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South Asian Agenda for Services Negotiations

Commonalities & Differences

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Introduction

The service sector has emerged as the major contributor of income among South Asian countries accounting for as much as 49 percent of region's gross domestic product (GDP). Not only the service sector accounts for a predominant share of GDP but also it has been contributing an ever increasing proportion of growth. In terms of services sector's contribution to the national GDP, the South Asian countries follow the global pattern. But, the export of services from South Asia region has not been uniform across all the countries. While India did exceedingly well and improved its rank among World Trade Organisation (WTO) Members in exports of commercial services, the other nations of the region are lagging far behind. In 1995, India ranked 34th in the world (among WTO Member countries) in commercial services exports, which improved to 21st in the year 2003. As per the WTO 2004 International Trade Statistics, except India no other South Asian nation could reach to the list of the World's top 40 exporters of commercial services.

The South Asia as a group has been able to almost quadruple its exports of commercial services between 1993 and 2003. The total exports of commercial services from South Asian Preferential Trade Agreement (SAPTA) increased from US$7.9bn in 1993 to US$29bn in 2003. However, the hidden fact is that a larger part (approximately US$25bn) of it came from India's services revolution. The exports of commercial services from other four South Asian nations, namely, Bangladesh, Pakistan, Nepal and Sri Lanka have either remained constant or increased only marginally between 1993 and 2003.

The low growth of exports of commercial services from other South Asian countries may be attributed to substantial underestimation of the real flows, as probably up to half of the remittances are not sent through official channels. A study in Bangladesh showed that 40 percent of remittances to Bangladesh are sent through illegal *hundi* sources, 4.6 percent through friends and relatives, 8 percent are carried by migrants when they return and 46 percent go through official sources. The *hundi/hawala*[2] system, common in the Middle East and the Indian subcontinent, is a transfer or remittance from an expatriate worker in one country to a nominated person in his/her country of origin without a formal transfer of money or use of formal financial institutions. It usually involves *hawaladars* (intermediaries). In Pakistan, senior bankers estimate the real flow at between US$ 8-10 bn of which only US$1bn is actually sent through official channels.

Services Trade: South Asia's Major Strength

South Asia as a region has not been able to raise its share in global services trade, albeit international migration from this region to both developed and developing countries is a well-known phenomenon. After the Caribbean countries, South Asia as a group is the second largest recipient of remittances in the world. This shows that the region has been traditionally one of the most important exporters of services through movement of natural persons, i.e., Mode 4 of General Agreement on Trade in Services (GATS).

Table –1 South Asia: Services[1] Exports (in US$mn) and its Share in World Services Exports

Country	1993	2003
Bangladesh	435 (0.04)	404 (0.02)
India	5034 (0.53)	25043 (1.39)
Nepal	284 (0.03)	267 (0.01)
Pakistan	1330 (0.14)	1485 (0.08)
Sri Lanka	619 (0.06)	1385 (0.07)
SAPTA	7900	29000

Source: International Trade Statistics 2004, WTO; Figures in brackets indicate percentage share in world services export

South Asia is one of the poorest regions of the world. Hence, economic migration from this region has played a major role in providing livelihood to a large population. In this new era of open multilateral trading system (MTS), it is being seen as a possible tool to promote development and reduce poverty. Migration for resettlement out of South Asia has been mostly to Europe, Australia or North America; while contract labour migration has been to the Middle East, Southeast Asia and elsewhere.

One major indicator to prove this fact that the huge amount of remittances the South Asian economies are receiving annually. Despite the data limitations, in countries like Bangladesh, Pakistan, India and Sri Lanka, remittances represented a substantial ratio to exports. About 20 percent of the annual global remittances (close to US$100bn in 2004) flew into South Asia. India accounts for 78 percent of this, which makes it the world's largest remittance receiving country, while Bangladesh accounts for 12 percent, a notable 2 percent of the global remittance flows.

Cross-border trade in business services, especially the so-called 'IT-enabled services' (ITES) is today among the fastest growing areas of international trade. Traditionally, developed countries have dominated trade in this category but the past decade has seen the emergence of some developing countries as the most dynamic exporters. India's name obviously comes at the top. India, a country that has received the most media attention as a recipient of outsourcing in Information Technology (IT) services, is ranked at 6th place (US$18.6bn).

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Among South Asian countries, except India, other nations do not have any significant presence on the global outsourcing map. In India, the software exports have expanded from US$1.8bn in 1997-98 to over US$7bn in 2001-02 – at an average annual rate of 46.3 percent per year. Further, there appears to be a major shift underway in the exports of IT and business process outsourcing (BPO) services in terms of the composition and mode of delivery. The bulk of BPO services are processed in India, unlike Information Technology Services (ITS), which involves some visits to clients' sites, this has had a major impact on the mode of delivery of software exports. In 1993-94, nearly 62 percent of all software exports from India were carried out at the clients' location, i.e. 'on-site. Only one out of every five dollars of export orders were carried out within India, i.e., 'offshore'. By 2002-03, offshoring became the dominant mode of delivery of software exports, accounting for almost 58 percent of the total exports.

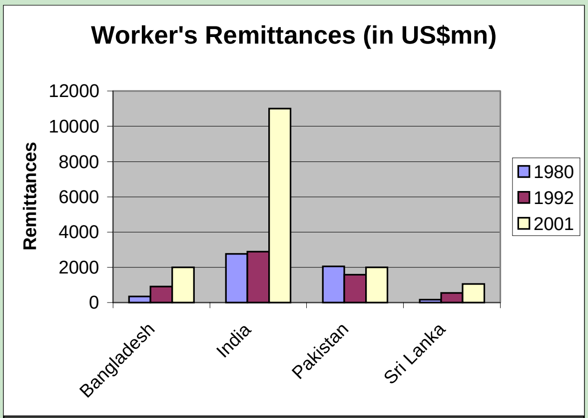
There are no signs that this growth will slow down. According to a report by NASSCOM and McKinsey, exports of IT related services from India are expected to increase from US$7.9bn in 2001-02 to US$57bn by 2008-09, growing at an average annual rate of 38 percent. A study by Deloitte Research shows that the global market in offshore financial services could be as large as US$356bn by 2008-09 of which a large share would go to India.

Other Areas of Strength

Besides cross border trade through business process outsourcing and movement of professionals, there are other sectors as well which have been helping South Asian countries in earning foreign exchange. In South Asia region, traditionally, Sri Lanka, Nepal and India have been attracting bulk of the tourists. The tourist arrival in South Asia as a whole is expected to grow at rate of over 6.2 percent per year, compared to the world average of 4.1 percent during the period 1995-2020. The year 2003 was prosperous for South Asia in terms of tourist arrivals, which went up to 6 million and receipts from them touched a staggering US$7bn.

Today, medical or health tourism has become a common form of vacationing, and covers a broad spectrum of medical services. It mixes leisure, fun and relaxation together with wellness and healthcare. The reasons patients travel for treatments vary. Many medical tourists from the US are seeking treatment, which is available at a quarter or sometimes even a 10th of the cost at home. From Canada, it is often people who are frustrated by long waiting times. From UK, the patient can't wait for treatment by the National Health Services (NHS) but also can't afford to see a physician in private practice.

India is a recent entrant into medical tourism. The inflow of foreign patients per year has crossed 150,000 in India, up from 10,000 five years ago. Health care for foreign patients will deliver Rs100 bn (US$2.3 billion) a year to Indian hospitals by 2012, according to a report by New York-based consulting firm McKinsey & Co. and the New Delhi-based Confederation of Indian Industry (CII), the nation's biggest business group. The market in 2003 was US$333 million, according to the Gurgaon-based India Brand Equity Foundation, a partnership between the CII and India's Ministry of Commerce.



Source: International Organisation for Migration

Market Access: Major Barriers

At present, movement of professionals under Mode 4 is subject to a range of restrictions, which include wage-parity requirement, strict visa procedures, Economic Needs Tests (ENTs), non-recognition of professional qualifications, imposition of discriminatory standards or burdensome licensing requirements, payment of social security without corresponding benefits, requirements of registration with or membership of professional organisations. Besides, in the aftermath of the 9/11 terrorist attacks many Americans became hostile toward immigration because the terrorists who perpetrated the attacks exploited gaping security holes in the US.

As regards outsourcing of service to India, the issue received a huge amount of attention in the media and political circles. There were 2634 reports in US newspaper on service outsourcing, mostly focusing on the jobs moving from US and European Union (EU) to China and India. The UK newspapers published 380 reports on outsourcing during the same period. Newspaper in Australia has also expressed the same concern. Besides, there were reports of lobbies by Australian software companies to restrict (other) Australian Firms' ability to outsource software designs to India. Three trade unions of UK geared together for the country wise protests against the projected job loss through outsourcing of jobs to India.

These adverse reports in developed countries' media prompted governments, particularly in the US to bring anti-outsourcing bills. Till the first three months of 2005, as many as 112 anti outsourcing bills were coursing their way through 40 states in the US. In Europe, also there were legal norms designed to protect workers in outsourced deals known as Transfer of Undertakings and Protection of Employees (TUPES), which also have an inhibiting effects. EU even gave a wide ranging directives that aimed to safeguard the privacy of personal data of EU citizens and prevent its misuse world over. It was backed power to cut of data flows to countries that the EU judges not to have adequate data protection.

All these impediments could turn into future barriers for cross border trade in services. It is, therefore, desirable to take pre-emptive action and lock in the current state of openness. The current GATS negotiations under the aegis of Doha Round of trade negotiations offer a valuable opportunity to secure openness.

Table 2: Forecasts of Worldwide Tourists Arrival – 1995-2020 (in Million)

	Base Year	Forecasts		Market Share (%)		Av. Annual Growth Rate (%)
	1995	2010	2020	1995	2020	1995-2020
World	565	1006	1561	100	100	4.1
South Asia	4	11	19	0.7	1.2	6.2

Source: Tourism 2020 Vision, World Tourism Organisation

A "Win-Win" Situation

Economic theory proves that labour movement of all types from lower to higher-wage countries results in allocation of scarce labour resources to their highest value use and allows maximal global production. The findings of the several studies indicate that services is one such sector where trade liberalisation could result in a "win-win" situation. Whether it is greater mobility of temporary workers, the offshoring of services, increased foreign direct investment (FDI) or tourism, all have potential to bring benefits for both service suppliers and recipients' nations.

There are several reasons, which are being cited behind this 'win-win' scenario. Globalisation is increasingly putting pressure on firms worldwide to look for various cost-cutting methods to enhance their competitiveness. The enterprises in developed countries are finding outsourcing, as one of the most convenient ways to save costs by taking advantage of low-wage countries. Some studies have attempted to assess the implications of outsourcing on a sector- and country-specific basis. In the case of professional services, an industry study conducted for the US shows that, of the approximately US$1.45 –1.47 of value derived from every dollar spent offshore, US firms receive US$1.12-1.14, while supplying firms receive 33 cents of the value.[3]

Savings from outsourcing can be significant as wages for software developers and data entry agents in India can be a tenth of those in the US. The attraction for companies is clear. For instance, General Electric saves about US$350mn a year through outsourcing to India; GlaxoSmithKline expects to save around 35 percent a year on its information and Communication Technologies (ICT) budget; and the US banking industry has saved US$2bn per year in the last four years. Moreover, services quality does not suffer, and productivity can rise by 15-25 percent, as these jobs attract skilled, motivated workers in developing countries.

As regards, temporary movement of natural persons, the need arises primarily because of two main reasons changing demographic composition of developed countries and poor preferences among locals for some low-skilled jobs. Winters et al (2002) study shows that the total welfare gains to the world from Mode 4 liberalisation are potentially great. Opening of developed country labour markets to temporary entry by foreign workers equal to 3 percent of the current workforce would generate welfare gains exceeding those that could be attained from full merchandise trade liberalisation – an aggregate gain of US$156bn a year. For both developed and developing countries, the gains would come principally from the movement of low-skilled workers. Besides, the temporary movement of persons addresses the problem of illegal migration one of the major concerns of several developed countries.

The majority of Organisation for Economic Cooperationa dn Development (OECD) countries seem to be facing acute shortages of labour in some professions, which are not preferred by locals. For instance, Australia reports a shortage of around 6000 registered nurses, which is around 3 percent of practicing registered nurses. Conservative estimates of Canada's shortage of registered nurses put the number in the range of 16,000 (or 6.9 percent of the present workforce). Indian nurses are in great demand in the US where the present requirement of nurses is 126,000 which is expected to touch 200,000 in 2005 and cross the one million mark by 2015, an organisation involved in hiring nurses for that country claimed. Every year, an average of 1,000 Indian nurses make to the US to fill in this critical demand.[4]

Table 3: Cost Comparison of Medical Services

Procedure	Cost (US$)			
	US	Thailand	India	UK
Heart Surgery	40,000	7,500	6000	23,000
Bone Marrow Transplant	2,50,000	—	26,000	1,50,000
Liver Transplant	3,00,000	—	69,000	2,00,000
Knee Replacement	20,000	8,000	6,000	12,000
Cosmetic Surgery	20,000	3,500	2,000	10,000

Source: Escorts Heart Institute and Research Centre Limited, New Delhi

Last year, the Australian and the New Zealand governments placed accounting professionals on an official list of skills that are in short supply. The government is being urged to relax its visa regulations for foreign graduates. Some organisations are outsourcing a number of accounting functions, and have established subsidiaries in India to handle their outflow. In addition to alleviating the skills shortage, this cuts costs too. This kind of arrangement is likely to become more formalised over the next few years, with plans afoot for some firms to establish Indian centres that will provide accounting services to Australian companies, as they do now with IT.[5]

Current Status of Commitment Under GATS

The Uruguay Round of trade negotiations achieved limited liberalisation on trade in services. A total of only 96 WTO Members made commitments to trade in services. A close analysis reveals that countries at best bound the *status quo* and in fact, in many cases there was a roll back from the existing regime. In movement of natural persons (Mode 4), where many developing countries, including India has comparative advantage, the commitment level from developed country is very low.

The fresh negotiations on services started in the year 2000 with new approach of 'requests and offer'. However, till recently, only six proposals were tabled relating to Mode 4, by the US, the EU, Japan, Canada, India and Colombia. The proposals reflect a wide variety of ambitions, from enhancing the transparency of the current regimes to securing market access, including the abolition of ENTs and the introduction of 'GATS visa'.

An analysis of the commitment schedules show that the sectoral coverage was poor and countries were more willing to open up less controversial sectors and modes of delivery of services. A large number of commitments were in sectors such as tourism while social sectors such as health and education received very few commitments. Commitments by modes of supply show that 50 percent of the Members undertook full commitment for Mode 2, 30 percent against Mode 1, 20 percent in favour of Mode 3 and virtually none of the countries scheduled sector specific commitments for Mode 4.[6]

In the run-up to the July Framework Agreement, many Members, developed and developing alike, were interested in ensuring that the services area would be given adequate prominence.

The WTO General Council Decision was finalised and adopted on July 31, 2004 with annexes on agriculture, non-agricultural market access (NAMA), services and trade facilitation. Following the July Decision, Members fixed May 2005 as a target date for the submission of revised services offers, and they were urged to make a high quality offer, particularly in sectors and modes of supply of export interest to developing countries, with special attention to be given to least developing countries (LDCs).

South Asia's Approach in the Doha Round

The approach of South Asian countries, especially India, towards services negotiation was significantly different from their stance on the Uruguay Round. This change in position resulted from the fact that India, which is the main player in South Asia, has experienced a robust growth in services sector in the 1990s. A year before the launch of the Doha Round of trade negotiations, India made one of the most comprehensive submission **(**WTO Document S/CSS/W/12**)** on the movement of professionals before the Council for Trade in Services. India through its submission has tried to make an assessment of the nature of liberalisation that has taken place in Mode 4 under the existing GATS framework and the extent to which the objectives of Article IV of GATS have been operationalised through liberalisation in this mode vis-à-vis significant export interest to developing countries. This submission document then identifies the key barriers to the movement of professionals and the specific problems related to the existing commitments undertaken by Member countries.

Ever since the launch of Doha Round of trade negotiations in 2001 India has been one of the most vocal champions advocating for services trade liberalisation, particularly under Mode 1 and Mode 4. Prior to the Cancun Ministerial Conference, India and Pakistan along with some other developing countries made the first collective proposal (WTO Document TN/S/W/14) on Mode 4 in July 2003, regretting the lack of substantial improvements in the offer submitted at that time.

The period since the Cancun Ministerial witnessed more active participation by developing countries on services negotiations. From South Asia, India and Pakistan made several joint submissions along with other developing countries suggesting ways to accelerate the GATS negotiations and also expressed the concerns of developing countries. The proposals from developing countries, therefore, intended to initiate a discussion in the Council for Trade in Services in its Special Session about the extent to which Article IV of the GATS is being implemented in the on-going negotiations. In addition, in February 2005, India and Pakistan along with ten other developing country Members of the WTO made a submission (WTO Document TN/S/W/31) before the Council for Trade in Services Special Session seeking broadening the coverage on categories of 'Natural Persons' under the horizontal commitments.

Future Negotiating Strategy

The current Doha Round of trade negotiations has entered into a crucial phase. India being the leader of developing countries and also the largest country in the South Asian region, has the onus of protecting the interests of a larger group of developing countries and LDCs. South Asian LDCs viz, Bangladesh and Nepal have also supported India's stand on Mode 4. Obliviously, among South Asian countries, Mode 4 is one common area of interest.

On Mode 4, what is immediately required is easing of restrictions on existing commitments. At present, while many schemes facilitate the mobility of the highly skilled labours, relatively few cover the moderately or low skilled workers of interest to developing countries. While intracorporate transferees enjoy relatively easier conditions for mobility, groups that are more important to developing countries (particularly South Asia) such as contractual or independent service suppliers face several restrictions. Keeping in view of this fact, South Asian countries must ask for expansion of commitments in categories delinked from commercial presence (Mode 3). Elimination of ENTs will help low-skilled and independent professionals.

The GATS negotiations are slowly getting complex as US and other developed countries are persistent in raising security issues. As per the July framework, developed countries were supposed to improve their Mode 4 offers substantially. But, both the US and the EU disappointed developing countries by not improving the quality of their offers. Further, the US also debarred its United States Trade Representative (USTR) from negotiating visa related matters under GATS, as it touches upon immigration issues.

Undoubtedly, security concerns are crucial for any country, as it can be with EU or US. Hence, there is a need to find out solutions within the GATS framework. The concept of GATS visa, therefore, was proposed by India and other developing countries. Some of the legislations, which are pending before the US Congress in fact, support the concept of temporary workers visa. South Asian countries may also demand for a stand-alone agreement on Mode 4 having features like short-term GATS visa, multilateral criteria for ENTs and labour market tests (LMTs), strict provisions for return migration, Mutual Recognition Agreements (MRAs), greater transparency and predictability etc. These provisions will address the concerns of both developed and developing countries.

Endnotes

1 The commercial services is defined as being equal to services minus government services, i.e. it is further sub-divided into transport, travel and other commercial services, which include communication, construction, insurance, financial, computer & information, audiovisual services etc.

2 *Hawala* and *Hundi* are terms that can be used interchangeably for informal cash transactions, typically *hawala* is used in the context of the Middle Eastern countries, and *hundi* is usually connected with South Asia.

3 Chamber of Commerce of the United States, *"Jobs, Trade, Sourcing and the Future of the American Workforce"*, April 2004.

4 "Wanted: 1.26 lakh nurses in US", online report on http://in.rediff.com/money/2005/oct/17nurse.htm, dated 2005.10.17

5 "Australia and New Zealand Lack Accountants", Financial Times, 2005.05.05

6 Arpita Mukherjee (2005), *"Developing Countries and GATS Negotiations: The Case of India"*, Global Economy Journal, Vol. 5, Issue 2.

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