

Services trade in South Asia



TRADE IN SERVICES IN SOUTH ASIA: Edited by Saman Kelegama; Sage Publications India Pvt. Ltd., B 1/I-1, Mohan Cooperative Industrial Area, Mathura Road, New Delhi-110044. Rs. 750.

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The least integrated region in the world, both in goods as well as in the services trade, South Asia bristles with barriers to intra-regional trade, in services more than in goods. The book covers trade in services in the seven South Asian countries (excluding Afghanistan) and provides an overview of the entire region on market access issues and regulatory constraints. An anthology of essays from experts, in addition to the introductory observations by Kelegama and two more on generic subjects, could as well have better synthesised the disparate contributions.

Trade in services in South

Asia has more than doubled since 1997; services growth (at 9.4 per cent) has been an important driver of growth for the region, contributing 52 per cent to the region's GDP in 2004 as compared to 42 per cent in East Asia and the Pacific. India accounts for the largest share of trade in services, which is almost 80 per cent, followed by Pakistan and Sri Lanka. While India commands a competitive advantage in construction, computer and information, and other commercial services, Pakistan and Sri Lanka have it in transport services. Maldives and Nepal are more competitive in travel services and Bangladesh has an edge in financial services.

Gains

It is now widely accepted that exposing the services sector to the "fresh winds of international competition" has the potential to unleash significant economy-wide gains. Liberalisation of trade in services can improve both access and efficiency of many services by reducing their costs and improving their quality (Chapter 1). Presenting India's liberalised trade in services, the second chapter traces Indian economy's increasing dependence on this sector for its growth. With an

average growth rate of 24 per cent over the period 2000-2006, communication services have registered the highest growth rates. India has pushed its agenda strongly in the General Agreement on Trade in Services (GATS) negotiations, although with little effect.

The third chapter deals with liberalisation of trade in services in Pakistan, where their development remains domestic demand-oriented. It is realised that it will take time and effort for most services to shift from such an orientation and become competitive internationally.

The next chapter commends Sri Lanka for its liberal services sector, which has played an important role in its economy. The fifth chapter, noting that just three per cent of Bangladesh's total services exchange taking place with countries in South Asia — and 72 per cent of it with India — identifies finance, telecom, health, tourism, and education as the sectors that need to be liberalised.

Historically, the services sector in Nepal has been highly protected as explained in Chapter 6, although, of late, it is getting liberalised with active participation of the private sector. The next two chapters dealing with Mal-

dives and Bhutan highlight the issues that are common for the whole region. Tourism, as a leading sector in Maldives with a 30 per cent share in the economy, covers all four modes of trade in services. Maldives, which opened up to foreign investments in the late 1980s, has been following a liberal FDI policy. The growth rate of 8.7 per cent in 2005 in the case of Bhutan was largely contributed by the construction and power (hydel) sectors.

Lack of manpower

What is emphasised by Fasih Uddin in respect of Pakistan, as generally reflected in concerns expressed by most contributors to the book, is the scarcity of qualified and trained manpower. There is thus an important need for investment in human development in the South Asian LDCs. Another major concern pertains to the need for an urgent upgrading of regulatory and legal framework to deal with complexities in the services sector.

Inward remittances in South Asia is a significant economic factor. In 2005, the region received USD 32 billion of remittances. About 40 per cent of the remittances to Bangladesh are reported to be through illegal hundi sources.

Sri Lanka's receipts through remittances are larger than its tea exports, and, in the case of Nepal, remittances accounted for 12 per cent of its GDP in 2004.

Opportunity

The penultimate chapter analyses the opportunity arising from the growing tradability of services in the region. Rashmi Banga focusses on disaggregated services such as transport, communications, construction, computer and information, and commercial services, besides travel and financial services, assessing the competitive advantages of the region as a whole.

Parashar Kulkarni (Chapter 10) suggests that, in spite of its inability to serve as an ideal instrument of policy reform, GATS provides a better platform in comparison with policy lock-in instruments like bilateral investment treaties and RTAs (regional trade agreements). It is his refrain that the region is far behind in respect of regulatory institutions as well as the quality of regulations. Again, the scope of SAFTA is at present restricted to trade in goods. Services trade may provide a better scope for finding trade complementarities among the South Asian countries.