

Opportunities for Trade in Services between GMS and India *Challenges and Options for Future*

*Sanchita Chatterjee**

Introduction

The share of services sector in the gross domestic product (GDP) of most developing countries has been increasing. India and the Greater Mekong Sub-region¹ (GMS) have not been an exception to this trend, since these countries have liberalised their services sector. For India and GMS countries, there are some significant benefits from services liberalisation, including the choice of the media for liberalisation e.g. multilateral or bilateral agreements or unilateral policy measures.

This briefing paper focuses on the potential relationship in trade in services between the GMS, i.e. Vietnam, Thailand, Myanmar, Cambodia, Laos and Yunnan Province of China and India by analysing the existing and future issues affecting trade in services between the two trading blocs. The paper comes up with specific policy measures for the respective governments to improve trade in services between India and the GMS. Since data on services is rather difficult to get at a sub-national level and a country as a whole makes commitment on services, the paper discusses the situation in China as a whole rather than only Yunnan Province.

Background

Trade in services contribute significantly to India's economy (55 percent in 2006), growing at the rate of 11 percent over the year before² with overall trade of 33 percent³. Driven principally by software and Information Technology/Information Technology Enabled Services (IT/ITES), services sector in India is the largest source of employment for skilled professionals.

Likewise the GMS countries too have experienced high growth in services trade driven mainly by travel, tourism, logistics and distribution services. As remittances indicate that the countries have comparative advantage in movement of people, Vietnam and Thailand have relatively well developed services sectors, including the Information and Communication Technology (ICT) sector.

China (Yunnan Province) is one of the top 10 exporters and importers of commercial services in the world. The share of services in China's GDP which was 39.5 percent in 2006⁴ is lower than those of other Asian countries. Rebalancing the economy towards the services sector is a major priority for the Chinese Government.

Table 1: Trade in Commercial Services from the GMS, China and India, 1995-05 (in US\$mn)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Cambodia	284	361	332	387	574	744	857	964	963	1283	1672
China	43065	42936	52228	50346	57132	66004	71933	85461	101227	133658	157082
India	16825	18179	21203	25259	31051	34926	36591	39903	48603	76954	108305
Lao People's Dem. Rep.	187	202	185	208	150	147	132	191	166		
Myanmar	586	712	947	971	773	769	733	699	631	676	
Thailand	33281	36017	32763	24948	28006	29114	27407	31876	33693	41841	47960
Vietnam	4129	4547	5683	5762	5533	5954	6192	6646	7322	8606	

* Trade Policy Analyst, New Delhi – in her personal capacity.
email: sanchita.chatterjee@gmail.com

Table 2: Percentage Increase in Trade in Services from the GMS, China and India, 1995-05

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Cambodia	27.11	-8.03	16.57	48.32	29.62	15.19	12.49	-0.10	33.23	30.32
China	-0.30	21.64	-3.60	13.48	15.53	8.98	18.81	18.45	32.04	17.53
India	8.05	16.63	19.13	22.93	12.48	4.77	9.05	21.80	58.33	40.74
Lao People's Dem. Rep.	8.02	-8.42	12.43	-27.88	-2.00	-10.20	44.70	-13.09		
Myanmar	21.50	33.01	2.53	-20.39	-0.52	-4.68	-4.64	-9.73	7.13	
Thailand	8.22	-9.03	-23.85	12.26	3.96	-5.86	16.31	5.70	24.18	14.62
Vietnam	10.12	24.98	1.39	-3.97	7.61	4.00	7.33	10.17	17.54	

Source: Calculated from World Trade Report 2006

Tables 1 and 2 demonstrate that trade in services has increased in India and GMS countries between 1995 and 2005. Overall, Cambodia, China, India, Thailand and Vietnam have recorded impressive growth in trade in services. The percentage growth in total trade, exports and imports has been erratic in some countries, e.g. Cambodia experienced a negative growth in exports in 2003, Myanmar experienced negative exports as well as imports growth for some years⁵. Data on bilateral trade in services between India and the GMS is, however, difficult to get and hence has not been shown in this paper.

Benefits for Developing Countries

This section examines the reasons for countries undertaking liberalisation. It is mostly assumed that gains from services trade liberalisation are similar to that from goods trade liberalisation⁶. Gains arise from the difference in comparative advantage in the production of goods or services, which countries can exploit by freeing trade. However, there are some distinctions between liberalising impact of trade in goods and services⁷. Rajan and Bird (2002) have mentioned other effects of services trade liberalisation: protectionism may impose additional costs taking into account its implications for monopoly and the costs of rent seeking and various distortions. There are some studies, which look at empirical evidence of liberalising services trade, but they have been inconclusive⁸.

Developing countries have been liberalising services trade because they expect to gain out of it. Hertel, Hoekman and Martin (2002) say that most developing countries specialise in services exports as a source of foreign exchange⁹.

Services Liberalisation by GMS & India

Indian and GMS countries have divergent status on the extent, sequencing of measures and use of a particular medium (e.g. multilateral, regional or unilateral) for services reforms. For example, these countries differ in their membership status at the World Trade Organisation (WTO), including the extent of services commitments. India and Thailand are original signatories of the WTO. China, Vietnam and Cambodia, in contrast, acceded to the WTO in 2001 and undertook extensive General Agreement on Trade

in Services (GATS) commitments. Laos is in the process of negotiating its accession with WTO, while Myanmar, which faced various sanctions from developed countries, is nowhere close to the WTO accession process. Not surprisingly, though all the countries have entered into various trade agreements and have scheduled services commitments, their commitments vary.

Table 3 records the services liberalisation of Indian and GMS countries under GATS, Regional/Free Trade Agreements (RTAs/FTAs) and autonomous routes.

Cooperation in Services

Cooperation between India and the GMS is an important element in India's "Look East Policy" launched in early 1990s. India has increased its overall engagement with countries in Southeast Asia in the past few years as part of the policy. It has signed Framework Agreement on Comprehensive Economic Cooperation that provides for a FTA between India and Association of Southeast Asian Nations (ASEAN) to be implemented over 10 years. These FTAs had concentrated on goods in the beginning before moving on to the services. However, FTA in only goods may not benefit India. The reasons being India is a net importer of goods from Southeast Asia, it may not be able to export goods to this region in a big way. In contrast, India has seen an increasing growth in overall services exports. Its services providers have entered many Southeast Asian countries. The GMS has cheap and quality labour, and offer a big enough market for India's services exports.

The main reason for the East and Southeast Asia to improve trade relations with India has been more strategic than economic which is to counter balance the hegemony of China¹⁰. However, better trade relations could bring economic benefits for all. It is to the GMS countries' advantage to have greater trade relations in services with India for the following reasons:

- Like most countries, services have grown in importance in these countries' GDP and trade;
- India is usually touted as a developing country success story in services, with its growth until two years was almost solely services led And the GMS could learn and benefit from India's experience;

Table 3: Ways of Liberalising Services

Country	GATS	RTAs/FTAs	Autonomous Liberalisation
India	Limited commitments: did not bind its unilateral regime. At present, the gap between unilateral and bound regime has increased. No commitments on major sectors such as distribution, education, legal, accountancy etc.	Limited liberalisation. India-Singapore Comprehensive Economic Co-operation Agreement (CECA) the most extensive.	Unilateral liberalisation since early 1990s; a number of barriers remain: foreign direct investment caps, regulatory restrictions (e.g. in financial services), no domestic reforms in certain services (e.g. legal).
China	Recently acceded member (RAM); WTO commitments the strongest of any developing country. Almost all sectors open in phases and geographically between 2001 and 2007, domestic regulatory disciplines being formed.	A number of FTAs. China-Association of Southeast Asian Nations (ASEAN) FTA on services entry into force July 01, 2007.	Bulk of external liberalisation was done unilaterally before WTO accession. Post WTO accession: using WTO to liberalise.
Thailand	Commitments on all major sectors except health services; Restrictions on limit and form of foreign ownership (49 percent) for most sectors, ownership of land; Mode 1 unbound for most sectors.	A number of FTAs including ASEAN Framework Agreement on services 1995, Asia Pacific Economic Cooperation (APEC): target of open and free trade, including services by 2020.	Significant reforms in recent years especially in financial services after the Asian financial crisis. A number of restrictions remain; reforms slower than expected.
Vietnam and Cambodia	RAMs, extensive commitments WTO accession commitments help to transit from plan to market economy.	Signatory to ASEAN Agreement on services; commitments and exemptions similar to its WTO commitments.	Undertaking domestic reforms autonomously and by implementing GATS commitments.
Myanmar, Laos	Myanmar, Laos not members yet. Laos negotiating accession.	ASEAN Framework Agreement on services; Myanmar commitment on a number of services e.g. business services, telecommunications, audiovisual, energy related, healthcare; tourism. Laos commitment on business services, communications construction & related; travel and tourism perhaps indicative of possible GATS commitment.	Laos preparing for WTO membership. Myanmar has undertaken reforms measures but still has a strictly controlled economy.

- Indian services providers can fill up their gap in certain services and provide suitable employment to their pool of labour.

Therefore, an expansion of trade in services will be a 'win-win' situation for both. There is already a basis for greater cooperation: Mekong Ganga Cooperation initiative involving India and the GMS was launched in 2000 in Vientiane, the capital of Laos. Between 2001 and 2007, it has implemented a programme to promote tourism, transport, culture and

education between the two. Though the initiative has not yielded much benefit, there is a ground for expanding the current cooperation by focusing on greater trade relations.

Sectors of Mutual Interest

As explained above, there are considerable opportunities in services in the GMS for India. Moreover, Indian services providers have a potential interest in exporting certain services across sub-sectors and modes to the GMS. There are certain areas of

interest to the GMS countries as well. The section below identifies possible mutual benefits in a few services sub-sectors:

IT and Enabled Services: A big chunk of India's services exports is made up of IT/ITES. Indian IT services providers have established their presence in countries outside India and IT companies (e.g. NIIT and APTECH in Thailand) have moved to some countries of the region. Still there is ample scope to further expand their business in the region. Indian companies could hire local skilled professionals especially in countries, such as Vietnam and Thailand, which have a pool of skilled labour. Software competency of Indian IT companies and hardware capability of some of the countries such as Vietnam¹¹ can be synergised effectively to create benefits for both the trading blocs.

Education and Training: There is a considerable demand for education in the GMS region including proficiency in English language. For example, Vietnam has a need to revamp its curricula, method of teaching, and research activities¹². Indian education providers such as NIIT and APTECH can help provide IT training and technical institutes, English language trainers, or universities can fill up the vacuum by establishing their presence in the GMS region.

Audiovisual: There is a demand for Indian movies, music etc., which Indian entertainment industry can capitalise by stepping up efforts to sell their products in the region. The mutual interest could benefit the GMS as well, as they would offer good locales for shooting Bollywood movies.

Tourism: Much scope exists for increasing two-way tourist traffic between the GMS and India. Indian Buddhist tourist circle has interest for Thailand's popular tourist destinations. Other GMS countries have scope to promote their locales in India in a similar way. Tour operators and travel agents from the GMS have interest in India. For example, Thailand is a significant investor in India¹³ and most of its investment is in tourism and travel¹⁴. India would, in turn, benefit by learning from the GMS experience of exploring tourism services since despite its potential tourism has not taken off in India in a big way.

Cultural Services: Cultural ties can be enhanced, as India has an interest in expanding Indian art, culture and cuisine in Southeast Asia and vice versa (e.g. Indian interest in *Angkor Vat*, a famous temple in Cambodia). The two trading blocs could step up their cooperation in this area, which can be aligned with greater link in tourism.

Health Services: India offers quality health services at an affordable price. It should market its health

tourism to the GMS. Indian hospitals, for example, Apollo have already established their presence in other countries of Southeast Asia. They should be encouraged to enter the GMS.

Consultancy and R&D Services: There is a huge demand for energy, infrastructure, transport and research and development (R&D) in the GMS countries. India has an expertise and thus can export consultancy and R&D services to the region.

Movement of People: GMS has a demand for suitably qualified professionals and semi-professionals from India. For example, there have been surveys carried out in Vietnam which cite a shortage of skilled workers as the third most important constraint faced by manufacturers, after access to finance and land¹⁵. Conditions may be created to entice Indian professionals and semi-professionals to work in the GMS. Furthermore, Indian services companies establishing presence in the GMS can offer qualified professionals. Similarly, better facilities need to be created for the people from the GMS countries interested in working in India. The GMS has an agreement to facilitate cross-border movement of people¹⁶ within the region, which could be expanded to include India.

Some other services though not discussed in detail but could be equally important for both trading blocs are: professional services, other business services, logistics, and distribution services.

Sub-regional Trade in Services

A related theme to improved trade links between India and the GMS is the promotion of sub-regional cooperation. There have been discussions on sub-regional cooperation between these countries and a few initiatives have been undertaken, for example, greater links between North Eastern Indian states and Myanmar. A significant level of border trade exists between India and Myanmar through the North Eastern states. Trade links can be further strengthened by improving infrastructure, setting up of immigration check points and improving banking facilities. Likewise, links could be strengthened between the land-locked Yunnan Province of China and Myanmar as well.

Yunnan has sought a transit route through Myanmar to a sea port from which it can export products to South Asia, Middle East and Europe. China's 'Go West' policy¹⁷ for the development of its southern and eastern regions including the Yunnan, especially in sectors such as tourism, energy, aviation can be synchronised with the sub-regional development. Another example is Ayeyawaddy-Chao Phraya Mekong Economic Cooperation Strategy (ACMECS), a cooperation framework amongst Cambodia, Lao PDR, Myanmar, Vietnam and Thailand¹⁸, to utilise member countries' diverse strengths and to promote balanced

development in the sub-region. At this initial stage, the countries are considering a single visa regime for the ACMECS in a manner consistent with both the GMS and ASEAN initiatives.

At sub-regional level, there could be greater emphasis on tourism, transport and travel. It is possible to establish stronger energy and telecommunication networks and banking and air services at a sub-regional level. These and other regional infrastructure projects give rise to demand for related and consultancy services, i.e. energy related and infrastructure consultancy services. To develop such sub-regional linkage, there is the need to streamline policies on visa and immigration and set up check posts, transit points, border immigration controls etc. Such policies would also need to be harmonised with overall policies in the regional groupings.

Issues and Concerns

Opportunities notwithstanding, there are certain barriers and future potential risks, which may prevent India and the GMS from increasing trade in services. To start with, the countries having diverse economies, political regimes, status in trade agreements etc. The fact is that the progress in cooperation within the GMS has been very slow because of factors such as the difference in respective economic structures and events such as the Asian economic crisis of 1997 or avian flu in recent years. Such differences, however, can be overcome as the experience of the ASEAN shows.

The GMS countries have been undergoing transition from controlled to market economies. Laos,

Cambodia, Myanmar and Vietnam are highly indebted poor countries and the first three are classified as least developed countries (LDCs). Myanmar still has a highly controlled economy and faces various economic sanctions. Vietnam is a developing country with a good economic performance in the last few years but needs to speed up reforms in some areas. Thailand is a relatively advanced country but has to sustain its economic reforms, as the recent military takeover has jeopardised some of its reforms¹⁹. China is perhaps the best performing economy of the region and has one of the most open economies among developing countries. While India is a stable democracy, decision-making on economic issues has been very slow because of coalition politics. Table 4 summarises some such issues.

Policy Measures

India and the GMS have seen fast growth of services in the last few years. As the two trading blocs have trade and cooperation links with some trade in services between them, there is scope to deepen the links in the sector. However, there are some factors, which may act as barriers to greater trade.

The discussions in the above sections suggest a few following policy measures:

- The India and the GMS should go beyond the differences in economic and political structures and GMS needs to forge a greater trade relationship.
- The countries will have to sustain/speed up domestic reforms to potentially benefit from services liberalisation.

Table 4: Potential Factors Influencing Trade in Services

Economic growth and reforms	WTO and RTAs	Linkage between the GMS and India	Small market size in the GMS
<p>The future trade relations depend on the continuation of economic reforms and economic growth. Domestic reforms in services important for higher trade in services.</p> <p>Internal politics and political environment affects the pace of reforms</p>	<p>Economic gains from WTO and RTAs depend on the extent and implementation of their commitments, and the ability to negotiate (e.g. WTO membership for Laos).</p> <p>There is a lack of technical capacity in Cambodia and Laos which may slow down the negotiation process or to implement the GATS.</p> <p>The countries differ in their legal systems, eg., Cambodia needs to ratify a number of laws to comply with WTO and ASEAN.</p> <p>Another problem for the smaller countries is that some of them may actually lose from WTO/ RTAs due to weak negotiating capacity.</p>	<p>Greater linkage within the GMS and between the GMS and India is crucial for deepening trade relations between the two regions.</p> <p>Till date, most of the cooperation within the GMS has centred on infrastructure such as communications and energy. There are some projects to improve linkages between the individual GMS countries and India.</p>	<p>While India offers a big market for any potential services exports from the GMS, the GMS may not offer a big enough market to India. However, the GMS as a bloc may be more attractive to Indian services providers than the individual countries.</p>

- India should negotiate on trade in services with the GMS as a bloc to get potential access to a big enough market for its services exports.
- The GMS too could take steps to secure its potential interests in certain services exports to India.
- India and the GMS would benefit by learning from each others experiences on specific services, e.g. IT/ITES in India or tourism in the GMS.
- Smaller GMS countries – Laos and Cambodia – may need technical assistance and capacity building to participate in trade negotiations and implement trade agreements.
- There should be greater cooperation on individual services sectors, such as India and Vietnam could collaborate on IT and ITES, and India and the GMS on cultural and tourism services.
- India and the GMS could take forward the already existing basis for cooperation and enter into a services agreement, which would benefit both the parties.
- India and the GMS will have to make substantial commitments in any potential agreement on trade in services to reap substantial benefits, i.e. deep commitment on movement of people.
- Further studies ought to be conducted on the scope of cooperation and increasing trade in individual services sectors between India and the GMS to provide more information.

References

1. ADB (2007b). News and Events, 'Mekong Countries Agree on Bridge Linking PRC to Bangkok', June 21, 2007.
2. ADB, "GMS Regional Cooperation Strategy and Program (RCSP)".
3. Asian Development Bank (ADB) (2007a) Outlook 2007.
4. Banga, Rashmi. (2005). "Trade and Foreign Direct Investment in Services: A Review", Indian Council for Research on International Economic Relations (ICRIER) Working Paper No. 154, February 2005.
5. Francois, Joseph and Wooton, Ian, 2000. "Trade in International Transport Services: The Role of Competition", CEPR Discussion Papers 2377, Centre for Economic Policy Research.
6. Henry, Laurence. (2007). 'Trade and Economic Arrangement between India and South East Asia in the Context of Regional Construction and Globalisation', CSH Occasional Paper No. 17 2007.
7. Mattoo, Rathindran and Subramanian. (2001). "Measuring Services Trade Liberalisation and its Impact on Economic Growth: an Illustration", World Bank Policy Research Working Paper Series 2655.
8. Qin, Julia Ya (2003). "WTO-Plus" Obligations and their Implications for the World Trade Organisation Legal System, An Appraisal of the China Accession Protocol", Journal of World Trade 37(3): 483–522, 2003, Kluwer Law International.
9. World Trade Organisation, Schedules of Specific Commitments on Services of Various Countries.
10. World Trade Report 2006, World Trade Organisation.

Endnotes

- 1 Mostly referred to as two trading blocs in the paper
- 2 World Trade Report 2006
- 3 *Ibid*
- 4 *Ibid*
- 5 *Ibid*
- 6 See Whalley 2003
- 7 See Mattoo, Rathindran and Subramanian (2001) for a discussion
- 8 For example, Mattoo, Rathindran and Subramanian (2001) examined the econometric evidence for financial and telecom services and concluded that openness to trade in services influences long run growth performance. Francois and Wooton (2000) have worked with a model of oligopoly and examined the factors determining effects of greater market access in services. They have concluded the effects would depend on the impact of trade on the market power of domestic firms.
- 9 Also see Banga (2005), which mentions some of the benefits developing countries expect from trade liberalisation as cited in various studies.
- 10 Laurence (2007)
- 11 Qin (2003)
- 12 ADB (2007a)
- 13 It was 19th in terms of approvals in 1991-2006
- 14 Indian Embassy, Thailand website
- 15 ADB (2007a)
- 16 ADB
- 17 See <http://www.adb.org/Documents/Events/Mekong/2004/PPCM/industry-investment.pdf>
- 18 ADB
- 19 ADB (2007a)

Comments on this paper, received from Yin Xingmin, China Centre for Economic Studies; Hank Lim, Singapore Institute of International Affairs; and Sok Hach, Economic Institute of Cambodia are gratefully acknowledged and suitably incorporated.

© CUTS 2007. This **Policy Brief** has been produced by CUTS Hanoi Resource Centre, with the support of Swiss Agency for Development and Cooperation (SDC), under the project entitled, "The Greater Mekong Sub-region: Addressing Development Challenges in the New Globalisation Era". Readers are encouraged to quote or reproduce material from this paper for their own use, but as the copyright holder, CUTS HRC requests due acknowledgement and a copy of the publication.

This Policy Brief has been published by CUTS Hanoi Resource Centre, 81 Chua Lang Street, Dong Da District, Hanoi, Vietnam, Tel: +84 (0)98 63 10 179, Email: hanoi@cuts.org, Web Site: www.cuts-international.org and printed by Jaipur Printers Pvt. Ltd., M.I. Road, Jaipur 302 001, India.