some cases (Sri Lanka). Also M3 imports.

Transport

- Pakistan exports about 54.5% of its total exports of commercial services as transport services and has a high RCA of 2.3
- Sri Lanka exports 42% of its services as transport, with a notable comparative advantage of 1.8.
- Bangladesh exports 20% of its services as transport has little comparative advantage with an RCA of 0.8
- India's low comparative advantage at 0.5% is the main reason for the absence of comparative advantage in South Asia's export of transport services. India exports 12.5% of its commercial services as transport **(Chadha & Nataraj, 2008)**.
- Maritime transport and related services, particularly port services, ship building and repair services are significant in Sri Lanka, Pakistan, Bangladesh and India.
- Transport accounted for more than 9.78% of Bangladesh's GDP in 2003, with maritime transport taking up more than 50% of it **(Raihan, 2009)**.
- Interests in M2 exports and M3 imports (port development, logistical services etc.)

Social Services – Education and Health

- India has comparative advantages in education service delivery due to its high quality higher education sector that attracts students from across the region. Scope for further expansion.
- Educational institutions in Nepal (particularly for medicine) and Bangladesh also attract significant numbers of international students.
- Potential for export through mode 2 and mode 1 (eg. Tutorvista) and import through mode 3 – India and more recently Sri Lanka has expressed interest in attracting high quality foreign education institutions to set up off shore campuses.
- High quality hospitals in India in particular, attracting health tourism – mode 2. Also cases of export of health services through mode 3 and mode 1.
- In other countries further investment needed to reach requisite standards for export of health services – one option is to attract investment through mode 3 imports.

Business/knowledge Process Outsourcing

- Technological advancement, labour forces educated in English with skills in IT and other skills and wage differentials between developed and developing economies, has enabled BPO to take off in South Asia – particularly India
- India's BPO exports have risen from $665 million in 1999-2000, to over 6 billion in 2006
- India is the most attractive services outsourcing destination in the world today. It accounted for 65% of the global market in off-shore IT services and 46% of the global BPO market in 2004-05 **(Chanda, 2005)**.
- Opportunities for other S. Asian countries to tap into the supply chain of Indian BPO exports, based on individual country comparative advantages – form of production fragmentation.
- Same time opportunities to export via mode 1 – to India and RoW
- Necessity to move up value chain to compete – legal services, accountancy, architectural services etc.

Other sectors

- Construction services – mode 4, mode 3 and mode 1
- Professional services :– accountancy
  legal
  advertising
  architectural
  R&D

  Particularly exports through mode 1 – long term perspective

Mode 4

- Among the modes of interest to South Asia, mode 4 is key
- According to the World Bank Global Economic Prospects 2006, the region as a whole received $32billion as overseas workers' remittances in 2005, which was an overall increase of 67% since 2001 (Kumar)
- While around 20% of the annual global international remittances (based on 2004 figures) flow into South Asia, India accounts for the majority of this (78%). Bangladesh accounts for 12% of remittances to South Asia, while Sri Lanka has over a million contract workers overseas (based on 2004 figures).
- Remittances play an important role in balance of payments and poverty mitigation in the region.
- Therefore the primary interest of all South Asian nations is in the liberalisation of mode 4. However, mode 4 is the most protected of all modes at a multilateral level.
- The bulk of S. Asian migrant labour is in low skill sectors – limited multilateral commitments in these. But also need to secure higher skill level liberalisation to move up the value chain.

Mode 1

- Given the S. Asian comparative advantage of abundant labour with an increasing skill base – the prospects for exports through mode 1 are substantial
- BPO but also KPO in various professional services – taking advantage of the region's numerous graduates with english language capabilities.
- Mode 1 increasingly practical given the penetration of ICT throughout the region and also the increasing challenges associated with mode 4 service delivery due to security and bureaucratic challenges make M1 more attractive.
- An important challenge is the necessity for domestic policy to keep up with international policy relating to issues such as data security.

Negotiating Priorities

- Mode 4
- Elimination of ENT in some areas
- Stronger framework for MRA's art VII
- Increased transparency and simplification of qualification requirements
- All of the above can be brought in under overarching framework of S&DT for developing countries.
- Emphasis on securing commitments in low skill categories, IPs and CSS.

- Mode 1
- Identify emerging business opportunities – lock in sectors. Whilst this is not a short term interest of developing nations due to supply constraints, it is a longer term interest.
- Locking in commitments becomes all the more important given growing political opposition to outsourcing and temporary migration in developed nations – given impacts of economic crisis on employment

Cont.

- Whilst export interests are primarily in mode 1 and mode 4, S. Asia also has import interests in mode 3.
- This could enhance services available for consumers (health and education), enhance other business services and investment climate (telecom, finance, logistical services) and provide scope for export of services (ITES, maritime services)
- Therefore whilst securing commitments in mode 1 and mode 4, S. Asian countries could look to making commitments in mode 3 and mode 2.

State of Play in GATS

- By HK ministerial there were 69 initial offers and 30 revised offers
- Since then increased to 71 initial offers and 31 revised offers
- However these have been largely in the same sectors covered in original commitments
- July 2008 signaling conference
- Business services – mode 4 and mode 1 (professional services – law, engineering, architecture, accountancy, CRS, medical and dental, veterinary, nursing, R&D, advertising, management consultancy, packaging, convention services etc)
- Telecom
- Audio-visual services
- Construction (all modes)
- Education – M1,M3
- Environmental services (solid waste disposal, sanitation, advisory services)

State of play cont.

- Health services – including traditional Asian Medicine
- Maritime transport – ship repair and maintenance, port services

- In mode 1 – several members agreed to improve commitments in general terms or relating to specific sectors

- In mode 4 – developmental implications were acknowledged and signals for improvement in all 4 areas – BV, ICT, CSS and IP

- "Several participants also indicated their willingness to extend permitted periods of stay; clarify, reduce or eliminate economic needs tests; remove definitional uncertainties; and adjust current entries to prevailing scheduling conventions."

- Business services dominated M4 - architectural and engineering services, medical professions, computer services, R&D services, opinion polling services

State of play cont.

- Negotiations also taking place on Rules

- Government procurement – largely informal discussions – whether to schedule GP commitments, MFN?, scope and definitional issues

- Emergency safeguards – defining "domestic industry", "injury", questions of validity given inherent flexibilities in GATS scheduling, empirical examples of situations, determination of causality, data issues etc. Degree of division within S. Asia on this.

- Subsidies – definitional issues - scope, lack of empirical cases. India, Pakistan in favour of rules on subsidies – will need to compromise with developmental usage of subsidies.

Challenges

- Making or securing commitments in GATS does not guarantee growth in trade in services – many challenges in the region will continue to inhibit potential for trade
- In terms of exporting services, the brain drain (loss of professionals to serve the domestic market – eg. SL tourism sector) poses a risk and limitations in HR skill capacity in the region poses a constraint to exports. Still limitations in penetration of infrastructure to enable Mode 1 exports.
- In terms of importing services challenges include limitations in regulatory capacity, weaknesses in the investment climate (M3 imports) and challenges in managing competition (eg. SL telecommunications market)
- An enduring broad constraint is the lack of data in trade in services, making it a challenge to identify offensive and defensive interests.

Thank You

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