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Services Trade under SAFTA

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South Asia has made a considerable progress in liberalization and openness. Yet, the South Asian Association for Regional Cooperation (SAARC) is one of the least economically integrated blocs with a very low intra-regional merchandise trade. It is just about 5 percent of the region's total merchandise trade and stands poorly in comparison to 25 percent in the Association of Southeast Asian Nations (ASEAN) and 14 percent in the Southern Common Market (MERCOSUR).

Though the services sector has been assuming increasing importance, rough estimates indicate that the region as a whole has not also been able to substantially increase its intra-regional services trade, as it is heavily dominated by India. The sector's contribution to the region's gross domestic product has increased over time, reaching 53.3 percent in 2005. In particular, India has performed exceedingly well. In 1995, it ranked 34th in commercial services exports among World Trade Organization (WTO) members and in 2006, 10th. And, from a meagre 0.5 percent in 1996, it increased its share in world commercial services exports to 2.7 percent in 2006. In the case of other South Asian countries, they do not fall among the world's top 40 commercial services exporters, though except Nepal, all others have been able to increase their exports of commercial services between 1995 and 2006 *(Table 1)*.[1]

Before coming to any conclusion on the trend of services trade growth in the region, it is, however, important to note two points. First, despite some progress, all South Asian countries, except India and the Maldives, were in deficit in services trade in 2006 *(Figure 1)*. Second, not all services activities have been formally recorded in the region. There is a substantial underestimation of real export flows due to lack of data on services supply from South Asia, mainly with regard to Mode 3 (commercial presence) and Mode 4 (movement of natural persons).[2] For example, half of the remittances are estimated to bypass official channels. At the country level, estimates show that 40 percent of the remittances in Bangladesh come through *hundi*[3], 4.6 percent and 8 percent through friends and relatives, and returning migrants, respectively, and 46 percent through official channels.[4] Similarly, in Pakistan, the real remittance inflow is estimated to be in the range of US$8 billion to US$10 billion, of which only US$1 billion is through official channels.[5]

Trends in intra-regional services trade

Trade in services among South Asian countries is not significant, except in cases involving India. This can be largely attributed to India's unique position, as it shares border with its South Asian neighbours.

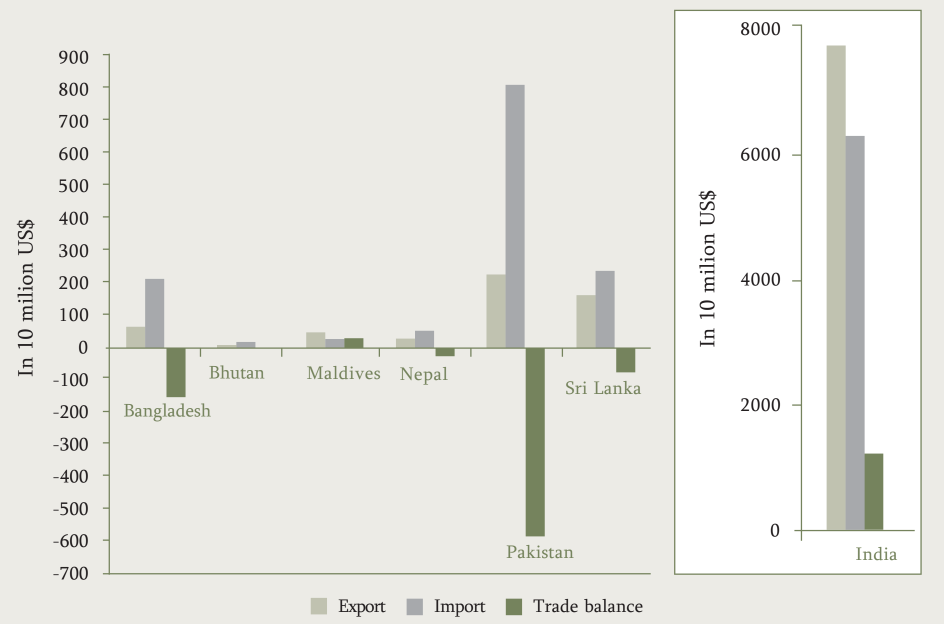
Financial services

Financial services are an important area of services trade for South Asia. Indian and Pakistani commercial banks have overseas branches, though not in large numbers. According to Reserve Bank of India statistics, as on 30 November 2007, a total of 125 branches of Indian banks were spread across 29 countries. Out of them, only 13 branches (10 percent of the total) were located in neighbouring South Asian countries *(Table 2)*. While seven branches were in Sri Lanka, four were in Bangladesh. Afghanistan and the Maldives had one branch each. While branches of other Indian banks such as ICICI and UTI are in the pipeline in Sri Lanka, India also has a commercial presence in the insurance business in Sri Lanka[6] and Nepal.

Pakistani banks have a slightly better presence in the region. As per State Bank of Pakistan statistics, out of a total of about 100 overseas branches and booths of Pakistani banks, as on 31 December 2006, more than 20 were located in the region, mainly in Afghanistan, Bangladesh and Sri Lanka *(Table 2)*. However, the two largest countries of the region—India and Pakistan—do not have any trade in financial services between them.

Nepal has not yet allowed foreign bank branches to operate in the country and only permits commercial presence of a foreign financial institution, presently limited to a maximum equity of 75 percent. During its negotiations for WTO membership, Nepal, however, committed to allow foreign bank branches to provide wholesale banking services after 1 January 2010.[7]

Figure1 Services trade balance (2006)



Source: WTO. 2007. International Trade Statistics 2007. Geneva: World Trade Organization.

Table 1 Commercial services exports from South Asia

	Commercial services exports		Transport		Travel		Insurance and financial services		Computer, information, communications and others	
	In million US$		% of total		% of total		% of total		% of total	
	1995	2006	1995	2006	1995	2006	1995	2006	1995	2006
Bangladesh	469	603	15.0	14.7	5.3	13.3	0.1	5.7	79.6	66.3
India	6763	75057	28.0	10.2	38.2	11.9	2.5	4.2	31.4	73.7
Nepal	592	252	9.3	14.0	30.0	50.8	-	0.6	60.7	34.6
Pakistan	1432	2246	58.0	49.6	7.7	11.3	1.0	3.7	33.4	35.4
Sri Lanka	800	1604	41.9	46.8	28.2	25.6	3.4	3.6	26.5	24.0

Source: World Bank. 2008. World Development Indicators 2008. Washington, D.C.: The World Bank.

Foreign employment

Movement of workers (Mode 4) is a major mode of supply of services traded between India and its neighbours. For example, Nepal has a long history of foreign employment in India, dating back to the early 19th century, when Nepali people started serving in the British Army in the then-British India. Since 1947, Nepali people have been serving in the Indian Army besides the British Army. As the Gurkha settlements in India increased in number and size, they also attracted Nepali workers seeking civilian employment. In addition, after the development of tea estates in North-Eastern India (Assam and Darjeeling) increased the demand for labour, Nepali workers came in substantial numbers, and a sizeable expatriate Nepali community began to grow in those areas.

According to different estimates, as many as 2–3 million Nepali men and women are working in India. Most are engaged in manual labour jobs in industry, agriculture and services sectors. Their wages are low and the work is often dirty, dangerous, and even degrading. Although average earnings of such workers are low and individual remittances relatively small, the aggregate value of money sent (or brought) back to Nepal from India has been estimated to be substantial—US$350 million in 2007.[8]

Movement of people is not unidirectional, however. A treaty between Nepal and India provides for national treatment to each other's citizens with regard to movement of people, ownership of property and participation in trade and commerce, among others. Indian nationals are employed in various sectors in Nepal in huge numbers, although updated data on their presence is not available.

Education and health

India is a popular educational destination for South Asian students. Bangladesh, Sri Lanka, Nepal and Bhutan are major sources of foreign students in India. Annually, some 50,000 Bangladeshis visit India to seek education in Indian academic institutions.[9]

Nepali candidates are permitted to approach Indian educational institutions directly for general courses. As a result, every year hundreds of Nepali students obtain admission directly for general undergraduate courses in India. For professional and technical courses, a "No objection certificate" from the Government of India (processed through its embassy) is required. Every year, the Government of India also provides scholarships to and sets aside seats for Nepali nationals for various undergraduate and graduate courses.[10]

Likewise, Indian human resources and educational companies such as Institute of Chartered and Financial Analyst of India (ICFAI) and Amity have entered the Sri Lankan market. In the pipeline is investment in Sri Lanka by India's Manipal Medical Institute.[11]

Bangladesh is the second most popular destination after India for Nepali students. Between 2001 and 2003, an estimated 52 Nepali students went to Bangladesh to pursue higher education.[12] Similarly, Nepal is emerging as an attractive destination for medical education especially for Indian, Bangladeshi and Sri Lankan students, who form the bulk of international students in medical colleges in Nepal.

With regard to healthcare, India is an attractive destination for South Asian countries. For example, about 50,000 Bangladeshis visit India every year for medical treatment.[13] Likewise, under Mode 3, India's Apollo Group, Asia's largest healthcare group, has a presence in Bangladesh and Sri Lanka and plans to invest in Nepal.[14]

Tourism

India is a major source of tourists in Nepal, Sri Lanka and the Maldives, where tourism is a mainstay of the economy. According to the statistics of Nepal’s Ministry of Tourism and Civil Aviation, a total of 526,705 tourists visited Nepal in 2007, representing an increase of 37.2 percent over the previous year. The highest number of arrivals for 2007 was from India, comprising 96,010 (18.2 percent) of the total.[15]

Tourism has also emerged as the dominant sector in the bilateral services trade between India and Sri Lanka. With earnings of over US$410 million per year, tourism is the fourth largest foreign exchange earner for Sri Lanka. India has been the top source of tourist arrivals for Sri Lanka since 2005, when Indian tourists outnumbered British tourists for the first time with 113,023 arrivals out of the total arrivals of 549,308. In 2007, Indian tourists in Sri Lanka numbered 105,906, out of 494,008 tourists in total. The high frequency of flights between India and Sri Lanka is a major factor promoting travel between the two countries. The 125 flights per week include flights from India's Chennai, New Delhi, Karnataka, Andhra Pradesh, Kerala and Bodh Gaya (Bihar).[16] In addition, India has a significant commercial presence in the tourism sector in Sri Lanka; for example, the Tata Group's investment in hotels is one of the most visible Indian investments in Sri Lanka.

Table 2 Indian and Pakistani bank branches

	India	Pakistan
Afghanistan	1	5
Bangladesh	4	9
Bhutan	-	-
Maldives	1	1
Nepal	-	-
Sri Lanka	7	8
Total (world)	125	101

Source: www.rbi.org.in; www.sbp.org.pk.

Energy
Despite huge potential, cross-border energy trade in South Asia is still in its infancy. While there is no cross-border pipeline for trade in natural gas, electricity trade is nominal. The limited energy trade is basically between India and Bhutan, and India and Nepal. Bhutan exported 5,664 gigawatt hours (GWh) of electricity to India in 2007. The export was from three hydropower projects with a total generating capacity of 1,416 megawatts (MW), constructed with substantial grant assistance from India. On the other hand, Nepal imported 266.23 GWh (or 9.6 percent of its total supply) from India, and exported 101 GWh (or 5 percent of its total sales) to India.

The major factors that inhibit regional energy trade relate to political tensions, security issues, and economic policy choices, particularly the inward-looking strategy. The prolonged political tension between India and Pakistan over Kashmir, warlike conditions in Afghanistan, internal conflicts in Sri Lanka and Nepal, as well as the political turmoil in Bangladesh, were not conducive to developing the necessary infrastructure, including improvement in trade logistics, to facilitate regional trade in energy services.[17]

Other services
Besides the trade in above-mentioned services, India has investments in other services such as engineering and construction (Larsen & Toubro, now Aditya Birla Group) in Sri Lanka.

Potential of intra-regional services trade
South Asia is a unique region where a large economy like India coexists with small economies such as the Maldives, Bhutan, Nepal and Sri Lanka. Five of the eight countries of the region are least-developed countries (LDCs).[18] Trade in services is crucial for promoting economic cooperation as it complements the expansion of trade and investment in goods. South Asia has a strong comparative advantage in its services sector, which accounts for a significant and growing share of the region's total output, mainly due to a combination of strong demand and effective reforms undertaken by South Asian countries. However, due to lack of adequate research on services trade policy and limited availability of data on international trade in services, policy makers have limited guidance as to how liberalization of trade and investment in services should proceed at the regional level.

Liberalization of trade in services is in many ways different from liberalization of trade in goods. Barriers that restrict the cross-border movement of goods are rarely similar to the restrictions on the cross-border mobility of services. For instance, many services transactions require physical proximity between the services provider and the recipient such as healthcare and education, and, therefore, the cross-border mobility of either services providers or users or both is of critical importance.

Furthermore, barriers to trade in services are often more complicated than tariffs and take the form of regulations, standards, capital and labour restrictions, and other policy measures that are difficult to quantify. It is because of the difficulties in quantification that most of the studies on barriers to trade and other trade-restricting measures have focused on trade in goods.

The Agreement on South Asian Free Trade Area (SAFTA), as it stands now, covers trade in goods only. However, the welfare effects of trade preferences for services are likely to be more positive compared to those of trade preferences for goods, as preferential liberalization of services trade in general leads to trade creation with little or no trade diversion.[19] Services trade liberalization also does not result in loss of tariff revenue, an important source of revenue mainly for LDCs. It allows countries to take advantage of increasing returns to scale. Regulatory cooperation, of particular importance in services trade, may be more practical at the regional level than at the global level, as there is less of a free-rider problem at the regional level.

Transport services
Regional cooperation in transport services can play a crucial role in addressing critical problems hindering trade in goods. A better cooperation on services like transport and trade facilitation can transform landlocked countries such as Bhutan and Nepal, and regions like North-Eastern India into landlinked countries and regions. While India could be a gateway for all South Asian countries to access one another's market through the land route, Pakistan and Afghanistan can play an important role as transit states for the rest of South Asia to access Central Asia's market. Bangladesh can allow transit through its territory to India to access the latter's North-Eastern region, while India can provide an unfettered transit facility to Nepal to enable it to access Bangladeshi as well as overseas markets.

Energy services
Regional cooperation on energy services can play an important role in addressing South Asia's energy deficit, perhaps the most critical impediment to industrialization in the region. South Asian growth is being constrained by significant shortages in energy supply, and unless corrective steps are urgently initiated and implemented, it may be difficult to sustain the achieved and realize the aspired growth rates. Fostering cross-border energy investments and promoting regional energy trade to take full advantage of the energy resources available in the region and its neighbourhood (such as Myanmar in the east and Iran in the west) are critically important.

Table 3 Energy resource endowment of South Asia

	Gas reserves (bcm)	Gas production (bcm/y)	Hydropower potential (MW)	Hydropower generated (MW)
Afghanistan	28.3–142	0.114	745	262
Bangladesh	580–810	13.8	755	230
Bhutan	0	0	23760–30000	468
India	948	32.680	84000–150000	32300
Nepal	0	0	43000–83000	600
Pakistan	1300–570	28.000	54000	6500
Sri Lanka	0	0	9100	1250

Source: World Bank. 2008. Potential and Prospects for Regional Energy Trade in the South Asia Region. Formal Report 334/08, Energy Sector Management Assistance Programme, South Asia Regional Cooperation Programme. Washington, D.C.: The World Bank.

Energy endowments differ among South Asian countries, and energy trade in the region is low and far below potential *(Table 3)*. Only Bhutan, India and Nepal currently trade in electricity in the region. Bangladesh is endowed with natural gas reserves, but gas trade is constrained by inadequate infrastructure and political sensitivities in the region. Energy resource-surplus countries like Bhutan, Bangladesh and Nepal can benefit from energy export-led growth and implementation of large-scale regional projects which otherwise would be infeasible. India has started purchasing power from Bhutan after helping it develop hydropower projects that are currently generating 1,400 MW, with an additional 1,100 MW in the pipeline. Through regional cooperation on energy, countries with significant energy import needs (India, Pakistan, Sri Lanka and Afghanistan) are likely to achieve energy security.

Education, health, IT and tourism

Education, health, information technology (IT) services and tourism are other areas where the region can benefit through cooperation. These are services where the risk of trade diversion is very low. Education is particularly important as the competitiveness of South Asia as a whole is constrained by inadequate education and poor or low level of skills. However, India has made a name for itself in high-skill services and manufacturing. India is ranked high in terms of the quality of science and mathematics education, the extent of staff training, and the availability of management education. India has the globally renowned Indian Institute of Technology and Indian Institute of Management, which produce world-class graduates.

These institutes, along with many lesser known regional colleges, have given India a critical mass of highly skilled people. These high-quality English-speaking human resources largely explain India's success in IT services exports, which have moved up the value-added ladder from simple back-office functions and call centres to software design and innovation services. Many highly skilled Indians have immigrated to the United States (US) and Europe in search of higher paying jobs. However, some of this brain drain has turned into a brain gain as they have started to import high-skill services from India.

Such a strong high-skill information and communications technology services sector has not developed in other South Asian countries because of their smaller scale and inadequate technical education facilities. India has not been able to help them despite the fact that foreign investment in IT services from India has begun to grow rapidly. The top 15 software and related services companies of India have all invested abroad, almost entirely in developed countries, with not a single one investing in South Asia *(Table 4)*. In addition, Indian call centres and business-process outsourcing companies are setting up foreign affiliates in countries like Mexico and the Philippines, but not in South Asia.

In health services, India has a strong comparative advantage by virtue of its top medical colleges and hospitals. Indian health institutions such as Apollo have set up subsidiaries in some South Asian countries. Indian hospitals are also providing services through Mode 1 to hospitals in Bangladesh and Nepal. Under Mode 2, patients from Bangladesh and Nepal, for example, visit different Indian hospitals for specialized treatments.

Given that South Asian countries have commonalities as well as diversity in culture, heritage and topography, there is high potential for promoting tourism through cooperation by simplifying administrative procedures and developing joint packages linking tourism sites across the countries.

GATS commitments by South Asian countries

The WTO's General Agreement on Trade in Services (GATS) exempts LDCs from making any commitments on services trade liberalization in the ongoing services negotiations un-

Table 4 Investment destinations of top 15 IT software and services exporters of India

Rank	Company	Investment destinations
1	Tata Consultancy Services	Belgium, China, Germany, Japan, Netherlands, Singapore
2	Infosys Technologies Ltd.	Australia, Canada, China, Singapore, US
3	Wipro Technologies	Japan, Sweden, UK, US
4	Satyam Computer Services Ltd.	Germany, UK
5	HCL Technologies Ltd.	Bermuda, Ireland, Netherlands, US
6	Patni Computer Systems Ltd.	UK, US
7	Mahindra British Telecom Ltd.	US
8	iFlex Solutions	US
9	HCL Perot Systems Ltd.	-
10	NIIT Ltd.	Germany, Switzerland, US
11	Polaris Software	Germany, US
12	Birlasoft Ltd.	UK, US
13	Mphasis BFL Ltd.	China
14	Pentafoft Technologies Ltd.	Indonesia, US
15	Hexaware Technologies Ltd.	Germany, Singapore, UK, US

Source: UNCTAD. 2004. World Investment Report 2004: The Shift towards Services. Geneva: United Nations.

der the Doha Round of trade negotiations. In other words, it is not mandatory for LDC members of the WTO to participate in services trade negotiations through the bilateral/ plurilateral request-offer approach.

Pursuant to this exemption, Bangladesh, an LDC member of the WTO, has not made any significant offer on services. However, despite being an LDC, Nepal had to make commitments on services during its accession to the WTO. The country was asked to undertake commitments on audio-visual, distribution, retail and wholesale services. Nepal committed to open up altogether 70 services sub-sectors, in contrast to Bangladesh, which, by virtue of being a founder member of the WTO, opened up only two services sub-sectors. Nepal was in fact asked to open all the services sub-sectors in which it made commitments to 100 percent equity participation by foreigners within five years. However, since the country stood firm on its position, it finally succeeded in making the developed-country members settle for up to 80 percent foreign equity participation.[20]

Among South Asian developing countries, only India and Pakistan have made significant offers under the ongoing GATS negotiations. Both countries revised their initial offers (of 1994 and 1998) in 2005. Most of the offers of India and Pakistan pertain to FDI as requests from trading partners are mainly on Mode 3. On the other hand, Sri Lanka has not made any significant revisions to its original offers of 1994 and 1998.

WTO members at the Sixth WTO Ministerial in Hong Kong in December 2005 agreed to adopt a plurilateral approach of making requests and offers besides the existing bilateral approach. Both India and Pakistan have received requests on a range of sub-sectors from developed countries. These include energy, environment, construction, telecommunications, architectural and engineering, financial, maritime, legal, postal/courier, audio-visual, education, air transport, and logistics services. Sri Lanka too has received requests on architectural and engineering, education and logistics. As regards making requests, India and Pakistan have joined the group on computer-related services led by Chile. Besides, India is a coordinator of a group on Mode 2 and Mode 4, in which Pakistan is also one of the *demandeurs.*

Prospects of including services in SAFTA

The preceding discussion shows that South Asian countries' GATS commitments are not very ambitious. There are quite a few sectors that have not been opened up for foreign services suppliers. However, South Asian countries can go for a deeper services liberalization at the regional level. They can better exploit economies of scale in sectors such as energy, trade and transportation if there is enhanced cooperation. Liberalization of trade in services would also support and facilitate intra-regional merchandise trade, which is very low in comparison to other similar trading blocs.

In view of the increasing importance of the services sector in the economy and in international trade, at the 14th SAARC Summit, held in New Delhi in 2007, SAARC heads of state/government called for an early finalization of a services agreement. Then the SAFTA Ministerial Council in Delhi in March 2008 directed the drafting of the SAARC Agreement on Trade in Services (SAFAS) under the SAFTA Agreement. Since then, negotiations for finalizing the SAFAS are underway but there has not yet been consensus on any approach that South Asian countries should pursue for undertaking services trade liberalization and including services in SAFTA.

In this regard, it should be noted that there are two approaches in practice: the "positive-list" approach of the GATS involving "requests and offers" and the "negative-list approach". The GATS approach has not been able to achieve much in terms of multilateral services trade liberalization. Canada, Japan and the US are among the countries that have adopted the negative-list approach while negotiating bilateral and regional free trade agreements (FTAs). There are quite a few South-South FTAs[21] in which the negative-list approach is being followed for services trade liberalization.

Under the negative-list approach, all sectors or sub-sectors not listed are, by default, open to services suppliers of both parties under the same conditions. Its principal advantage is that it obliges negotiators to review all services sectors together and, therefore, implies negotiations in all areas. A WTO study on the results of recent bilateral and regional agreements on services has clearly shown that deals using the negative-list approach have yielded greater liberalization than those based on the positive-list approach.[22]

India and Pakistan have services agreements in their FTAs with Singapore and Malaysia, respectively. In both the cases, the architecture of the services agreement is greatly influenced by the GATS in terms of their design, structure, approach to liberalization, rules, and disciplines. Moreover, as SAARC is a LDC-majority grouping, it is unlikely that its members would agree on a negative-list approach.

The GATS approach best suits the interest of the five LDC members of SAFTA. Under the GATS, as mentioned above, LDCs are not obliged to participate in negotiations till the time they are in a position to make an assessment of the strengths and weaknesses of their domestic services sectors. In addition, a set of LDC modalities was agreed as part of the GATS negotiating agenda in 2003 to specifically address the needs of LDCs in services trade liberalization.

Problems with coverage of modes

Out of the four modes of supply defined under the GATS, South Asian LDCs have an interest mainly in Mode 2 and Mode 4. Since Mode 2 pertains to, among others, tourism, movement of students and medical patients, opening up services under it may not be problematic as such. If investment is also going to be a part of the SAFTA Agreement, it may not be necessary to include Mode 3 under services. The scope for liberalization under Mode 1 is limited at the regional level. It is liberalization under Mode 4 that poses problems.

Cross-border movement of labour is influenced by several push and pull factors such as inadequate income levels in the home country, better jobs available abroad, opening of borders, and easier mobility due to better communications and transportation infrastructure. Most of these factors do exist in South Asia but a major stumbling block is poor connectivity, which seriously hampers the free movement of labour. The region, though geographically contiguous, lacks proper road, rail and air transport facilities. Since South Asia is home to millions of poor people, it is extremely important to develop cheap modes of communications and transportation through proper road and rail networks so that the region also can expand the cross-border movement of people.

At present, Nepali workers are employed in big numbers in India but in low-skill professions. Nepali and Bhutanese nationals do not require visa to enter India. Indians too do not require visa to enter Bhutan, the Maldives and Nepal. Sri Lanka has already made a provision for visa on arrival for all SAARC countries' nationals. The major problem remains among Bangladesh, India and Pakistan. If rising terrorism and growing security concerns together with weak connectivity are not addressed, these countries will continue to face problems in Mode 4 liberalization.

Other pertinent issues

The other pertinent issues that need to be resolved include the rules in the area of domestic regulation (GATS Article IV.4), safeguards (GATS Article X), government procurement (GATS Article XVIII), subsidies (GATS Article XV) and mutual recognition of qualifications (based on GATS Article VII). As mentioned above, treatment of LDCs would be another major challenge as the region is a LDC-majority bloc. If the GATS approach is followed, the SAARC LDCs may demand a package similar to the one agreed in the WTO—the modalities for special treatment for LDC members in the negotiation on trade in services, adopted by the Special Session of the Council for Trade in Services on 3 September 2003 and being negotiated as part of the Doha GATS negotiating agenda.

Conclusion

There is a definite case for including services in SAFTA as soon as possible as it will drive innovation across the region and signal that the region is serious about its integration with the global economy. This will also create an enabling environment for further expansion of intra-regional trade in merchandise, which is currently extremely low. South Asia needs to exploit the advantage of the geographical proximity of its countries by building new partnerships in various sectors like energy, banking, IT, telecommunications, transportation, education, health, and capital markets.

Energy in particular is immensely important. South Asian countries like Bangladesh, India and Pakistan are increasingly constrained by significant shortages in energy supply and, unless corrective steps are urgently initiated and implemented, it may be difficult to sustain the achieved and realize the aspired growth rates. Fostering cross-border energy investments and promoting regional energy trade in order to take full advantage of the energy resources available within the region and its neighbourhood are important elements of a solution to this problem. Trade in energy will particularly help LDCs like Bangladesh, Bhutan and Nepal in achieving higher economic growth as these countries have high power generation potential.

Opening up services at the regional level will help South Asian countries, particularly some LDCs, undertake greater commitments at the multilateral level and seek market access in countries outside the region. LDCs of the region have not been able to export services substantially except through Mode 4 (unskilled/semi-skilled labour) and Mode 2 (tourism). With India already a global player in services trade, enhanced regional cooperation will allow the smaller and weaker economies of the region to reap some benefits from India's growing importance in services trade at the global level. However, lack of data, lack of regulatory capacity and lack of maturity of the services sector are some key challenges that have to be addressed for realizing the potential for enhanced intra-regional services trade. Also important is to maintain an enabling environment for overall balance in increased market access for services trade. ■

Notes

1 WTO. 2008. *International Trade Statistics 2007*. Geneva: World Trade Organization.

2 The General Agreement on Trade in Services of the World Trade Organization sets multilateral rules for services trade liberalization under four modes of services supply: cross-border trade (Mode 1), consumption abroad (Mode 2), commercial presence (Mode 3) and temporary movement of natural persons (Mode 4).

3 See *The Independent Bangladesh*, 7 January 2002.

4 Under the *hundi* system, money is informally remitted from an expatriate worker in one country to a nominated person in his/her country of origin. It usually involves intermediaries.

5 See *The Dawn*, 23 February 2002.

6 http://www.hcicolombo.org/ecserv_indian_investment.shtml.

7 See Nepal Rastra Bank. 2006. Legal, Regulatory and Supervisory Provisions for Foreign Bank Branches in Nepal. Nepal Rastra Bank Task Force Report on Foreign Bank Branches and the Health and Stability of Nepal's Financial System.

8 See NRB. 2007. *A Study on Remittance from India to Nepal (Based on New Delhi Survey)*. Kathmandu: Nepal Rastra Bank.

9 Rahman, M. 2002. Bangladesh-India Bilateral Trade: An Investigation into Trade in Services. *Trade, Finance and Investment in South Asia*, ed. Srinivasan, T.N. New Delhi: Social Science Press. Cited in Sawhney, A. and R. Kumar. n.d. Why SAFTA? Paper for CUTS International and Commonwealth Secretariat.

10 See http://www.ugc.ac.in/new_initiatives/nepal.html.

11 http://www.hcicolombo.org/ecserv_indian_investment.shtml.

12 SAWTEE. 2008. Nepal's Export Potential in Services: Health, Education and High-end Retail Services. Report submitted to Ministry of Industry, Commerce and Supplies/United Nations Development Programme (UNDP).

13 Note 9.

14 Note 12.

15 The figure for Indian tourists, however, includes arrivals by air only. See http://www.tourism.gov.np/tourismstatistics.php.

16 See http://www.eturbonews.com/1078/indian-tourists-keep-lankan-tourist-industry-.

17 World Bank. 2008. *Potential and Prospects for Regional Energy Trade in the South Asia Region*. Formal Report 334/08, Energy Sector Management Assistance Programme, South Asia Regional Cooperation Programme. Washington, D.C.: The World Bank.

18 The five LDCs of South Asia are Afghanistan, Bangaladesh, Bhutan, the Maldives and Nepal.

19 SATIN. 2008. Regional Trade in South Asia – Towards Stronger Linkages and Growth. Policy Paper. South Asia Trade and Investment Network, Commonwealth Business Council and SAARC Chamber of Commerce and Industry.

20 Adhikari, R. 2005. *Vulnerability, Trade Integration and Human Development.* Background paper for Asia-Pacific Human Development Report 2006 titled *Trade on Human Terms*. Colombo: UNDP Asia Pacific Regional Centre.

21 South-South FTAs having services agreement based on the negative-list approach include: Chile-Costa Rica, Chile-El Salvador, Republic of Korea-Chile, Panama-El Salvador, and Republic of Korea-Singapore.

22 Roy, M., J. Marchetti and H. Lim. 2006. Services Liberalization in the New Generation of Preferential Trade Agreements: How Much Further than the GATS? WTO Staff Working Paper, www.wto.org.

SAWTEE
SOUTH ASIA WATCH ON TRADE, ECONOMICS & ENVIRONMENT

South Asia Watch on Trade, Economics & Environment (SAWTEE) is a regional network that operates through its secretariat in Kathmandu and 11 member institutions from five South Asian countries, namely Bangladesh, India, Nepal, Pakistan and Sri Lanka. The overall objective of SAWTEE is to build the capacity of concerned stakeholders in South Asia in the context of liberalization and globalization.

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