

IS THERE ANY POTENTIAL IN SERVICE TRADE OF SOUTH ASIA?

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Abstract: Like many developing economies, services have emerged as crucial economic activities in South Asia, yet this cannot increase the rapid growth in the intra-trade in the region. To find out the service trade potential in the region, this paper uses revealed comparative advantage indices to assess the comparative advantage and the indicative trade potential of different South Asian countries in various services sub-sectors. The study reveals that there stands complementarities in the trade of services as Pakistan and Sri Lanka have a competitive advantage in Transport Services, while India has a competitive advantage in Computer and Information Services and Other Business Services. In travel services, Maldives and Nepal possess competitiveness while Bangladesh in Government Services. The study reveals that competitive services have not explored the potential yet. India being the most robust economy of the region must provide a pivotal role in making negotiations and commitments under SAARC Agreement on Trade in Services (SATIS) particularly in competitive services.

Key Words: Trade, Services, SAARC, Regional Trade Agreements

JEL: F1, G2, F5

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1. Introduction

South Asian countries have attempted to achieve economic integration through the formation of the South Asia Association for Regional Co-operation (SAARC) in 1985; the original member countries were Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka. In a bid to accelerate the growth of trade among South Asian countries, the South Asian Preferential Trading Agreement (SAPTA) was concluded in 1995. The formation of SAPTA did little to develop trade among the countries in the region. Hence, the South Asian Free Trade Agreement (SAFTA) was signed in 2006. The main aim of the SAFTA was to reduce tariffs over ten years. As in the case of other initiatives, the agreement did little to foster trade among the countries in the region. This was followed by the signing of the SAARC Agreement on Trade in Services (SATIS) at the 16th SAARC summit held in Thimpu in 2010. The agreement entered into force on November 29, 2012 in accordance with Article-V of General Agreement on Trade in Services (SAARC 2010 & 2017). This Agreement has taken nearly two and half years for the specific commitments' conclusion, which reveals a slow move towards economic integration in South Asia (Kelegama 2015). Various SAARC meetings, summits have raised the issue of acceleration of economic integration in goods and services in the region. More specifically, the Eighteenth SAARC Summit stressed the need for 'the elimination of all non-tariff and para-tariff barriers and smooth and efficient transit of transport to accelerate the process for South Asian Economic Union (SAEU) in a phased and planned manner'. Two SAARC-ADB special meetings focussed the issue of trade facilitation, reduction in sensitive lists, and the SAARC Agreement on Trade in Services (SATIS) among other issues. The 8th meeting of SAARC finance ministers focused on a review of the progress in the implementation of their earlier decisions (SAARC 2017).

There have been significant structural changes in South Asian economies partly resulting from globalization. This has resulted the rapid growth in the services sector of the region particularly in India where the contribution of services to overall growth has been significant and which has attracted substantial foreign direct investment (FDI) into the sector (IBEF 2017). Despite the structural changes in South Asian economies over the past decade, the region has remained inward-looking (Nyatanga 2017). In particular, trade among South Asian countries has remained much below potential, partly because of tariff and non-tariff barriers (Kaur and Nanda, 2010). According to the World Bank's Services Trade Restriction Index (2017), increasing trade within the region will require the elimination of tariff and non-tariff barriers, leveraging of private and interregional investment, investment in efficient connectivity and border crossings and liberalising services: logistics, shipping, air travel, etc. (World Bank 2017). The present paper attempts to find out the competitiveness and the potential for services trade and explore the possibility of improving and diversifying service trade in the South Asian region. The paper is divided into four sections including the present one. Section 2 explains the trends, composition, and competitiveness of services trade in South Asia. Section 3 reviews GATS negotiations which South Asian nations were party to and the last section summarises the findings of the paper with some important suggestions.

2. Trends, Composition, And Competitiveness of Services Trade

2.1 Macro Economic Performance of South Asia

SAARC is a small regional bloc that has grown relatively slowly compared to other existing regional economic blocs like the European Union (EU) and Association of Southeast Asian Nations (ASEAN),. Table 1 shows the macroeconomic performance of SAARC nations. The SAARC region constitutes 23.73 per cent of the world population, but it has only 15 per cent of

the world's arable land. It contributes 3.82 per cent in world GDP. In world exports, it accounts for 3.68 per cent and in imports, it contributes US\$4962970 million (3.68 per cent) respectively. In net FDI inflow, it has received US\$50844.45 billion, (2.09 per cent) from the world.

Table 1: Macro Economic Indicators of SAARC Economies (2015-16)

Indicators	Population (Millions)	GDP (Current US\$ Trillion)	GDP Per Capita (Current US\$ Thousands)	FDI net Inflow (Millions)	Exports in (Millions)	Imports (Millions)	Trade balance (billions)
World	7442.14	75.94	10.20	2436511	4962970	4870960	92010
Share of SAARC in the world	23.73	3.82	16.1	2.09	3.68	3.29	0.39
SAARC Total	1766.38	2.903	1.640	50844.45	182468.9	160233.9	22235
Afghanistan	34.656	0.019	0.562	93.58944	483.877	1298.05	-814.173
Bangladesh	162.952	0.221	2.774	11.88416	3532.507	7784.163	-4251.66
Bhutan	0.79777	0.002	1.359	2332.725	145.695	196.039	-50.344
India	1324.17	2.274	1.717	44458.57	161819	133531.6	28287.4
Maldives	0.41749	0.004	9.872	456.6391	2891.359	1103.36	1787.999
Nepal	28.9828	0.021	0.729	105.9964	1354.299	1250.784	103.515
Pakistan	193.203	0.279	1.442	2488	5104	8871	-3767
Sri Lanka	21.203	0.082	3.857	897.0494	7138.115	6198.887	939.228

Source: World Development Indicators, World Bank (2015-16)

Note: Values of various indicators for Afghanistan and Nepal is available for 2016.

2.2 Composition of Services Trade in South Asia

SAARC contributed 3.7% of the global trade in services in 2016, much higher than the 1.4 % in 2000 (Table 2). Various agreements like South Asian Free Trade Agreement (SAFTA) and SAARC Agreement on Trade in Services (SATIS) have provided a boost to trade in goods and services. SAARC's contribution to world trade is the highest in telecommunications, computer and information services – 15.1 per cent of world trade – but this is primarily due to India's contribution. In other services like government services, other business services, personal, cultural and recreational services, construction services and travel services, the contribution of SAARC is 5.6 per cent, 5.1 per cent, 2.9 per cent, 2.7 per cent, and 2.4 per cent respectively in

2016. Almost all service exports from SAARC shows an increasing trend during the period 2000-2016.

Table 2: Share of Service Exports of SAARC to World (%)

Year	2000	2005	2010	2016	Average (2000-2016)
Total Services	1.4	2.3	3.4	3.7	2.73
Transport Services	1.0	1.4	2.0	2.3	1.71
Travel Services	0.9	1.2	1.9	2.4	1.55
Communication Services	2.5	3.3	2.5	-	2.97
Construction Services	1.8	0.8	1.7	2.7	1.43
Insurance Services	1.1	2.1	2.0	1.9	1.88
Financial Services	0.3	0.7	2.3	1.3	1.19
Computer and Information Services	9.0	15.6	18.5	15.1	15.5
Royalties and Licence Fees Services	-	-	0.1	0.2	0.08
Other Business Services	1.6	3.2	3.8	5.1	3.34
Personal, Cultural and Recreational Services	0.2	0.5	1.1	2.9	1.41
Government Services	4.6	5.0	8.1	5.6	5.34

Source: Authors calculation by using data source of UNCTAD and ITC, 2018.

Note: - indicates the unavailability of data. The collected data covers both the BPM Rev. 5 and BPM Rev. 6 Services Classification.

SAARC's share in world service imports was 3.3% in 2016. Among all services, the maximum import share on an average was of 'other business services' (7.02 per cent). The other services in which SAARC has the major import share are transport services (5.05 per cent), insurance and pension services (3.56 per cent), personal, cultural, and recreational services (3.50 per cent), financial services (3.23 per cent), and telecommunications, computer and information services (2.59 per cent).

Table 3: Share of Services Imports of SAARC from World (%)

Service label	2000	2005	2010	2016	Average (2000-2016)
All Services	1.7	2.9	3.5	3.3	2.73
Charges for the use of intellectual property rights	-	0.7	1.1	0.2	1.35
Construction Services	-	2.3	1.6	0.7	1.49
Financial Services	-	1.3	4.7	3.5	3.23
Government Goods and Services	1.0	1.2	1.4	1.6	1.27
Insurance and Pension services	-	3.6	3.2	3.6	3.56

Maintenance and Repair Services	-	1.0	0.4	0.3	0.68
Other Business Services	1.4	-	3.6	21.5	7.02
Personal, Cultural, and Recreational Services	-	-	10.6	1.2	3.50
Telecommunications, Computer, and Information Services	-	-	2.3	3.5	2.59
Transport Services	3.0	5.7	6.0	6.1	5.05
Travel Services	8.1	1.2	1.5	1.7	1.85

Source: Authors calculation by using data source of UNCTAD and ITC, 2018.

Note: - shows the unavailability of data, & here also telecommunication, computer and information services are taken together because separate data on them is not available.

The average export and import shares of different services of SAARC nations are shown in Table 4 and Table 5. The table depicts that the region has many complementarities in the services trade among themselves. Among SAARC countries, Afghanistan's contribution was mainly in more in construction (26.2%) and other business services (15.8%). Bangladesh and Pakistan in government services, 55.9% and 37.2% respectively, Bhutan, Maldives, Nepal, and Sri Lanka in travel services, 61.9%, 92.0%, 40.5%, and 29.4% respectively and India in computer and information services, 32.3% and other business services 32.6%. Pakistan and Sri Lanka also contributed significantly to the export of transport services. An interesting development is that trade in services has diversified with trade taking place in financial services, computer and information services, communication services and insurance services, apart from that in traditional services like transport and travel.

Table 4: Average Export Share of Various Services of SAARC Nations (%) (2000-16)

Category	AFG	BGD	BTN	IND	MDV	NPL	PAK	LKA
Total Services	100	100	100	100	100	100	100	100
Transport Services	5.88	9.15	27.3	11.3	4.97	6.71	30.7	41.0
Travel Services	10.0	5.01	61.9	14.2	92.0	40.5	5.88	29.4
Communications Services	11.6	7.12	1.15	2.55	2.32	12.7	7.35	3.33
Construction Services	26.2	0.93	2.24	0.98	-	-	0.66	1.83
Insurance Services	1.81	0.39	3.53	1.63	0.18	0.34	1.06	4.98
Financial Services	9.20	1.86	0.29	3.14	-	-	1.29	4.92
Computer And Information Services	1.45	1.78	-	32.3	-	-	3.47	9.04
Royalties And Licence	0.02	0.02	0.09	0.23	1.14	-	0.39	-

Fees Services								
Other Business Services	15.8	17.5	1.52	32.6	-	17.7	11.5	9.32
Personal, Cultural And Recreational Services	2.09	0.15	-	0.50	-	-	0.08	-
Government Services n.i.e.*.	11.5	55.9	5.58	0.95	0.70	23.3	37.2	1.11

Source: Authors calculation by using data source of UNCTAD and ITC, 2018.

Note: --- indicates unavailability of data. * Not Included Elsewhere

In the case of services imports, Afghanistan accounts for a major share in transport services (66.6 %) followed by insurance services (12.2 %), Bangladesh in transport service (73.2 %), government services (6.27%) and other business services (5.55 %), Bhutan in travel (35.0%) and transport (21.8%) and India imports in transport services (42.7 %) followed by other business services (24.2 %).

Table 5: Average Import Share of Various Service of SAARC Nations (%) (2000-16)

Category	AFG	BGD	BTN	IND	MDV	NPL	PAK	LKA
Total Services	100	100	100	100	100	100	100	100
Transport Services	66.6	73.2	21.8	42.7	41.7	37.1	47.6	57.9
Travel Services	7.71	7.53	35.0	12.0	36.7	40.3	16.0	17.7
Communications Services	2.62	0.55	1.50	1.37	8.45	2.54	1.66	1.58
Construction Services	2.22	0.59	24.4	1.47	2.86	-	0.60	0.32
Insurance Services	12.2	3.67	2.26	4.59	4.31	4.43	2.25	6.53
Financial Services	1.83	2.16	0.21	4.59	0.03	-	1.87	10.17
Computer And Information	0.56	0.13	0.40	2.98	1.16	-	1.50	6.75
Royalties And Licence Fees	0.01	0.29	0.16	2.23	0.52	-	1.44	-
Other Business Services	3.67	5.55	9.60	24.2	10.8	14.3	20.7	12.3
Personal, Cultural And Recreational Services	0.27	0.03	-	0.48	2.13	-	0.09	-
Government Services n.i.e.*	2.84	6.27	3.85	0.89	1.35	2.19	6.56	1.51

Source: Authors calculation by using data source of UNCTAD and ITC (2018)

Note: --- indicates unavailability of data.

*Not Included Elsewhere

India has a comparative advantage not only from SAARC nations but also in the world, which stands 2nd only to European Union (OECD 2017).

2.3. Competitiveness of South Asian Countries in Services Trade

The Revealed Comparative Advantage¹ analysis of SAARC exports shows that this region is competitive in different categories of services (Table 6).

The main services in which the SAARC region has a comparative advantage are telecommunications, computer and information services, other business services and government services.

Table 6: Revealed Comparative Advantage (RCA) of SAARC in Services Trade

Services/Year	2000	2005	2010	2013	2016	Average (2000-2016)
Transport Services	0.72	0.58	0.59	0.63	0.61	0.63
Travel Services	0.67	0.53	0.54	0.54	1.67	0.74
Communications Services	1.87	1.42	0.74	0.86	0.20	2.08
Construction Services	1.29	0.33	0.49	0.57	0.75	0.53
Insurance Services	0.82	0.92	0.58	0.66	0.53	0.73
Financial Services	0.25	0.30	0.67	0.53	0.35	0.41
Computer and Information Services	6.59	6.73	5.37	4.85	4.15	5.97
Royalties and Licence fees Services	0.10	0.04	0.02	0.04	0.60	0.14
Other Business Services	1.19	1.36	1.09	1.19	13.8	2.64
Personal, Cultural and Recreational Services	0.10	0.22	0.32	0.81	0.80	0.45
Government Services	3.36	2.16	2.35	1.56	1.53	2.13

Source: Authors' calculations based on the data from UNCTAD (2000-2016).

The revealed comparative advantage has decreased in transport, travel, construction and computer, and information services between 2000 and 2016. However, it has increased in insurance services, other business services, and government services. South Asia's export interests lie in the area of labour-intensive and manpower-based services while its import interests are in the areas of the capital and technology-intensive services, which enhances productivity. Construction, education, tourism and health services are of special significance for both exports as well as imports. If one looks at the RCA for different services, it is apparent that the highest RCA is in the case of computer and information services followed by government

services, other business services while the other services like transport and travel have low RCA value, which is less than one.

The average RCA analysis of South Asian countries for 2000-16 is presented in Table 7.

The table shows South Asian countries have competitive advantage in different categories of services.

Table 7: RCA of Various Services in South Asia (2000-16)

Name of Services	AFG	BNG	BHU	IND	MAL	NEP	PAK	SLK
Transport	0.41	0.43	1.19	0.55	0.26	0.25	1.35	1.92
Travel	0.12	0.17	2.15	0.51	3.58	1.55	0.23	1.36
Communications	2.49	3.66	0.38	0.83	0.82	7.27	2.89	1.27
Construction	13.8	0.51	0.00	0.38	0.02	0.00	0.27	0.61
Insurance	0.64	0.12	1.04	0.65	0.02	0.17	0.47	1.46
Financial Services	1.35	0.23	0.03	0.47	0.00	0.00	0.19	0.33
Computer and Information	0.11	0.43	0.00	6.03	0.00	0.00	0.84	1.86
Royalties and Licence Fees	0.00	0.00	0.01	0.04	0.06	0.00	0.05	0.00
Other Business Services	1.43	0.64	0.01	1.29	0.00	0.72	0.53	0.23
Personal, Cultural and Recreational Services	0.64	0.18	0.00	0.63	0.00	0.00	0.05	0.12
Government Services n.i.e*	2.38	25.6	2.00	0.27	0.21	12.1	22.0	0.46

Source: Author's calculation based on the data from UNCTAD (2018).

**Not Included Elsewhere*

At an average Pakistan and Bangladesh have competitive advantage in government services while India has competitive advantage in computer and information services, and other business services. Afghanistan has competitive advantage in construction services while Bhutan and Maldives have competitive advantage in travel service trade. Nepal has competitiveness in communication service trade. In transport service trade, Pakistan and Sri Lanka has competitive advantage in This apparently indicates that there exist complementarities in service trade among these countries .

2.3.1. Trade Potential among SAARC Countries

Table 8 provides an indication of the intra- SAARC services' Trade potential among the SAARC countries. India's export potential with SAARC has exhausted for all services except government services . Afghanistan, Maldives, Nepal, Pakistan and Sri Lanka' trade potential in Computer and Information Services and Other Business Services has not been explored yet. On the other hand, Bangladesh and Bhutan' trade potential in financial services is still underutilised. In remaining services transportation, travel, construction, insurance and personal,cultural and recreational services, the potential in Afghanistan, Bangladesh, Bhutan, Maldives, Nepal and Pakistan, Sri Lanka is also underutilised. Only government services trade potential has explored in two countries Bangladesh and Pakistan. India's trade potential has explored in most of the services. The positive relation between competitiveness and unexploited trade potential shown in Figure 1 indicates that competitive services have not explored the potential yet.

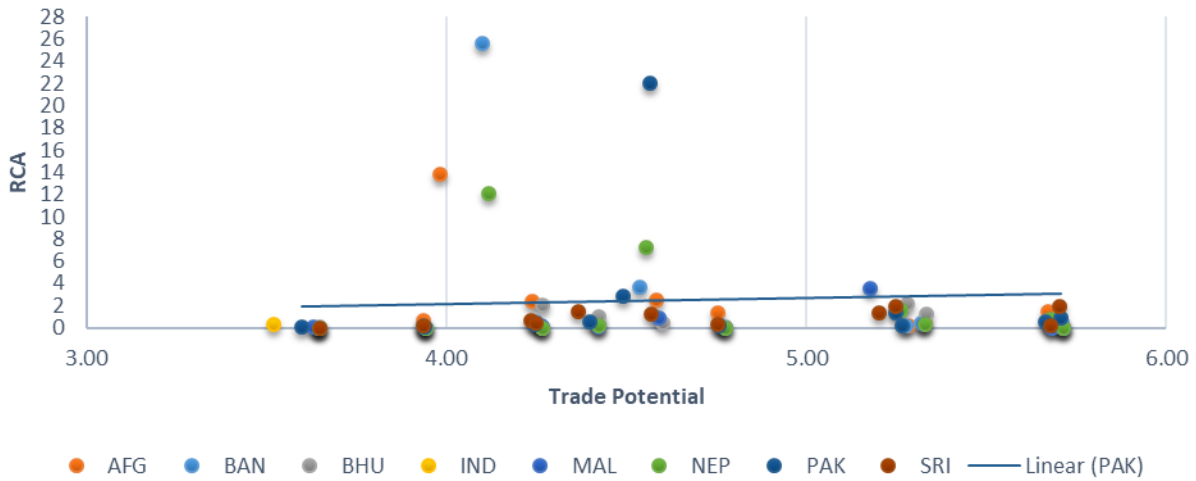
Table 8: Potential for Intra-SAARC Trade in Services (2016)

US \$ million

Category	AFG	BAN	BHU	IND	MAL	NEP	PAK	SRI
Total Services	1577562	1537918	1603308	-1500516	1560020	1580455	1465393	1508580
Transport	212961.5	209320.6	214715.6	-129091	212883	213986.8	176865.3	177551
Travel	191844.7	189800.4	191409.4	-211169	150975.9	182734.3	184515.6	159104.5
Communications	38350.26	34414.54	39873.92	-17484.7	39067.16	35846.27	30937.12	37156.82
Construction	9614.62	17708.02	18504.46	-8773.5	18478.57	18504.46	17625	17139.59
Insurance	26208.07	26445.08	26576.67	-21212.4	26613.36	26530.19	25065.17	23278.48
Financial Services	56563.61	58235.24	59433.78	-52342.4	59439.45	59439.45	57455.85	56981.14
Computer and Information	516448.6	515034.3	516622.5	-499312	516622.5	516622.5	510257.9	506821.2
Royalties and Licence fees	4437.89	4429.51	4439.94	-3224.9	4273.44	4441.12	3969.72	4441.12
Other Business Services	470854.9	470141.5	480455.4	-473387	480462.6	476165.4	462555.5	475239.3
Personal, Cultural and Recreational Services	8620.82	8669.96	8779.83	-8653.51	8779.83	8779.83	8718.23	8673.83
Government services n.i.e. (Not Included Elsewhere)	17380.48	-12578.6	18498.98	3312.79	18410.72	13092.94	-36748.8	17774.6

Source: UNCTAD and ITC database, 2018Note**mean Not Included Elsewhere*

Fig I:Relation between RCA and Underdeveloped Trade Potential



3. South Asia and Gats Negotiations

Countries like Bangladesh, India, Pakistan, and Sri Lanka are signatories to the General Agreement on Trade in Services (GATS) established in January 1995. The Hong Kong Ministerial Declaration of 2005 provided special treatment for trade in services (WTO, 2005) by least developed countries (LDCs). Among the four LDCs of South Asia Afghanistan, Bangladesh, Bhutan and Nepal, Bangladesh being a founder member of the WTO, benefited from the unique and differential treatment allowed to least developing countries during the Uruguay Round. With its accession to WTO in 2004, Nepal undertakes more commitments as compared to Bangladesh. However, Afghanistan and Bhutan are currently at various stages of their acceptance of negotiations.

The summary of negotiations from 10th SAARC Summit in July 1998 to the 16th summit in April 2010 focused on tourism, informal trade, completion of services in a time bound manner and to realise the full potential to integrate trade in services through SAFTA and liberalisation of regional trade in services (Razzaque and Basnett 2014). Initially, some South Asian countries

expressed their dissatisfaction with existing commitments in Mode 4, which do not address the categories and skills of interest to developing countries and continue to apply discretionary and non-transparent barriers to the movement of services. However, these nations came under the considerable pressure from leading developed countries, and they are in the process of liberalizing trade under Mode 4. They had also received requests to liberalize key sectors such as telecommunication, banking, insurance, legal, accountancy, education, environment and retail distribution services (Chanda, 2011 & 2012). But with the passage of time, all SAARC countries (except Maldives) have committed to liberalising services like telecom services, tourism, and travel services with initial and revised offers under GATS. But the commitment of these nations remains narrow except Nepal and Pakistan.

Bangladesh has undertaken GATS commitments in government services, communication and construction services. After the Doha Round, India liberalised commitments in knowledge-based services such as computer related services in Mode 1 and Mode 4. India also wants commitments from its trading partners for temporary movement of high-skilled professionals in four categories – namely business visitors (BV), intra-corporate transferees (ICT), independent professionals (IP) and contractual service suppliers (CSS) (Mukherjee & Goyal, 2013). Seeking support from many countries in broad-based commitments in these modes, India has made commitments in different services like communication services, computer and information services, other business services, financial services and tourism and travel related services. Maldives made commitments only in two services – professional services, and computer and related services. However, the commitments made by Maldives in these two services are fully liberalised – that is, no restrictions are placed on any mode of supply, in terms of either market access or national treatment. Nepal is the only country in the South Asian region that made higher degrees of

commitment than other nations in terms of market access and national treatment. The overall level of commitment by Nepal is ten times higher than that of Bangladesh (Pandey, 2014). There are almost eleven sectors and subsectors in which Nepal has made commitments; these include transport services, tourism/travel services, business services, communication services, construction/engineering services, distribution services, financial services, health/social services, recreational/ cultural services, educational services, environmental services, and other services.

Pakistan has made commitments in business services, government services, communication services, construction services, financial services, engineering services, tourism and travel related services and health services. However, while making the commitments, Pakistan also made certain horizontal commitments, which restrict certain modes of supply under market access and national treatment. Pakistan has negotiated extensively and formulated a comprehensive schedule of commitments (Raihan 2013). Sri Lanka has made commitments only in some selected sectors like communication services, banking services, financial service and tourism and travel related services.

Afghanistan, Maldives, and Nepal have made commitments without restrictions under Mode 1 and Mode 2 for transportation, travel, communications, financial, computer and information, other business services and personal, cultural and recreational services. But these countries remain unbound in some services under mode 3 and 4, indicating that no commitment has been made. Other countries – Bangladesh, India, Pakistan, and Sri Lanka remain unbound in Mode 1 and 2 for transportation, travel, communication, construction, computer and information, other business services and personal, cultural and recreational services. Sri Lanka has made additional commitments o(related to the use of standards, qualifications or licenses) also. While the Maldives has put no restrictions on computer and information and other business services,(Table

9). India and Bangladesh have made commitments under Mode 3 in market treatment, only through incorporation with a foreign equity ceiling of 51 per cent in travel services. For India, this commitment is with few specific services, namely travel, computer and information services, and other business services where investment approval would be required by the Foreign Investment Promotion Board. Mode 4 remains unbound, except as indicated in the horizontal section, Otherwise, it is very restricted in these services. . Similarly, Nepal made commitments in 'Computer and Information Services' under mode 3 and had maximum foreign equity capital of 80 per cent only through incorporation (Appendix I). These countries were substantially opening their economy for services trade (Mattoo, 2000)

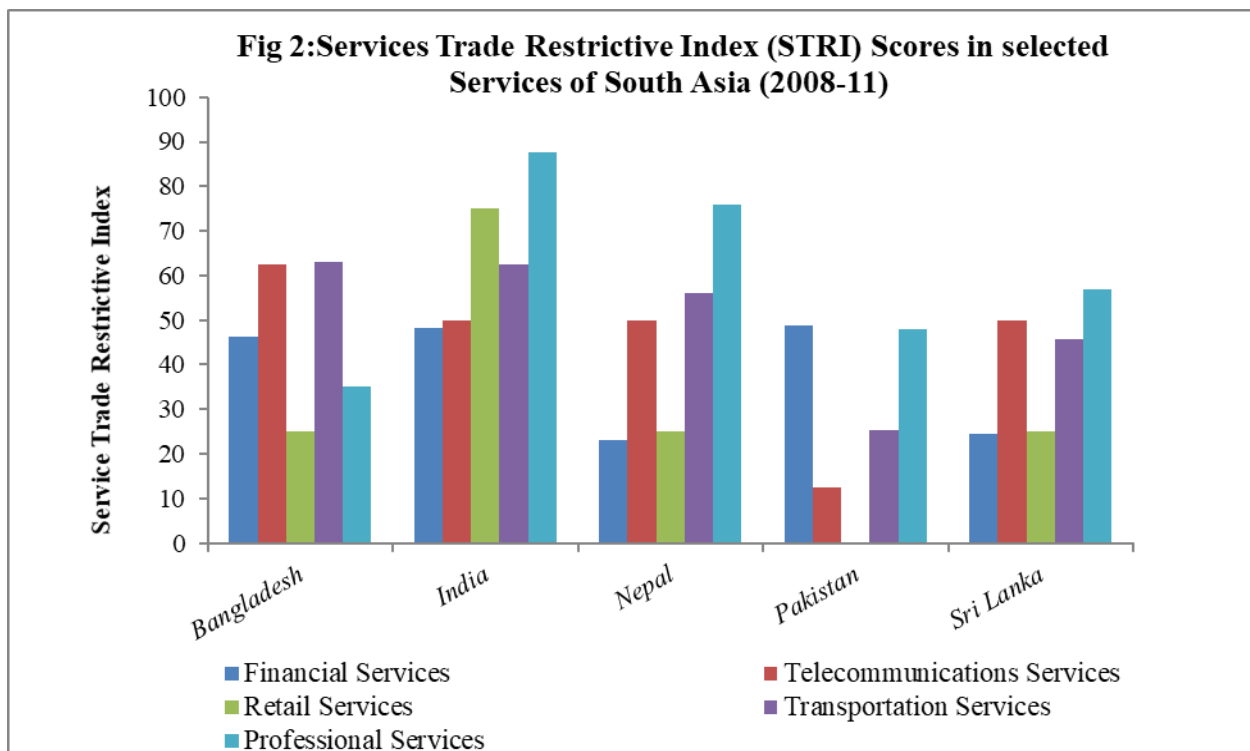
Table 9: Trade in Services Negotiations offered by South Asian Countries

Services		AFG		BAN		IND		MAL		NEP		PAK		SRI	
Limitations in services under various modes*		Market Access	National Treatment	Market Access	National Treatment	Market Access	National Treatment	Market Access	National Treatment	Market Access	National Treatment	Market Access	National Treatment	Market Access	National Treatment
Transport	Mode 1 Mode 2	X	X	✓	✓	✓	✓								
	Mode 3 Mode 4	✓	✓	✓	✓	✓	✓								
Travel	Mode 1 Mode 2	X	X	✓	✓	✓	✓					✓	✓	✓	✓
	Mode 3 Mode 4	✓	✓	✓	✓	✓	✓					X	✓	X	X
Communica tions	Mode 1 Mode 2	X	X	✓	✓										
	Mode 3 Mode 4	✓	✓	✓	✓										
Constructio n	Mode 1 Mode 2	X	X												
	Mode 3 Mode 4	✓	✓												
Financial services	Mode 1 Mode 2	X	X									✓			
	Mode 3 Mode 4	✓	✓									✓	✓		
Computer and information	Mode 1 Mode 2					✓	✓	X	X	X	X				
	Mode 3 Mode 4					X	✓	X	X	X	✓				
Other business services	Mode 1 Mode 2	X	X			✓	✓	X	X	X	✓				
	Mode 3 Mode 4	✓	✓			X	✓	X	X	X	✓				
Personal, cultural and recreational services	Mode 1 Mode 2	X	X												
	Mode 3 Mode 4	✓	✓												
Additional Commitme nts														Sri Lanka subscribes to the attached commitments on regulatory disciplines.	

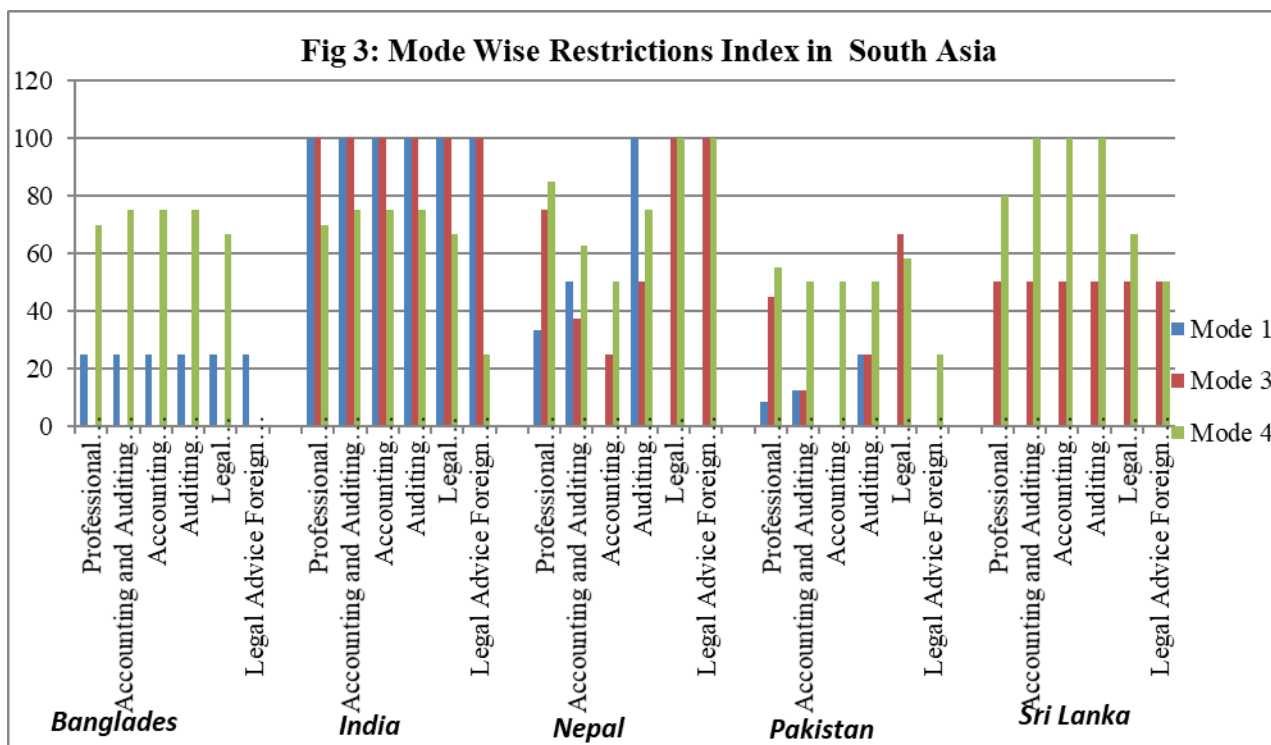
Source: Author compiled from World Trade Organization, <http://i-tip.wto.org/services/SearchResultGats.aspx> **Note:** (X) this symbol represents “none”, which means Full Commitment. (✓) represents unbound means “No Commitment”. *Blank Box Shows Free Trade (partial commitment).

Barriers to Service Trade in South Asia

The barriers to service trade index given by World Bank 2019 shows that South Asian countries impose restrictions on trade in various services. In telecommunication services and transport services, India and Bangladesh are comparatively more restrictive while Pakistan has the lowest restriction in this service. In retail services, it is India that imposes the most stringent restrictions and its service trade restrictiveness index (STRI)² value is (75), while Bangladesh, Nepal, and Sri Lanka are relatively less restrictive with an STRI value is 25. Only Pakistan does not impose any restriction on this service. In professional services and retail services, Indian and Nepal impose the heavy restrictions (STRI value is 87.5 and 76 respectively). Restrictions are more moderate in Pakistan and Sri Lanka (their STRI values are 48 and 57 respectively) while Bangladesh imposed the least restrictions (STRI value is 35).). India's STRI is the highest on rail freight transport (1) followed by legal (0.91), accounting (0.88), architecture (0.63), air transport (0.60), insurance(0.56). In the 11th WTO ministerial conference, many countries including India highlighted issues related to domestic regulations and complexities put by some rich countries. It mainly stressed hurdles faced by natural persons supplying services in foreign jurisdictions (Arun, 2017).



Source: World Bank, 2018



Source: World Bank, 2018

Among regions, some of the fastest growing economies in Asia and Gulf were found to be highly restrictive with respect to services trade, especially in the case of professional and transport services, while services trade in the retail, telecommunication and even finance sectors are seen to be more open. These restrictions have not only constrained the rapid growth of services trade, they have also acted as disincentives to investment inflows into the sector. It was found that such restrictions could reduce foreign investment in the services sector by \$2.2 billion over a seven-year period compared to open policy regimes (Borchert et al. 2013).

4. Conclusions and Suggestions

Service trade has a great potential in South Asian nations. However, trade in these services face substantial barriers especially strict visa, nationality, licensing requirement, fees, and charges, poor air and road connectivity. Thus, efforts should be made to remove the restrictions on the movement of people by improving air and road transport facilities and by providing easy access to passport and visa facilities. Given that poor connectivity is one of the major factor impeding growth in trade, an improvement in infrastructure would help to greatly boost trade.

Most SAARC nations have higher imports of transport services while Pakistan and Sri Lanka have greater RCA in this service. Hence, Pakistan and Sri Lanka should make efforts to provide higher priority to the transport sector under the ongoing SATIS negotiations

According to Prabir De and Iyengar (2014) South Asia needs to generate about 12 million jobs to sustain growth for every year. For that purpose, a substantial amount of jobs needs to be created in the manufacturing and associated logistics and services. Compared to East Asia and South East Asia, the manufacturing and related services sector have underperformed in South Asia due to constraints, which if removed can unlock the unexploited its economic potential. Building economic corridors and improving infrastructure may help boost trade and create more jobs. Bangladesh may emerge as a transport hub for the sub-region including Bhutan, Nepal, and India if Bangladesh opens its transport system for regional connectivity (De and Iyengar 2014).

Both the US and the EU are declining in economic power and changing role of Asia and its economic integration may be the driver of economic growth at the global level in the 21st century (Lagarde 2016 and Shinohara 2012). Growing protectionism witnessed from USA-China trade war and the Brexit referendum open doors for emerging economies for trade liberalisation and economic integration. Besides, the fear that US protectionism may spread offers a gateway to

developing countries to make a web of their own trade integration. These major changes come with many opportunities for developing SAARC economies as the Asia Pacific region accounts for more than 50% of global trade (Macleod 2017 and Repeckaite 2017). Moreover, US has service export potential with India (Kaur 2011), but given the US move towards greater protectionism especially in IT services, India needs to look at other markets including South Asia.

South Asia seems to be the one of the fast-growing regions, and China and India are among the fastest growing economies (IMF 2016). India being most influential economy of this regional bloc, and it must play a decisive role in finalizing commitments under SATIS especially for regulations, standards, mobility of labour in competitive services.

End Notes:

1. *Export competitiveness of individual product category is calculated by revealed comparative advantage index given by Balassa (1965). $RCA_{ij} = X_{ij}/X_{wj} / X_i/X_w$ where RCA_{ij} = Revealed comparative advantage of the i th country's j th service, X_{ij} = Exports of the j th service by the i th country, X_i = Total service exports of the i th country, X_{wj} = World exports of the j th service X_w = Total world exports of services.*
2. *ITP is defined as; $ITP_{ijs} = \min (X_{ijs}, X_j) - X_{ijs}$ where, ITP_{ijs} = Indicative Trade Potential for country i 's exports to country j , X_{is} = Country i 's exports to world, X_{js} = SAARC i 's imports from WORLD X_{ijs} = Country i 's exports to SAARC j . ITP provides a rough estimate of how much countries 'theoretically' trade between them by isolating total demand and total export capacity (Yusuf, 2006). It helps to identify the major services for which there is the highest complementarity between the exports of a country and imports of the target country. A positive 'Indicative trade potential' suggests that a trade opportunity exists (Krakoff, 2003).*
3. *Services are traded through the four "Modes of Supply" in the GATS. As defined in WTO, Mode 1 known as "cross-border supply" refers to services provided from the territory of one Member country into the territory of any other Member country. Mode 2, "Consumption Abroad" refers to the territory of one Member to the service consumer of any other Member. Mode 3 refers to a service supplier of one Member, through "commercial presence" in the territory of any other Member. This mode covers any type of business or professional establishment including an affiliate, subsidiary, representative office or branch. Mode 4,*

which is covered by a service supplier of one Member, through “presence of natural persons” of a Member in the territory of any other Member (WTO, 2017).

4. The value of Services Trade Restrictiveness Index (STRI) lies between between zero (an open market) to one (closed to foreign services providers) (OECD, 2017).

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Appendix 1

SAARC Country Wise Average Sum Trade Potential(2000-2016)

Afghanistan	Services	AFG Exports to SAARC	AFG Exports to World	Share of SAARC in AFG Exports	SAARC Imports from World	Share of AFG in SAARC Import	Indicative Potential Trade	Underdeveloped Trade Potential
	CATEGORY	A	B	C=A/B*100	D	E=A/D*100	F=min(B,D)-A	G=F-A
	Total services	17898.92	1759970	1.02	1613360	1.11	1595461.08	1577562.16
	Transport	2369.23	217700	1.09	728060	0.33	215330.77	212961.53
	Travel	817.66	251490	0.33	193480	0.42	192662.34	191844.68
	Communications	1369.87	41090	3.33	11067740	0.01	39720.13	38350.26
	Construction	5557.69	20730	26.8	17392781	0.03	15172.31	9614.62
	Insurance	360.96	26930	1.34	71674315	0.00	26569.04	26208.07
	Financial services	2153.19	60870	3.54	65001236	0.00	58716.81	56563.61
	Computer and information	395.71	517240	0.08	33511815	0.00	516844.29	516448.59
	Royalties and licence fees	-278.95	3880	-7.19	38807180	0.00	4158.95	4437.89
	Other business services	24947.55	520750	4.79	354515497	0.01	495802.45	470854.90
	Personal, cultural and recreational services	234.59	9090	2.58	15296591	0.00	8855.41	8620.82
	Government services n.i.e.	2554.76	56710	4.50	22490	11.36	19935.24	17380.48
Bangladesh	Services	BAN Exports to SAARC	BAN Exports to World	Share of SAARC in BAN Exports	SAARC Imports from World	Share of BAN in SAARC Import	Indicative Potential Trade	Underdeveloped Trade Potential
	CATEGORY	A	B	C=A/B*100	D	E=A/D*100	F=min(B,D)-A	G=F-A
	Total services	37720.82	1759970	2.14	1613360	2.34	1575639.18	1537918.35
	Transport	4189.72	217700	1.92	728060	0.58	213510.28	209320.56
	Travel	1839.81	251490	0.73	193480	0.95	191640.19	189800.39
	Communications	3337.73	41090	8.12	11067740	0.03	37752.27	34414.54
	Construction	1510.99	20730	7.29	17392781	0.01	19219.01	17708.02
	Insurance	242.46	26930	0.90	71674315	0.00	26687.54	26445.08
	Financial services	1317.38	60870	2.16	65001236	0.00	59552.62	58235.24
	Computer and information	1102.87	517240	0.21	33511815	0.00	516137.13	515034.26
	Royalties and licence fees	-274.75	3880	-7.08	38807180	0.00	4154.75	4429.51
	Other business services	25304.27	520750	4.86	354515497	0.01	495445.73	470141.46
	Personal, cultural and recreational services	210.02	9090	2.31	15296591	0.00	8879.98	8669.96
Government services n.i.e.	17534.31	56710	30.9	22490	77.96	4955.69	-12578.62	

Contd...

Bhutan	Services	BHU Exports to SAARC	BHU Exports to World	Share of SAARC in BHU Exports	SAARC Imports from World	Share of BHU in SAARC Import	Indicative Potential Trade	Underdeveloped Trade Potential
	CATEGORY	A	B	C=A/B*100	D	E=A/D*100	F=min(B,D)-A	G=F-A
	Total services	5025.89	1759970	0.29	1613360	0.31	1608334.11	1603308.22
	Transport	1492.23	217700	0.69	728060	0.20	216207.77	214715.55
	Travel	1035.29	251490	0.41	193480	0.54	192444.71	191409.42
	Communications	608.04	41090	1.48	11067740	0.01	40481.96	39873.92
	Construction	1112.77	20730	5.37	17392781	0.01	19617.23	18504.46
	Insurance	176.66	26930	0.66	71674315	0.00	26753.34	26576.67
	Financial services	718.11	60870	1.18	65001236	0.00	60151.89	59433.78
	Computer and information	308.78	517240	0.06	33511815	0.00	516931.22	516622.45
	Royalties and licence fees	-279.97	3880	-7.22	38807180	0.00	4159.97	4439.94
	Other business services	20147.29	520750	3.87	354515497	0.01	500602.71	480455.42
	Personal, cultural and recreational services	155.08	9090	1.71	15296591	0.00	8934.92	8779.83
	Government services n.i.e.	1995.51	56710	3.52	22490	8.87	20494.49	18498.98
India	Services	IND Exports to SAARC	IND Exports to World	Share of SAARC in IND Exports	SAARC Imports from World	Share of IND in SAARC Import	Indicative Potential Trade	Underdeveloped Trade Potential
	CATEGORY	A	B	C=A/B*100	D	E=A/D*100	F=min(B,D)-A	G=F-A
	Total services	1556937.91	1759970	88.5	1613360	96.50	56422.09	-1500515.82
	Transport	173395.64	217700	79.6	728060	23.82	44304.36	-129091.28
	Travel	202324.57	251490	80.5	193480	104.57	-8844.57	-211169.14
	Communications	29287.33	41090	71.3	11067740	0.26	11802.67	-17484.65
	Construction	14751.75	20730	71.2	17392781	0.08	5978.25	-8773.50
	Insurance	24071.22	26930	89.4	71674315	0.03	2858.78	-21212.43
	Financial services	56606.18	60870	93.0	65001236	0.09	4263.82	-52342.35
	Computer and information	508276.08	517240	98.3	33511815	1.52	8963.92	-499312.16
	Royalties and licence fees	3552.45	3880	91.6	38807180	0.01	327.55	-3224.90
	Other business services	497068.34	520750	95.5	354515497	0.14	23681.66	-473386.69
	Personal, cultural and recreational services	8871.76	9090	97.6	15296591	0.06	218.24	-8653.51
	Government services n.i.e.	9588.60	56710	16.9	22490	42.63	12901.40	3312.79

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Maldives	Services	MAL Exports to SAARC	MAL Exports to World	Share of SAARC in MAL Exports	SAARC Imports from World	Share of MAL in SAARC Import	Indicative Potential Trade	Underdeveloped Trade Potential
	CATEGORY	A	B	C=A/B*100	D	E=A/D*100	F=min(B,D)-A	G=F-A
	Total services	26670.02	1759970	1.5	1613360	1.65	1586689.98	1560019.95
	Transport	2408.52	217700	1.1	728060	0.33	215291.48	212882.97
	Travel	21252.04	251490	8.5	193480	10.98	172227.96	150975.92
	Communications	1011.42	41090	2.5	11067740	0.01	40078.58	39067.16
	Construction	1125.71	20730	5.4	17392781	0.01	19604.29	18478.57
	Insurance	158.32	26930	0.6	71674315	0.00	26771.68	26613.36
	Financial services	715.27	60870	1.2	65001236	0.00	60154.73	59439.45
	Computer and information	308.78	517240	0.1	33511815	0.00	516931.22	516622.45
	Royalties and licence fees	-196.72	3880	-5.1	38807180	0.00	4076.72	4273.44
	Other business services	20143.72	520750	3.9	354515497	0.01	500606.28	480462.56
	Personal, cultural and recreational services	155.08	9090	1.7	15296591	0.00	8934.92	8779.83
	Government services n.i.e.	2039.64	56710	3.6	22490	9.07	20450.36	18410.72
Nepal	Services	NEP Exports to SAARC	NEP Exports to World	Share of SAARC in NEP Exports	SAARC Imports from World	Share of NEP in SAARC Import	Indicative Potential Trade	Underdeveloped Trade Potential
	CATEGORY	A	B	C=A/B*100	D	E=A/D*100	F=min(B,D)-A	G=F-A
	Total services	16452.37	1759970	0.9	1613360	1.02	1596907.63	1580455.25
	Transport	1856.60	217700	0.9	728060	0.26	215843.40	213986.80
	Travel	5372.84	251490	2.1	193480	2.78	188107.16	182734.33
	Communications	2621.86	41090	6.4	11067740	0.02	38468.14	35846.27
	Construction	1112.77	20730	5.4	17392781	0.01	19617.23	18504.46
	Insurance	199.90	26930	0.7	71674315	0.00	26730.10	26530.19
	Financial services	715.27	60870	1.2	65001236	0.00	60154.73	59439.45
	Computer and information	308.78	517240	0.1	33511815	0.00	516931.22	516622.45
	Royalties and licence fees	-280.56	3880	-7.2	38807180	0.00	4160.56	4441.12
	Other business services	22292.29	520750	4.3	354515497	0.01	498457.71	476165.42
	Personal, cultural and recreational services	155.08	9090	1.7	15296591	0.00	8934.92	8779.83
	Government services n.i.e.	4698.53	56710	8.3	22490	20.89	17791.47	13092.94

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Pakistan	Services	PAK Exports to SAARC	PAK Exports to World	Share of SAARC in PAK Exports	SAARC Imports from World	Share of PAK in SAARC Import	Indicative Potential Trade	Underdeveloped Trade Potential
	CATEGORY	A	B	C=A/B*100	D	E=A/D*100	F=min(B,D)-A	G=F-A
	Total services	73983.72	1759970	4.2	1613360	4.59	1539376.28	1465392.56
	Transport	20417.36	217700	9.4	728060	2.80	197282.64	176865.29
	Travel	4482.20	251490	1.8	193480	2.32	188997.80	184515.61
	Communications	5076.44	41090	12.4	11067740	0.05	36013.56	30937.12
	Construction	1552.50	20730	7.5	17392781	0.01	19177.50	17625.00
	Insurance	932.41	26930	3.5	71674315	0.00	25997.59	25065.17
	Financial services	1707.07	60870	2.8	65001236	0.00	59162.93	57455.85
	Computer and information	3491.04	517240	0.7	33511815	0.01	513748.96	510257.92
	Royalties and licence fees	-44.86	3880	-1.2	38807180	0.00	3924.86	3969.72
	Other business services	29097.24	520750	5.6	354515497	0.01	491652.76	462555.52
	Personal, cultural and recreational services	185.88	9090	2.0	15296591	0.00	8904.12	8718.23
	Government services n.i.e.	29619.42	56710	52.2	22490	131.70	-7129.42	-36748.84
Sri Lanka	Services	SRI Exports to SAARC	SRI Exports to World	Share of SAARC in SRI Exports	SAARC Imports from World	Share of SRI in SAARC Import	Indicative Potential Trade	Underdeveloped Trade Potential
	CATEGORY	A	B	C=A/B*100	D	E=A/D*100	F=min(B,D)-A	G=F-A
	Total services	52390.22	1759970	3.0	1613360	3.25	1560969.78	1508579.56
	Transport	20074.50	217700	9.2	728060	2.76	197625.50	177551.00
	Travel	17187.73	251490	6.8	193480	8.88	176292.27	159104.53
	Communications	1966.59	41090	4.8	11067740	0.02	39123.41	37156.82
	Construction	1795.21	20730	8.7	17392781	0.01	18934.79	17139.59
	Insurance	1825.76	26930	6.8	71674315	0.00	25104.24	23278.48
	Financial services	1944.43	60870	3.2	65001236	0.00	58925.57	56981.14
	Computer and information	5209.40	517240	1.0	33511815	0.02	512030.60	506821.19
	Royalties and licence fees	-280.56	3880	-7.2	38807180	0.00	4160.56	4441.12
	Other business services	22755.36	520750	4.4	354515497	0.01	497994.64	475239.29
	Personal, cultural and recreational services	208.08	9090	2.3	15296591	0.00	8881.92	8673.83
	Government services n.i.e.	2357.70	56710	4.2	22490	10.48	20132.30	17774.60

Appendix 2

Services

Services					
AFG	Transport				
	Limitations on Market Access	None	None	Unbound, except as indicated in the horizontal section	Unbound, except as indicated in the horizontal section
	Limitations on National Treatment	None	None	Unbound, except as indicated in the horizontal section	Unbound, except as indicated in the horizontal section
	Travel Services				
	Limitations on Market Access	None	None	Unbound, except as indicated in the horizontal section	Unbound, except as indicated in the horizontal section
	Limitations on National Treatment	None	None	Unbound, except as indicated in the horizontal section	Unbound, except as indicated in the horizontal section
	Communications Services				
	Limitations on Market Access	None	None	Unbound, except as indicated in the horizontal section	Unbound, except as indicated in the horizontal section
	Limitations on National Treatment	None	None	Unbound, except as indicated in the horizontal section	Unbound, except as indicated in the horizontal section
	Construction Services				
	Limitations on Market Access	None	None	Unbound, except as indicated in the horizontal section	Unbound, except as indicated in the horizontal section
	Limitations on National Treatment	None	None	Unbound, except as indicated in the horizontal section	Unbound, except as indicated in the horizontal section
	Financial services				
	Limitations on Market Access	None	None	Unbound, except as indicated in the horizontal section	Unbound, except as indicated in the horizontal section
Limitations on National Treatment	None	None	Unbound, except as indicated in the horizontal section	Unbound, except as indicated in the horizontal section	
Other Business Services					
Limitations on Market Access	None	None	Unbound, except as indicated in the horizontal section	Unbound, except as indicated in the horizontal section	
Limitations on National Treatment	None	None	Unbound, except as indicated in the horizontal section	Unbound, except as indicated in the horizontal section	
Personal, Cultural And Recreational Services					
Limitations on Market Access	None	None	Unbound, except as indicated in the horizontal section	Unbound, except as indicated in the horizontal section	

	Limitations on National Treatment	None	None	Unbound, except as indicated in the horizontal section	Unbound, except as indicated in the horizontal section
Contd....					
BAN	Transport				
	Limitations on Market Access	Unbound	Unbound		Unbound except as indicated in the horizontal commitments
	Limitations on National Treatment	Unbound	Unbound	Unbound	
	Additional Commitments				
	Travel				
	Limitations on Market Access	Unbound	Unbound	Only through incorporation with a foreign equity ceiling of 51 percent	Unbound except as indicated in the horizontal section
	Limitations on National Treatment	Unbound	Unbound	None	Unbound except as indicated in the horizontal section
	Additional Commitments				
	Communications				
	Limitations on Market Access	Unbound	Unbound		Unbound except as indicated in the horizontal section
	Limitations on National Treatment	Unbound	Unbound	Unbound	Unbound except as indicated in the horizontal section
	Additional Commitments				
IND	Transport				
	Limitations on Market Access	Unbound	Unbound		Unbound except as indicated in the horizontal section
	Limitations on National Treatment	Unbound	Unbound	Unbound	Unbound except as indicated in the horizontal section
	Additional Commitments				
	Travel				
	Limitations on Market Access	Unbound	Unbound	Only through incorporation with a foreign equity ceiling of 51 percent	Unbound except as indicated in the horizontal section
	Limitations on National Treatment	Unbound	Unbound	None	Unbound except as indicated in the horizontal section
	Additional Commitments				
	Computer And Information				
	Limitations on Market Access	Unbound	Unbound	Only through incorporation with a foreign equity ceiling of 51 percent	Unbound except as indicated in the horizontal section
	Limitations on National Treatment	Unbound	Unbound	None	Unbound except as indicated in the horizontal section
	Additional Commitments				
	Other Business Services				
	Limitations on Market Access	Unbound	Unbound	Only through incorporation with a foreign equity ceiling of 51 percent	Unbound except as indicated in the horizontal section
	Limitations on National Treatment	Unbound	Unbound	None	Unbound except as indicated in the horizontal section

						section
	Additional Commitments					
Contd....						
MAL	Computer and information					
	Limitations on Market Access	None	None	None	None	None
	Limitations on National Treatment	None	None	None	None	None
	Additional Commitments					
	Other business services					
	Limitations on Market Access	None	None	None	None	None
	Limitations on National Treatment	None	None	None	None	None
	Additional Commitments					
NEP	Computer and information					
	Limitations on Market Access	None	None	None, except only through incorporation in Nepal and with maximum foreign equity capital of 80 percent		Unbound except as indicated in the horizontal section
	Limitations on National Treatment	None	None	None		Unbound except as indicated in the horizontal section
	Additional Commitments					
PAK	Travel					
	Limitations on Market Access		Unbound	Unbound	Unbound	Unbound except as indicated in the horizontal section
	Limitations on National Treatment		Unbound	Unbound	Unbound	Unbound except as indicated in the horizontal section
	Additional Commitments					
	Financial services					
	Limitations on Market Access		Unbound	Unbound	Unbound	Unbound except as indicated in the horizontal section
	Limitations on National Treatment		Unbound	Unbound	Unbound	Unbound except as indicated in the horizontal section
	Additional Commitments					
SRI	Communications					
	Limitations on Market Access	None	None	None	None	Unbound except as indicated in the horizontal section
	Limitations on National Treatment	None	None	None	None	Unbound except as indicated in the horizontal section
	Additional Commitments	Sri lanka subscribes to the attached commitments on regulatory disciplines.				

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