

18TH SAARC SUMMIT

Saarc Agreement on Trade in Services: Tardy progress

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AFTER being in the Saarc agenda since the 13th Saarc Summit in Dhaka in 2005, the Saarc Agreement on Trade in Services (SATIS) was finally signed at the 16th Saarc Summit in Thimpu in April 2010. 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 place nearly two and half years (November 29, 2012) after the Agreement came into effect, characterising the typically slow movement of the economic integration agenda of South Asia.

Ten meetings of the Expert Group on SATIS have taken place till today. As SATIS is following the GATS-plus 'positive list' approach for trade in services liberalisation, taking into account that there are five LDCs in Saarc, of which Bhutan and Afghanistan are not members of the WTO. 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 they had to offer additional sectors to the initial list they had submitted to the WTO. The three developing countries of Saarc --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 liberalisation above their initial WTO commitment list for the Doha Development Agenda. They had to go beyond the 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 of 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, finance are 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 India's long experience in services negotiation in other bilateral FTAs compared to the other Saarc member states.

What is clear is that there has been a very cautious approach to trade in services liberalisation 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 liberalisation and therefore a cautious approach to liberalisation has to be made. Such perceptions are not necessarily correct because it is services liberalisation that most often triggers reforms on the regulatory and institutional side, and these reforms don't take place in most countries without such liberalisation.

There also seems to be a view that Mode 4 liberalisation will flood the market with foreign professionals and outpace local jobs. Such perceptions are also misplaced as all initial liberalisation under the GATS-plus takes place with Mode 4 linked to Mode 3 as happens in any case under the current unilateral liberalisation regimes. The de-linking can happen when the member state feels comfortable and it is not a forced item under GATS-plus liberalisation 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.

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 is so much inter-related in the modern world that some of the impediments to goods flows will automatically be removed with services liberalisation. Second, services liberalisation is an incentive for attracting FDI in services in the region. In fact, with the unilateral liberalisation 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 liberalisation of services. Binding commitments related to trade in services liberalisation can be an incentive for attracting more services related FDI from larger economies like India to smaller economies in the region. Third, delaying services liberalisation assumes that the rest of the world is going to wait till South Asia gets its act together, which is far from reality.

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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 liberalisation of services in the Saarc region, taking due account to mitigate risks associated with liberalisation. Expediting SATIS would make Saarc a more economically integrated region with higher growth. Will the Saarc leaders act on this at the 18th Saarc Summit in Kathmandu?

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Published: 12:00 am Friday, November 21, 2014

Last modified: 9:36 pm Thursday, November 20, 2014

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