Progress of liberalization of trade in Services in SAFTA

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The GMS countries are well known to Sri Lanka and some SAARC countries, due to their association in BIMSTEC and the Bangkok Agreement [now the APTA]. Sri Lanka and many GMS countries also have strong religious and cultural ties.

SAPTA [South Asian Preferential Trade Agreement] saw 4 rounds of trade negotiations. However, the impact of the concessions exchanged was limited, due mainly to the irrelevance of much of the concessions, and the limited depth of tariff cuts. There was consensus that the SAARC countries should move to a free trade agreement. A Framework Agreement on a SAFTA [South Asian Free Trade Area] was signed in January 2004. There were many important areas left for further negotiations in SAFTA, including Services. However, SAFTA was a landmark event for South Asia, as it is a quantum leap in South Asian economic cooperation. It marks a movement away from mere tinkering with tariffs, as under SAPTA. SAFTA finally became operational in July 2006.

Regional Trade Agreements have surged with the slowing down of the WTO Doha Round of negotiations. It is estimated that more than half of the world's trade is now conducted under Regional Trade Agreements. Of the more than 150 member countries of the WTO, only Mongolia was not a party to any regional trade agreement. Many countries are members of more than 5 regional trade agreements. There is some debate whether regional trade agreements, particularly the ones between developing and developed countries are WTO plus, in that they go beyond WTO commitments. This is especially so in the Services sector, where some developing countries have agreed to a ' negative list ' approach in negotiations, which is contrary to the GATS agreement of a ' positive list ' approach. Some economists and policy makers are not happy with the proliferation of regional trade agreements, and the well known trade economist, Professor Jagdish Bhagwati of Columbia University, says there are now a ' spaghetti bowl ' of conflicting agreements. For example, the rules of origin in many agreements differ, and a product from a country may receive different concessions in different agreements.

It has long been argued that trade in goods between SAARC countries was low, because of the lack of complementarities in trade in goods. Trade in Services offers better scope for finding full trade complementarities among the South Asian countries. South Asian countries are more competitive in different categories of services. For example, Pakistan and Sri Lanka in transport; India in computer and information services; Maldives and Nepal in travel services; Bangladesh in financial services; and India, Pakistan, Bangladesh and Sri Lanka in communication services. The services sector has long been the driver of growth in South Asia. It contributes more than 50% of GDP growth in South Asia, and employs around 35% of its population in the organized sector. Sectors like telecommunication, transport and financial services attract around 50% of the total FDI into the services sector. Given its vast manpower and cheap labour, the export of services like BPO, outsourcing and professional services have grown steadily from the region. India accounts for the largest share of trade in services, followed by Pakistan and Sri Lanka. Computer and Information services now account for the bulk of exports of services from South Asia.

Sri Lanka has opened its services sector to foreign investment. Foreign ownership of 100% of equity is allowed in a range of sectors such as banking, insurance, telecommunication, tourism. These sectors are regulated and subject to approval by various government agencies. Pakistan permits foreign investment in services, subject to certain provisions. Bangladesh has perhaps the most liberal services sector in South Asia, and provides the most generous incentives to attract FDI. The telecom sector has emerged as the most attractive sector for FDI. India has partially opened its services sector for foreign investment. There is pressure already on the new Government in India to open more sectors to foreign investment

The 14th SAARC Summit in New Delhi in April 2007 agreed to the vision to a South Asian Community, where there was a free flow of goods, services, people, technology, knowledge, etc. They stressed that to realize its full potential, SAFTA should include trade in services. They called for the finalization of an agreement in the services sector at the earliest. The 15th SAARC Summit in Colombo in August 2008, expressed satisfaction at the conclusion of the study on services, and welcomed the decision of the SAFTA Ministerial Council to commence negotiations on the framework agreement of trade in services. The study on services summarized the importance of the services sector in the SAARC economies. The study also listed some sectors of high priority as identified by the national studies via tourism, transport, IT, energy, health, education, financial services, etc. The study also proposed a "positive list" approach to negotiations to enable progressive, sequential liberalization including some special and differential treatment for LDC’s, as recognized by SAFTA. The third expert group meeting was held in Kathmandu on 23/24 May 2009 to prepare a framework agreement. It had earlier reached an understanding on guidelines and time frame for negotiations, WTO sectoral classification to be the base, progressive liberalization as per article V of GATS, "positive list" approach to be followed with a "request and offer" modality. The fourth expert group meeting in July 2009 in Kathmandu is expected to finalize the draft framework agreement on services.

Telecom is a major services sector, and many SAARC countries have liberalized this sector autonomously. Sri Lanka for example permits 100% FDI, with few restrictions. Bangladesh similarly permits 100% FDI, with a few restrictions such as joint ventures and registration. Pakistan also permits 100% FDI with a minimum investment specified. India which has a thriving telecom industry permits approximately 74% FDI, with some restrictions. Nepal permits 80% FDI with joint ventures specified. Maldives and Bhutan do not permit FDI in this sector. There is no information regarding Afghanistan, the newest member, but probably they do not permit FDI in this sector. There is already cooperation within SAARC in telecom. There is a SAARC plan of action on telecom, relating to lower tariffs, etc. There is also a South Asian telecom regulatory council formed in 1997 to discuss and coordinate issues of common interest, such as radio frequencies, standards, etc. There are also several private sector initiatives, mainly through Indian companies such as Airtel, to enter the South Asian market.

Banking is another area which provides opportunities for greater South Asian integration. There are already four Indian banks operating in Bangladesh, Sri Lanka and Maldives. A Sri Lankan bank has offices in India and the Maldives. India and Pakistan are also planning to cooperate in opening branches of banks in each others countries. Bangladesh's Grameen Bank has three branches in Assam, to provide micro credit to people living below the poverty line. It is clear that with the finalization of the SAFTA framework agreement on services, telecom and banking, tourism and hospitality trade, BPO and outsourcing, and the social sector i.e. education and health are ripe for inclusion in a SAFTA services agreement, and will provide considerable opportunities for increasing intra regional trade.

Global economic crisis which has affected most developed countries, and some emerging countries as well, would result in a reduced flow of FDI to developing countries. The global economic crisis is said to be the worst in over sixty years, and may last for sometime. It is called a "financial tsunami". Even General Motors has filed for bankruptcy. The global economic crisis would also result in tighter regulations. Outlook for the services sector may not be all that bright, with a reduced inflow of foreign investment. A way out would be to integrate with regional partners, which may minimize to some extent, some of the ill effects of the global down turn.