

## ISSUES FOR 18TH SAARC SUMMIT

SAARC AGREEMENT ON TRADE  
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PRIME MINISTER SHEIKH HASINA AND THE LEADERS OF OTHER SAARC COUNTRIES AT THE CLOSING CEREMONY OF THE 17TH SAARC SUMMIT (AFP PHOTO)

After being in the SAARC agenda since the 13th SAARC Summit in Dhaka in 2005, finally the SAARC Agreement on Trade in Services (SATIS) was signed at the 16th SAARC Summit in Thimpu in April 2010. The SAARC leaders as usual called for an early conclusion of negotiations on the schedule of specific commitments under the agreement.

However, the notification of member state ratification took nearly two and half years (November 29, 2012) after the agreement came into effect, typically characterizing the slow movement of the economic integration agenda of South Asia.

## 'OFFER LIST'

Up to this date, 10 meetings of the Expert Group on SATIS had taken place. As SATIS is pursuing the GATS-plus 'positive list' approach for trade in services liberalization, the following format was pursued, taking into account that there are five LDCs in SAARC and out of them two are not members of the WTO, viz., Bhutan and Afghanistan.

These two countries were requested to submit the 'offer list' according to their level of comfort while the WTO member LDCs were requested to submit their 'offer list' which is WTO commitments-plus, in other words, GATS-plus. This means that the WTO member LDCs had to offer additional sectors to the initial list they had submitted

to the WTO.

The three developing countries of SAARC, viz., India, Pakistan, and Sri Lanka had to submit an 'offer list' that was GATS Doha Development Agenda-plus. In other words, around the mid-2000s these countries added more sectors for liberalization above their initial WTO commitment list for the Doha Development Agenda. They had to go beyond that list for SATIS.

An analysis of the submitted offer list by SAARC member states shows that the SATIS submissions by some member states have fallen short of GATS-plus where certain services offered under GATS have not been offered under SATIS to other SAARC member states. In the case of India, its submission is GATS-plus but falls far short from its GATS-plus submissions under its bilateral FTA submissions with Korea, Singapore, Malaysia, Japan, etc.

The member states had all the flexibility to submit their 'request lists' to others. The

'request lists' are fairly extensive compared to the offers made by all member states. Business services, transport, tourism, education, financial appear common among the request lists of member states. Although some members are yet to submit their 'request list', India's country specific 'request lists' are the most comprehensive; given its long experience in services; negotiation in other bilateral FTAs; compared to the other SAARC member states.

## SERVICES LIBERALIZATION

What is clear is that there has been a very cautious approach to trade in services; liberalization in the SAARC and the region has fallen far short of the 2010 SAARC Declaration's "early conclusion of negotiations". There seems to be a view in the smaller South Asian member states that the regulatory and other institutional frameworks should first be in place before embarking on services liberalization and therefore a cautious

approach to liberalization has to be made.

Such perceptions are not necessarily correct because it is services liberalization that most often triggers reforms on regulatory and institutional side and without such liberalization these reforms never take place in most countries.

There also seems to be a view that Mode 4 liberalization will flood the market with foreign professionals and outpace local jobs. Such perceptions are also misplaced as all initial liberalization under the GATS-plus takes place with Mode 4 linked to Mode 3 as happens in any case under the current unilateral liberalization regimes.

The de-linking can happen when the member state feels comfortable and this is not a forced item under GATS-plus liberalization format. All these factors have been extensively discussed in the South Asia Track Two dialogues and they seem to have made little impact on the Track One thinking and this is disappointing to say the least.

## SAFTA ANOMALIES

Some commentators have argued that the anomalies of SAFTA should be first rectified before fully embarking on SATIS and this may also be a delaying factor. This argument is basically misplaced due to the following factors. First, trade in goods and services are so much inter-related in the modern world that some of the impediments to goods flows will automatically be removed with services liberalization.

Second, services liberalization is an incentive for attracting FDI in services in the region. In fact, with the unilateral liberalization of trade in services in the SAARC member states, there is a vibrant intra-regional trade in services already taking place in the region. For example, the bulk of the Indian FDI in some SAARC

countries is in the services sector and this has taken place with the current status quo without any additional liberalization of services.

Binding commitments related to trade in services liberalization can be an incentive for attracting more services-related FDI from larger economies such as India to smaller economies in the region. Third, delaying services liberalization assumes that the rest of the world is going to wait till South Asia gets its act together, which is far from reality.

Expediting SATIS would make SAARC a more economically integrated region in the world with higher growth

A study done by the RIS in India finds that trade in services is more balanced with smaller SAARC economies generally enjoying a lower deficit or a surplus with the larger economies, thus assisting to bridge the asymmetries that prevail in trade in goods in the region.

Moreover, the study shows that there are more complementarities in the services sector in the SAARC region compared to the goods sector. Given this situation, trade negotiators of the smaller countries should expedite further liberalization of services in the SAARC region, taking due account to mitigate risks associated with liberalization.

Expediting SATIS would make SAARC a more economically integrated region in the world with higher growth. Will the SAARC leaders act on this at the 18th SAARC Summit in Kathmandu?

(Courtesy: The Daily Star)