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TRADE IN SERVICES AND INVESTMENT FLOWS S IN ASIA: REGIONALISATION OR GLOBALISATION?

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Trade in Services and Investment Flows in South Asia

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Abstract

Despite being a group of contiguous countries South Asia is one of the least integrated regions in terms of intra-regional investment and trade relations. The share of services in GDP of South Asian countries has increased substantially with South Asia exhibiting a high revealed comparative advantage in commercial services and more particularly in "other services" including computer and information technology enabled services. Analysis of the FDI inflows in South Asia reveals that the number of total sale deals including Greenfield investments and Mergers and Acquisitions (M&A) have increased in recent years. Though India is ranked as the second most attractive destination for FDI, South Asian countries, including India, do not rank high in terms of the FDI performance and potential indices and are also ranked low in the global competitiveness index. The study points out the investment constraints in South Asia and cites poor infrastructure and labour market inefficiencies as the bottlenecks in attracting higher FDI inflows. Emphasising the importance of Doha Development Agenda on the one hand, the paper lays out the importance of larger and broader RTAs like Pan Asia Free Trade Agreement (PAFTA) instead of narrow RTAs like SAFTA. The success of SAFTA in enabling regional integration would depend on turning its current shallow constitution in favour of a deep agreement taking into account various behind the border issues.

I. Backdrop

The present paper is an attempt in understanding the issues and dimensions of trade in services and investment flows in South Asian countries vis-a-vis other regions of the world as well as in intra regional terms.

Trade in services and investment flows have been the key drivers of many economies in recent decades. In fact, services have become the single largest sector in many economies. Efficient provision of services in a country enhances export competitiveness of its agriculture and manufacturing sectors. Similarly, attracting foreign direct investment (FDI) has become a key part of national development strategies for many countries. Countries see such investments as bolstering domestic capital, productivity, and employment, all of which are crucial for economic growth. It is with this understanding that many of the South Asian countries have made conscious efforts in recent years to liberalise their service sectors and also introduced investment friendly policies including those for FDI.

In many OECD countries today, services account for more than 70 per cent of GDP and in many developing countries this share has increased to around 50 per cent. Further, many of the most dynamic sectors including information technology enabled services, financial services, and telecommunications are in the services sector. The 'new economy' of the 21st century refers to services-based economy and South Asian countries are no exception.

FDI flows refer to capital flows across countries and regions. In the case of trade in services, despite a common misconception about their being non-tradable, services have always been traded in one way or the other. For example, transportation and travel have always been significant economic activities. It took economists and the policy-makers more than four decades to get convinced that some discipline had to be introduced to the gamut of trade in services across the national borders of the world similar to the GATT for merchandise trade.

The paper is organised under five sections. The next section provides a glimpse of economic structure of the four major countries of South Asia, viz. Bangladesh, India, Pakistan and Sri Lanka. Regional integration issues along with the review of literature are discussed in section III. Analysis of trade in services is provided in section IV and in FDI flows in Section V. The paper ends with concluding remarks in section VI.

II. South Asia in the World Economy[1]

South Asia refers to a group of seven countries, viz. Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. It accounted for 1.2 per cent of world merchandise exports in 2005. The corresponding share in imports is 1.8 per cent. The

[1] This section is based on World Bank, *World Development Indicators*, 2007.

share of South Asia in world exports of commercial services is 2.5 per cent with the corresponding share in imports of commercial services as 2.8 per cent. India is the largest member country accounting for three-fourths of the population and four-fifths of the gross national income of the region.

South Asia supports about 23 per cent of the world population with the highest density of population (307) among the low and middle income (LMI) country groupings[2]. It accounts for 2.3 per cent of the world gross national income (GNI) in exchange rate terms and 7.6 per cent in purchasing power parity (PPP) terms. However, the GDP has been growing at relatively rapid rate of average growth of 6.5 per cent per annum during 2000-2005 which is second only to EAP (includes China) at 8.4 per cent. The corresponding average for the LMI is 5.1 per cent.

Agriculture accounts for 19 per cent in South Asia's GDP with industry accounting for 27 per cent and services 54 per cent. The share of industry in GDP of South Asia is the lowest among the LMI country groupings. The share of manufacturing, which is a subset of industry, at 16 per cent of GDP is slightly above 14 per cent for MENA and SSA and 12 per cent for LAC. However, it is well below 32 per cent for EAP. In LMI the average share of agriculture is 11 per cent, industry 37 per cent and services 52 per cent. The share of manufacturing in LMI at 22 per cent is higher than South Asia's at 16 per cent.

South Asia is one of the most protected groups among LMI country groupings with simple mean tariff of 15.2 per cent and import weighted mean tariff of 16.1 per cent. The corresponding rates of protection are 18.4 and 15.1 per cent, respectively for primary products, and 14.6 and 16.8 per cent, respectively for manufactured products. These rates of protection are higher than all of the LMI country groupings and also the average for the LMI at 9.0 and 6.1 per cent, respectively.

The share of manufactured exports at 72 per cent for South Asia is second only to 81 per cent of EAP. The corresponding figure for LMI is 64 per cent.

III. Intra and Inter South Asian Regional Integration: Extant Literature

Despite being a group of contiguous countries South Asia is one of the least integrated regions in terms of investment and trade cooperation. Intra-bloc merchandise exports account for 5.5 per cent of total exports of South Asia. Over and above official figures, significant informal or unofficial trade phenomenon has also been documented (Taneja 2004).

[2] WDI Low and Middle Income (LMI) country groupings include East Asia & Pacific (EAP), Europe and Central Asia (ECA), Latin America and Caribbean (LAC), Middle East and North Africa (MENA), South Asia (SA), and Sub-Saharan Africa (SSA).
Low-income countries are those with gross national income (GNI) per capita of more than $875 but less than $10,726. Lower middle-income and upper middle-income economies are separated at a GNI per capita of $3,465. High income economies are those with a GNI per capita of $10,726 or more.

Even though there are many commonalities in historical and cultural backdrops yet the political and trust related tensions have not let the economic cooperation fizz into optimising mutual welfare gains, ever since birth of the South Asian association for Regional Cooperation (SAARC) in 1985. The SAARC seems to have acted as an umbrella of penumbra than a protective harbinger of mutual economic cooperation in South Asia. SAARC Preferential Trade Agreement (SAPTA) was signed in 1993 and implemented in 1995. It reflected the desire of the Member States to promote and sustain mutual trade and economic cooperation within the region through the exchange of concessions. An Agreement on South Asian Free Trade Area (SAFTA) was signed in 2004 and became effective since 2006. It deals with trade in goods but not with issues of trade in services. It has some mention of promoting intra-regional foreign direct investment (FDI) but with no clear details. Under the Trade Liberalisation Programme scheduled for completion in ten years by 2016, the customs duties on products from the region will be progressively reduced. However, under an early harvest programme for the Least Developed Member States, India, Pakistan and Sri Lanka are to bring down their customs duties to 0-5 % by 1 January 2009 for the products from the Member States. The Least Developed Member States are expected to benefit from additional measures under the special and differential treatment accorded to them under the Agreement. Despite these developments there has been lack of any consequential regional economic cooperation among the SAARC member countries.

SAFTA has many flaws. The border tariff liberalisation is very slow. There are no commitments to eliminate non-tariff barriers. It does not have provisions of deeper integration like transit facilities, cooperation on infrastructure development, liberalisation of investment and trade in services, financial and monetary cooperation and coordination of macroeconomic policies (Dubey 2007).

An important question is whether regional integration is desirable? While it may create new opportunities for the members of the region it also poses certain challenges. A small region like South Asia, which has high external protection, might lose through regional integration with trade diversion likely to more than offset trade creation. The opportunities would include benefits for land-locked countries or regions of countries, trade facilitation and reduction of trade costs, energy cooperation and peace dividend. The benefits of regional integration in South Asia can be optimised with concurrent reduction in its external protection (World Bank 2006).

The case of SAFTA is not especially persuasive on both economic and political grounds. On economic grounds, trade diversion is likely to more than offset trade creation. On political grounds SAARC has never been a means to break the hostility between India and Pakistan and SAFTA may not be the best means to achieve this. An Asia-wide trade agreement would be an apt goal to achieve.[3]

[3] See Panagariya, Arvind, Chapter 7 in World Bank (2006).

The impact of a regional integration agreement in South Asia would depend on the depth of the agreement including trade in services and investment flows. The shallow FTA type agreements are expected to be exercises in foreign relations while the deep integration agreements lead to some meaningful changes in efficiency and economic welfare of the member countries of the region. The mere easing of the border trade barriers may not lead to an effective outcome unless behind the border distortions and barriers to trade and investment flows are also simultaneously dealt with. The relative efficiencies of the competing and the complementary sectors would need to be carefully carved into the architecture of the regional cooperation agreement. SAFTA lacks in any serious commitments on investment and none on trade in services.

The APTA[4], formerly known as Bangkok Agreement (Bangkok Agreement) also does not cover investment and services issues. BIMSTEC[5] has some coverage on investment but not on Mode-3. India's Trade Agreements with Bangladesh, Bhutan, Nepal and Sri Lanka, also do not cover issues of investment and services. India-Thailand Agreement has coverage on investment issues. It is only in India-Singapore Comprehensive Economic Cooperation Agreement (CECA) that the issues of investment and trade in services have been covered relatively effectively.

Trade in Services

As in the case of merchandise goods, there are also barriers to trade in services. However, restrictions and barriers to trade in services do not work in the same way as in the case of merchandise trade since most of the services are actually not observed to cross borders. However, restriction on the ability of national service firms to provide these services across borders and within foreign countries put additional costs and barriers to international trade (Deardorff 2000). Such barriers are created through limiting the access of foreign services and the foreign suppliers of services to domestic markets. Hoekman and Braga (1997) distinguish four different types of barriers, namely 1) quotas, local content, and prohibitions; 2) price-based instruments; 3) standards, licensing, and procurement; and 4) discriminatory access to distribution networks. It has been argued that the fundamentals of trade in services are really no different from trade in goods, and only the difficulties of measuring and monitoring trade in services make it distinctive (Deardorff and Stern 1985).

Some studies have highlighted the advantages of trade in services for regional co-operation and integration. For instance, Taneja et al (2004) have analysed the India-Sri Lanka FTA for trade in services and indicated important areas of bilateral trade in

[4] APTA / Bangkok Agreement was signed in 1975 as an ESACP initiative aimed to promote intra-regional trade among Bangladesh, China, India, Republic of Korea, Lao People's Democratic Republic and Sri Lanka.

[5] BIMSTEC originated in June 1997 as BIST-EC (Bangladesh, India, Sri Lanka, Thailand Economic Cooperation). Later its name was changed to BIMST-EC in December 1997 along with inclusion of Bhutan and Nepal and it was renamed as the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic cooperation.

services between the two countries which include transportation, tourism, construction, health, education and telecommunications. The study shows that there is significant informal movement of people between the two countries and has suggested removal of existing barriers through inking a comprehensive bilateral agreement. The South Asian ccountries should follow unilateral trade policies suited to their own domestic needs but within the framework of the changing international trade environment comprising both regionalism and multilateralism (Nataraj, 2007). Though India is a firm believer and campaigner of multilateral trade, it has been negotiating/ signing many bilateral trade agreements including a comprehensive economic cooperation (CECA) Agreement with Singapore.

Though Asian developing countries including India are adopting the dual strategy of regionalism and multilateralism, they need to go for larger and broader regional trade agreements (RTAs) since narrow RTAs are costly and trade diverting (Chadha, 2005). In this context, the study suggests creation of a Pan-Asia FTA (PAFTA) similar to two of the western blocs, viz. Europe and the Americas.[6] Further, taking India as a case study and analyzing the GATS for developing countries, Chadha (2001) examines India's commitments and the benefits of using computable general equilibrium (CGE) model. Broadly, the study explains that liberalization of trade in services, in general, would benefit both developing and developing countries. Further, the paper observes that active participation of developing countries for comprehensive negotiations would be more beneficial than case-by-case negotiations. Moreover, negotiations in services must include almost all services rather than the current focus on only sectors like financial services, insurance and maritime transport. The study also cites the example of India's success story in software services since the mid-nineties.

Kelegama and Mukherjee (2007) have analysed the six years performance of India-Sri Lanka FTA. The study highlights that since Sri Lanka liberalised under the GATS during the Uruguay round of WTO talks, services make up a significant component of trade between the two countries mainly through franchise arrangements. Such franchise led retail services include Titan, Usha, Godrej and Bajaj from India and Dankotuwa Porcelain and Damro (pre-fabricated furniture etc) from Sri Lanka.

Studies also indicate that half the gains from liberalisation of all post-Uruguay round barriers to trade would accrue in the service sector (Chanda 2005). According to Winters (2005)[7], if developed countries increased their labour force migration quotas by three percent of labour force, then there would be gains of $150 billion from the liberalisation of labour mobility alone.

[6] This finding is based on liberalising trade in goods.

[7] Winters (2005)., in Matto and Carzaniga (eds) Moving People to Deliver Services, and Winters " Developing Country Proposals for the Liberalisation of Movement of Natural Service Suppliers (January 2005).

FDI Flows

FDI plays multidimensional role in the overall development of the host economies. It is widely discussed in literature that besides capital flows, the FDI generates considerable economic benefits. These include employment generation, the acquisition of new technology and knowledge, human capital development, contribution to international trade integration, creation of a more competitive business environment and enhanced local/domestic enterprise development, flows of ideas and global best practice standards and increased tax revenues from corporate profits generated by FDI (Klein *et al*, 2001;Tambunan, 2005). While FDI is expected to create positive outcomes, it may also generate negative effects on the host economy. The costs to the host economy can arise from the market power of large firms and their associated ability to generate very high profits or by domestic political interference by multinational corporations. But, the empirical evidence shows that the negative effects from FDI are inconclusive, while the evidence of positive effects is overwhelming, i.e. net positive effect on economic welfare (Graham, 1995).

FDI in manufacturing seems to have positive and significant effect in a country's economic growth (Alfaro, 2003). In general, the multinational enterprises have increasingly contributed to capacity addition and total sales of manufacturing. Further, FDI plays an important role in raising productivity growth in the sectors in which investment has taken place. In fact, sectors with a higher presence of foreign firms have lower dispersion of productivity among firms, thus indicating that the spillover effects had helped the local firms to attain higher level of productivity growth (Haddad and Harrison, 1993). Besides being an important source for diffusion of technology and new ideas, FDI plays more of complementary role than of substitution to domestic investment (Borenzstein *et al*, 1998). FDI tends to expand the local market attracting large domestic private investment. This "crowding in" effect creates additional employment in the economy (Jenkins and Thomas, 2002). Further, the FDI has strong relation with increased exports from host countries. FDI also tends to improve the productive efficiency of resource allocation by facilitating the transfer of resources across different sectors of the economy (Chunlai, 1999).

Little empirical evidence is available on the impact of FDI on rural economy in general and on poverty in particular. However, in recent times, there has been increasing interest to study the linkage between growth and poverty. The FDI inflows are associated with higher economic growth (Jalilian and Weiss, 2001; Klein *et al*, 2001). Economic growth is critically important for poverty reduction. But, the pattern and nature of growth process in economies also assumes importance. It has been found that FDI had positive impact on poverty reduction in the areas where the concentration of labour-intensive industries was relatively high (Doanh, 2002). However, some of the developing countries, like India, have missed the so-called "Flying Geese" phenomenon, under which the export composition is likely to be dominated by labour intensive manufactures, while imports dominated by intermediate and capital goods. The resulting trade deficit is to be closed by capital inflows including FDI (Chadha, 1998). On the contrary, during the last two decades the share of relatively capital-intensive goods in India's exports has gone up while that of the labour-intensive goods like leather and leather products and textile and textile products has gone down (Chadha, 2007).

Though, it is expected that growth tends to benefit the poor, but it has not happened in many countries. There is no clear picture whether growth reduces poverty (World Bank, 2000). It is believed that increased flow of capital raises capital intensity in production resulting in lower employment generation. However, higher level of investment accelerates economic growth showing wider positive effects across the economy. Tambunan (2005) contended that FDI has positive effects on poverty reduction mainly through three important ways viz., labour intensive growth with export growth as the most important engine; technological, innovation and knowledge spillover effects from FDI-based firms on local economy; and poverty alleviation programs or projects financed by tax revenues collected from FDI based firms. However, the host country's policies and institutions, the quality of investment, nature of regulatory framework and flexibility of labour markets are important to attain the expected benefits from FDI (De Melo, 1999; Klein *et al*, 2001; Chadha, 2007). The impact of FDI has been found to be the strongest in countries with higher education levels (Borenzstein *et al*, 1998; Jalilian and Weiss, 2001). But, FDI may indirectly benefit the poor by creating better employment and earning opportunities for the unskilled workforce in developing countries (ODI, 2002).

IV. South Asia: Trade in Services

Trade in Services

The key areas of trade interest to South Asia, in services, are cross-border trade (mode 1), consumption abroad (mode 2) and the movement of natural persons (mode 4). The world trade in services under the four modes is depicted in Table 1. It may be observed that trade through movement of natural persons (mode 4) is proxied at less than 2 per cent of the total trade.

There has been a major structural change in the four South Asian countries during the last two decades. The overall share of services in GDP of South Asia has increased from 37.3 per cent in 1980 to 54.0 per cent in 2005 (Table 2). The shares have increased relatively rapidly for Bangladesh and India than for Pakistan and Sri Lanka. However, in the case of East Asia and Southeast Asia the share of services in GDP has remained stable at less than 50 per cent for the regions on the whole. The share is above 50 per cent for some individual countries including South Korea, the Philippines and Singapore.

Exports of commercial services from major regions of the world along with the four South Asian countries, viz. Bangladesh, India, Pakistan and Sri Lanka, during the last two decades are summarised in Table 3**.** It may be observed that more than four-fifths of the total export of commercial services originated from the high-income countries leaving less than one-fifth from the LMI economies during the triennium ending (TE) 2005. South Asia accounts for 2.1 share in world exports. The share of India in exports of commercial services constitutes more than 90 per cent of exports of commercial services originating from South Asia but just about 2 per cent of world exports of commercial services.

The share of exports of commercial services in total world exports (merchandise plus commercial services) has averaged at 19 per cent during the TE 2003-2005 (Table 4)**.** It was 20.8 per cent for the high-income countries and 13.9 per cent for LMI countries. The corresponding share of South Asia averaged at 29.5 per cent, which is above that for high-income countries. Within South Asian countries, India has a relatively high share of 34.1 per cent while Bangladesh a relatively low share of 4.3 per cent. India has the highest share among the Asian countries and also higher than most other regions in the world.

The average share of transport services in total commercial services is about 24 per cent for high as well as low and middle-income countries during TE 2003-2005. The corresponding share is relatively low at 19.7 per cent for South Asia. While Pakistan exports about 54.5 per cent its total exports of commercial services as transport services, the share is as low as 12.5 per cent in the case of India. Sri Lanka and is a high performer with corresponding share at 42 per cent. Bangladesh posts a share of about 20 per cent.

The average export share of travel services in world exports of commercial services is 29.0 per cent during 2003-2005**.** It is 24.7 per cent in the case of high-income countries it is 45.6 per cent for low and middle-income countries during the corresponding period. South Asia is relatively poor performer in travel services posting a share of 16.4 per cent only. While the corresponding share of Sri Lanka is high at 31 per cent it is low for Pakistan only at 9.2 per cent. Each India and Bangladesh have a share around 15 per cent.

The average share of export of “other services” in world export of commercial services touched 40.7 per cent during 2003-2005**.** The similar share is 44.1 per cent for the high-income countries and 27.9 per cent for the LMI countries during the corresponding period. South Asia has a high share of 60.9 per cent in “other services” with India at 69.3 per cent. Bangladesh posted a share of 59.1 per cent. However, Pakistan and Sri Lanka registered relatively low shares at 33.1 and 23.1 per cent, respectively.

We have undertaken a simple analysis to check on the revealed comparative advantage (RCA) of export of commercial services in total export (merchandise and commercial services). RCA of export of commercial services for a region/country is the ratio of two different ratios. The numerator is the ratio of export of commercial services of the region/country to its total export. The denominator remains same for each region/country and is the ratio of world export of commercial services to total world export. Thus, while the numerator keeps changing depending on the region/country under consideration, the denominator remains same in calculating RCA for different regions/countries (Table 5). While the RCA value of above unity reveals comparative advantage, its value less than unity reveals absence of comparative advantage. The value unity itself reveals neutrality to the existence of comparative advantage or not. It may be observed from Table 5 that, on the average, the high-income countries have comparative advantage in export of commercial services and not the low and middle-income countries during 2003-2005. Only the high income countries and South Asia reveal comparative advantage in commercial services. India is the major contributor in the making of the RCA for South Asia as 1.5 with its comparative advantage in commercial services at 1.8. Sri Lanka is the only other South Asian country that has RCA above one. The similar RCA is 0.6 for Pakistan and 0.2 for Bangladesh. India thus has the highest RCA among the Asian countries and also higher than most other regions in the world.

The four South Asian countries have different comparative advantage in major export components of commercial services, namely “transport”, “travel” and “other services”. RCA of export of different components of commercial services, with respect to total export of commercial services, for a region/country is the ratio of two different ratios. The numerator is the ratio of export of a component of commercial services, *say transport*, of the region/country to its total export of commercial services. The denominator remains same for each region/country and is the ratio of world export of the particular component of commercial services (transport in this case) to world export of commercial services. Thus, while the numerator keeps changing depending on the region/country under consideration, the denominator remains same in calculating RCA in transport services for different regions/countries (Table 6). It may be observed that South Asia region does not enjoy revealed comparative advantage in transport services even though Pakistan and Sri Lanka reveal their comparative advantage in export of transport services in their respective export baskets of commercial services. India’s low comparative advantage at 0.5 is the main reason for the absence of comparative advantage in South Asia’s export of transport services. Pakistan has a high RCA of 2.3 in transport services.

It may be surprising to note that all regions constituting LMI countries, except South Asia and East, reveal comparative advantage in export of travel services with respect to their respective total export of commercial services (Table 7). At a relative scale, none of the four South Asian countries except Sri Lanka have export of travel services in their commercial service export-baskets as high as other developing regions have. However, Sri Lanka has recently (since 2002) started gaining comparative advantage with a current RCA score of 1.1.

The situation, however, is quite different for "other services" in South Asia. This is one among many regions, constituting low and middle-income countries, which reveals comparative advantage in export of "other services" relative to export of all commercial services (Table 8). India reveals a comparative advantage of 1.7 while Pakistan and Sri Lanka do not reveal comparative advantage. Bangladesh reveals a comparative advantage of 1.5.

The General Agreement on Trade in Services (GATS) is the first multilateral agreement under the auspices of Uruguay Round to provide legally enforceable rights to trade in a wide range of services along with their progressive liberalisation. The main objectives of GATS are the expansion of trade in services, progressive liberalisation of such trade through negotiations, transparency of rules and regulations, and increasing participation of developing countries. Though very little liberalisation was actually achieved, the negotiations on trade in service sectors established the institutional structure for negotiating liberalisation in the future.[8]

Table 9 shows the average number of sub-sectors committed per member by different country groupings. It can be seen that the number of sub-sectors covered by the present commitment of members is quite low[9]. The Table also specifies the range of variation by individual members within a group. The least developed countries (LDCs) have scheduled 24-subsectors (about 15 per cent) but there is a huge variation in commitments made by individual countries within this group. The developing countries taken alone have scheduled relatively higher number of sub-sectors, i.e. about one fourth of all the sub-sectors.

Services exports from South Asia face numerous barriers, such as immigration problems and stringent recognition requirements in key destination markets. There are also numerous domestic infrastructure related problems and capacity constraints that impede South Asia's trade in services. The offers that have been made by developed countries do not provide much via-a-vis the key sectors and modes of interest in exports and imports for developing countries. The South Asian Countries need to develop their negotiating strategies on trade in services in order to further their development gains (CENTAD 2005). Details about rrelevance of GATS to the developing economies are provided in Annex-1.

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[8] The structure of the GATS reflects both the special characteristics of services and services trade, and the scope and coverage of the agreement itself. It includes scope and definition of trade in services, general obligations and disciplines, specific (negotiated) commitments, progressive liberalization (through successive rounds of negotiations), and institutional and final provisions. The GATS thus consists of two major components, namely, (1) the framework agreement including the Articles of the Agreement and its Annexes and (2) the schedules of specific commitments on national treatment and market access along with lists of exemptions from MFN treatment submitted by member governments. (See WTO, 1995).

[9] Commitments need to be counted at a disaggregated level such as counting commitments on each of the 160 sub sectors as specified in the services sectoral classification list (MTN.GNS/W/120) to get the true picture of commitments undertaken. See also Adlung and Roy (2005).

V. FDI Flows in South Asia

Capital formation in an economy is one of the important determinants of economic growth. While domestic investments add to the capital stock in the economy foreign direct investment (FDI) plays complementary role in the overall capital formation. FDI is important in the capital formation since it fills the gap between domestic savings and investment.

FDI has played an important role in the process of globalisation during the last two decades. A rapid expansion of the FDI by the multinational enterprises (MNEs) since the mid-eighties may be attributed to significant changes in technologies, greater liberalisation of trade and investment regimes, and deregulation and privatisation of markets in many countries including developing countries like India. Mergers and Acquisitions (M&A) play an important role in the cross-country movement of FDI. However, various qualitative differences have been identified between fresh FDI (Greenfield FDI) and M&A.

FDI Inflows [10]

Global FDI inflows had reached a peak of $1,388 billion in 2000 (Table 10). The following triennium (2001-2003) posted an average decline of 25 per cent per annum when the global FDI inflows touched the low of $558 billion in 2003. The upswing during the triennium 2004-2006 pulled these flows up to $1,306 billion in 2006 exhibiting an average growth rate of 33 per cent per annum. Inflows to South Asia increased from $7.6 billion in 2004 to $22.3 billion in 2006 thus posting an average growth rate of 63 per cent per annum with impressive growth of 126 per cent being reported in 2006.

The share of FDI inflows to South Asia has been increasing during the last 10 years. It averaged at 0.3 per cent of the world FDI inflows during the triennium ending (TE) 2000, i.e. 1998-2000, to 0.7 per cent in TE 2003 and further up to 1.3 per cent in TE 2006. The corresponding shares of South Asia in inflows to the Asian developing countries were 2.8, 4.6 and 5.9 per cent, respectively. South Asia has thus been gaining importance in FDI inflows.

During the period 2004-2006, India received about three-fourths of the FDI inflows to South Asia with Pakistan accounting for about one-fifth, Bangladesh for 4.5 per cent and Sri Lanka about 2.5 per cent (Table11).

[10] Discussion in this section is based on UNCTAD (2007): *World Investment Report (WIR)*

FDI Outflows

The value of global FDI outflows does not match with inflows due to issues of measurement errors and accounting valuation problems (Moosa 2002). However, FDI outflows followed a pattern similar to inflows. These increased to a peak level of $1,186 billion in 2000 and then declined to $561 billion in 2003 to rise again to $1,216 billion in 2006 (Table12). Outflows from South Asia increased from $2,247 million in 2004 to $9,820 million in 2006 thus posting an average growth rate of 254 per cent per annum with impressive growth of 613 per cent being reported in 2006.

The share of FDI outflows from South Asia has been increasing during the last 10 years. It averaged at insignificant 0.02 per cent of the world FDI outflows during the TE2000 and then increased to 0.2 per cent in TE 2003 and further up to 0.5 per cent in TE 2006. The corresponding shares of South Asia in outflows from the Asian developing countries were 0.4, 4.4 and 4.8 per cent, respectively. South Asia has thus been gaining importance in FDI outflows.

During the period 2004-2006, India accounted for the bulk of the FDI outflows from South Asia (98 per cent) with Pakistan accounting for 1.4 per cent and Bangladesh and Sri Lanka accounting for the remaining less than 1 per cent share (Table 13).

Cross-border Mergers and Acquisitions (M&A)

The number of total sale deals including Greenfield investments and M&A increased from 15,258 in 2004 to 16,576 in 2005 and further up to 18,787 in 2006. The corresponding numbers for South Asia were 828, 821 and 1,213, respectively and for India 776, 716 and 1,144, respectively. The share of M&A deals was 36 per cent on an average for the world during 2004-2006. It was 14 per cent for South Asia and about the same for India. The share was 25 per cent for Bangladesh and 15 per cent for each Pakistan and Sri Lanka.

During 2004-2006 about 84 per cent value of all cross-border M&A sale deals were reported from the developed economies, 14 per cent from the developing economies and only 8 per cent from the Asian developing countries. South Asia reported less than 1 per cent of the total value with India at 0.6 per cent and Pakistan 0.2 per cent.

The average size of the cross-border M&A sale deals value varies across groups of countries. On an average, it was $106 million for the world during 2004-2006 (Table 14). The size was higher for the developed countries ($121 million) and lower for the developing countries ($64 million). It was $52 million for Asia and $38 million for South Asia. It was significantly high for Pakistan and Bangladesh ($207 and $63 million, respectively) but low for India at $32 million. It was $2.3 million for Sri Lanka. In the case of Pakistan there were 5 M&A cases in 2004, 6 each in 2005 and 2006 (about 6 per annum) with a total average value of $1,218 million thus raising the deal size. In the case of Bangladesh there were only 2 M&A deals reported in 2004, 3 each in 2005 and 2006 (about 3 per annum) with a total average value of $178 million which kept the average deal size high at $63 million. Sri Lanka had very few deals, 2 each in 2004-2006 and an average M&A worth S5 million only. India led South Asia in average number of deals as 123 and average value of M&A as $4,229 million.

The average size of the M&A purchase deals varies across groups of countries. On an average, it was $106 million for the world during 2004-2006 (Table 15). The size was higher for the developed countries ($111 million) and lower for the developing countries ($83 million). It was $67 million for Asia and $26 million for South Asia as well as for India. It was $4.7 million for Pakistan and $1 million for Sri Lanka. India is thus moving fast in M&A across the world.

India: Business Confidence Index

According to the A.T. Kearney 2007 Report on FDI Confidence Index India continues to rank as the second most attractive FDI destination with China as number one and the United States as number three.[11] India had displaced the United States in 2005 to gain number two position which it has held during the last three years. FDI inflows in 2006 had touched $16.9 billion and posted a growth rate of 250 per cent over $6.7 billion inflows in 2005. High value-added services industries including financial services and information technology (IT) in India are the most sought after sectors by foreign investors. India has provided multinational with economies of scale and productivity gains in Bangalore, Mumbai and Delhi though the companies are now diversifying their operations to relatively lower-cost cities including Pune and Kolkata. India has also attracted foreign investments in the high-end analytical services including equity research. India's potential to attract FDI into other sectors is also emerging over the last few years.

FDI Performance and Potential

UNCTAD ranks countries by their Inward FDI Performance[12] and Potential Indices[13]. While India is the second most attractive country in terms of foreign investors' confidence index it does not rank high in terms of performance index and potential index (Table 16). The same is true of the other three major South Asian countries. UNCTAD (2007) provides a matrix of four groups of countries based on their FDI performance and potential:

a) Front runners: countries with high FDI potential and performance

[11] A.T. Kearney (2007).

[12] The UNCTAD Inward FDI Potential Index is computed as the ratio of a country's share in global FDI inflows to its share in global GDP. For details refer to the *WIR 2002*.

[13] The UNCTAD Inward FDI Potential Index is computes as un-weighted average of 12 economic and structural variables measured by their respective scores on the range of 0-1 (www.unctad.org/wir). The methodology is discussed in *WIR 2002*.

b) Above potential: countries with low FDI potential but strong performance

c) Below potential: countries with high FDI potential but low performance

d) Under-performers: countries with both low FDI potential and performance

While countries like Chile, China, Hong Kong, Malaysia, Singapore and Thailand are the "front runners" all the major South Asian countries, viz. Bangladesh, India, Nepal, Pakistan and Sri Lanka are "under performers".

Sri Lanka and Pakistan have posted better inward FDI performance index than Bangladesh and India on an average during 2004 to 2006. In fact, Pakistan tops the list with Sri Lanka at number two, India at number three and Bangladesh at number four. In fact, India had touched the bottom position in 2005 with Bangladesh at number three position.

However, India is at the top among these four countries with respect to the inward FDI potential index ranking during 2004 and 2005[14]. While India's inward FDI potential is much above its performance the reverse is true of Pakistan and Sri Lanka with both these countries having received FDI beyond their potential. Bangladesh has been operating with balance between performance and potential. This comparison may have policy implications for the near future. While India may tend to catch up with its high potential through receiving relatively high FDI inflows Pakistan and Bangladesh might lose out on FDI inflows unless they improve upon their inward FDI potential.

With regard to outward FDI performance index, India is the top among these four South Asian countries. India's rank in its outward FDI performance is much better than its inward FDI performance. However, while India held the 60th rank in outward FDI performance index (on an average during 2004-2006), in terms of inward FDI performance its rank was 117th among 141 countries for which information is available. Surely India is moving out aggressively in investing abroad.

Global Competitiveness

Another way of assessing the investment potential of an economy is its rank in the global competitiveness[15]. The global competitiveness index (GCI) is a comprehensive index developed by the World Economic Forum (WEF) for measuring national competitiveness and published in the Global Competitiveness Report (GCR). It takes into account the microeconomic and macroeconomic foundations of national competitiveness. Competitiveness is defined as the set of institutions, policies and factors that determine the level of productivity of a country and involves static and

[14] Data is not yet available for 2006.
[15] World Economic Forum, WEF, (2008): The Global Competitiveness Report, GCR, 2007-2008.

dynamic components. The productivity is one of the central determinants of the returns to investment.

The overall GCI is the weighted average of three major components, viz. a) basic requirements (BR)[16]; b) efficiency enhancers (EE)[17]; and c) innovations and sophistication factors (ISF)[18].

Within the information available for 131 countries of the world, the four South Asian countries, except India, rank at relatively low GCI during 2007-2008 (Table 17). The United States holds number one rank with overall index of 5.67 and Chad the lowest rank of 131 with overall index of 2.78[19]. The overall index is 107 for Bangladesh, 92 for Pakistan and 70 for Sri Lanka. It is relatively high at 48 for India which, however, is still below that of China at 35. India holds relatively low rank for BR (74) but higher ranks for EE (31) and even higher for ISF (26). While India's BR rank is lower than China it is higher than China for EE and ISF. Bangladesh has the lowest ranking for BR (111), EE (91) and ISF (111). India is thus clearly a South Asian country with promising investment potential.

Investment Constraints in South Asia

Despite India's FDI potential and high confidence index, South Asia remains relatively more difficult to conduct business compared to other regions in the world.[20] In the Global Ranking of the Ease of Doing Business Pakistan ranked at number 73 in 2007 and 76 in 2008 out of 178 countries of the world. Bangladesh (corresponding ranks 102 and 107, respectively) and Sri Lanka (100 and 1001) are quite close to each other. Among the four major South Asian countries, India ranked at low of 132 in 2007 and ranks at 120 in 2008. Thus India is not an easy place to do business in South Asia. The ranking is based on regulations affecting 10 stages of the life of a business: starting a business; dealing with licences; employing workers; registering property; getting credit; protecting investors; paying taxes; trading across borders; enforcing contracts; and closing a business.

Poor infrastructure and labour market inefficiencies are two of the important constraints thwarting inflows of FDI into South Asia. However, according to the GCR 2007-2008, the infrastructure rankings of three of the four major four South Asian countries, excluding Bangladesh, are relatively above some of the Southeast Asian countries, viz. Indonesia, Malaysia, the Philippines and Vietnam. While India holds

[16] BR has four pillars: Institutions; Infrastructure; Macroeconomic Stability; and Health & Primary Education.
[17] EE has six pillars: Higher education and training; Goods market efficiency; Labour market efficiency; Financial market sophistication; Technological readiness; and market size.
[18] ISF has two pillars: Business sophistication; and innovation.
[19] GCI is a comprehensive index for measuring national competitiveness, taking into account the microeconomic and macroeconomic foundations of national competitiveness.
[20] World Bank (2007) and ADB (2007)..

the best rank among the four South countries Bangladesh is at the bottom. The private sector has not taken much initiative for investing in infrastructure in South Asia. While such private investments have been increasing in developing Asia over the last two decades, South Asia received only one-fourth of this with about half of total private investment in infrastructure having moved into Southeast Asia (Nataraj 2007). There is need to have more effective public investment programme in providing economic and social infrastructure in South Asian countries (Sahoo 2006).

In the case of labour market efficiency, South Asian countries rank relatively poorly when compared with the East and Southeast Asian countries with the exception of the Philippines. Within South Asia, Pakistan and Sri Lanka are two of the less efficient countries in terms of labour markets and India and Bangladesh are relatively more efficient with Bangladesh being even better than India.

FDI Important for Capital Formation

FDI inflows have become important in domestic gross fixed capital formation (GFCF) during 2004-2006 (Table 18). The share of world FDI inflows in world GFCF increased from 8.5 per cent in 2004 to 10.4 per cent in 2005 and further up to 12.6 per cent in 2006. Similar phenomena have been observed for the developing as well as the developed economies. The average figure during 2004-2006 is 10.5 per cent for the world, 9.2 per cent for the developed economies and 13.1 per cent for the developing economies. Increase in South Asia has been phenomenal from 3.5 per cent in 2004 to 4.4 per cent in 2005 and further up to 9.3 per cent in 2006 with an average for the last three years at 5.7 per cent which, however, is half that for Asia at 11.5 per cent. FDI inflows have greatly helped in GFCF of Pakistan with an average share at 14.9 per cent during 2004-2006. The corresponding share for India is 5.2 per cent and for Sri Lanka 5.1 per cent. FDI has contributed only 3.8 per cent in the capital formation of Bangladesh during 2004-2006.

The average share of outward FDI flow during 2004-2006 as ratio of GFCF is 10.4 per cent for the world, 12.3 per cent for the developed economies and 5.5 per cent for the developing economies (Table 19). It is 5.2 per cent for Asia and only 2.2 per cent for South Asia. India plays a major role posting a corresponding share of 2.5 per cent. The share of South Asia has increased from 1.2 per cent in 2005 to 4.2 per cent in 2006 fuelled mainly by India’s outward FDI flows with their share in India GFCF increasing from 1.4 per cent in 2005 to 5.0 per cent in 2006.

FDI Stocks as percentage of GDP

Worldwide FDI inward stocks as percentage of world GDP increased from 8.4 per cent in 1990 to 18.3 per cent in 2000 and further up to 24.8 per cent in 2006 (Table 20). The corresponding ratios for the developed economies are 8.2, 16.4 and 24.2 per cent, respectively and for the developing economies 9.6, 25.6 and 26.7 per cent, respectively. Asia has kept pace with these numbers as 9.1, 26.5 and 24.9 per cent, respectively. However, South Asia has lagged behind with this ratio rising from 1.2 per cent in 1990 to 4.7 per cent in 2000 and further up to 6.5 per cent in 2006. While Pakistan and Sri Lanka had inward FDI stock of above 10 per cent in 2006, Bangladesh and India just above 6 per cent and East Asia touched about 29 per cent of FDI stock as percentage of its GDP the South East Asia was at about 40 per cent. The corresponding figure for China has fallen from about 18 per cent in 2000 to 11 per cent in 2006.

South Asia also lags in the proportion of outward stock to GDP (Table 21). In 2006, the ratio was 26.1 per cent for the world, 13.9 per cent for the developing countries, 15.2 per cent for Asia but only 1.3 per cent for South Asia fuelled mainly by India's number at 1.5 per cent. The ratio for Pakistan and Sri Lanka was each at 0.7 per cent and Bangladesh at 0.2 per cent. East Asia was high at 22.7 per cent and South East Asia at 17.3 per cent. The corresponding figure for China has increased marginally from 2.6 per cent in 2000 to 2.8 per cent in 2006.

Cross-border trade in South Asia

Detailed data on intra-South Asian intra regional investment flows are not available. Some estimates have been presented in percentage terms[21] while others have been computed as flows in million dollars[22] and later published in ADB (2007). These estimates have been drawn from different sources at different points of time and hence are not easily comparable. However, it is quite clear that intra regional FDI flows in South Asia have been insignificant when compared to FDI inflows from outside South Asia.

Pakistan Board of Investment does not provide data on inflows from South Asian countries.[23]

Bangladesh received only 2.6 per cent of its FDI inflows worth $1.3 billion during 2005 and 2006 from other South Asian countries[24]. While FDI inflows from Pakistan accounted for about 2.0 per cent of the total, those from India and Sri Lanka accounted for about 0.3 per cent each.

In the case of Sri Lanka, India has been a major investor from among the South Asian countries. More than half of India's joint ventures and wholly owned subsidiaries in South Asia are in Sri Lanka[25]. India's investment commitments had crossed $100 million by 2000. The sectors which have attracted Indian investment in Sri Lanka

[21] Aggarwal (2007, Table 7).
[22] Bhattacharya (2007, Table 2).
[23] http://www.pakboi.gov.pk/forign-invest.htm#countryw
[24] http://www.icrier.org/pdf/28march/29march/Debapriya%20bhattacharya.ppt#269,11,Slide 11
[25] http://www.boi.lk/boi2005/content.asp?content=india&SubMenuID=59

include steel, cement, rubber products, tourism, computer software, IT training and other professional services. Ever since 2002 the already existing Indian companies leading Indian companies including CEAT and Taj Hotels have expanded their operations. Some of the leading Indian companies including Gujarat Ambuja, Asian paints and Laresn and Toubro have committed substantial investments.

India has not received much South Asian FDI except for some inflows from Sri Lanka. The cumulative inflows from Sri Lanka as in May 2007 stood at $8 million amounting to less than 0.02 per cent of cumulative FDI inflows into India. About half of this investment was received during 2004-2006.[26]

A Bilateral Investment Treaty (BIT) refers to a bilateral agreement establishing the terms and conditions for bilateral private investment by companies of the two countries.

Most BITs provide investors with assurances on fair and equitable treatment, protection from expropriation, free transfer of means and full protection and security. These also include alternative dispute resolution mechanism such that an investor whose rights under the BIT have been violated can move to international arbitration under the auspices of the International Center for the Resolution of Investment Disputes (ICSID) rather than suing the host State in its own courts.

South Asian countries have many bilateral investment treaty agreements with countries other than those in South Asia.[27] India has BITs with 60 countries in the world but only one in South Asia with Sri Lanka. It has 9 BITs East and Southeast countries. Similarly, Pakistan has 47 BITs including 9 in East and Southeast Asia but only two in South Asia with Bangladesh and Sri Lanka. Sri Lanka has 25 BITs including 7 in East and Southeast Asia and two in South Asia with India and Pakistan. Bangladesh has 24 BITs including 8 with East and Southeast Asia but only one in South Asia with Pakistan. Nepal has 4 BITs but none with a South Asian country. Afghanistan has 3 BITs but none with a South Asian country.

VI. Concluding Remarks

Trade in Services and Investment flows have been the key drivers of many economies in recent decades. Realising the importance of services trade and investment flows many of the South Asian countries have made conscious efforts in recent years to liberalise their service sectors and also introduced investment friendly policies including those for FDI. In this backdrop, the paper is an attempt in understanding the issues and dimensions of trade in services and investment flows in South Asian countries vis-à-vis other regions of the world as well as in intra regional terms.

[26] SIA Newsletter, June 2007.
[27] Refer to http://www.unctadxi.org/templates/DocSearch____779.aspx

The analysis of trade in services in South Asia reveals that the share of services in GDP of South Asian countries has increased substantially with South Asia exhibiting a high revealed comparative advantage in Commercial services and low competitiveness in transport services except for Pakistan and Srilanka. However, with respect to travel services, the four south Asian countries do not show revealed comparative advantage except Sri Lanka to some extent. The competitiveness of South Asia is relatively high in the case of “other services” including computer and information technology enabled services.

With respect to FDI, the study shows that the FDI inflows and outflows from South Asia have been increasing during the last ten years with India accounting for bulk of these flows. A detailed analysis of the FDI inflows in South Asia reveals that the number of total sale deals including Greenfield investments and M & A have increased with the share of South Asia in M & A deals being 14 per cent. Similarly, the average size of cross-border M & A sale deals value stands at around $38 million for South Asia and the average size of cross-border M & A purchase deals values averages at around $26 million. Though India is ranked the second most attractive destination for FDI, South Asian countries including India do not rank high in terms of the FDI performance and potential index and are also rank low in terms of the global competitiveness index of the World Economic Forum. The study points out to various investment constraints in South Asia. It cites poor infrastructure and labour market inefficiencies as the bottlenecks to attract higher inflows.

The success of Doha Development Agenda is crucial for the future growth of the developing countries as well as for good future economic prospects for the developed countries. In case the Asian developing countries would like to adopt a dual strategy of mix of regionalism and multilateralism, they need to adopt careful approach while treading this path. Small and narrow RTAs, like SAFTA, can be costly as well as trade diverting. Larger and broader RTAs, like PAFTA, may be a better option. Open regionalism through autonomous liberalisation within a pre-fixed period of time is a better option than preferential trade liberalisation. The success of SAFTA in enabling effective regional integration would depend on turning its current shallow constitution in favour of a deep agreement taking into account various behind the border issues.

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Table 1: Trade in Services by Mode of Supply

Mode	Proxy Used	Value ($b) 1997	Share (Percent)	Value ($b) 2000	Share (Percent)	Value ($b) 2005	Share (Percent)
Mode1	IMF BOP Commercial Services minus travel	890	40.92	1057	42.07	1818	44.03
Mdoe2	IMF BOP Travel	424	19.49	465	18.52	680	16.47
Mode3	FATS gross output in services	820	37.70	950*	37.81	1559*	37.76
Mode4	IMF BOP compensation of employees	41	1.89	40	1.59	72	1.74
Total		2175	100.00	2512	100.00	4129	100.00

*** Our estimate assuming growth in FATS is equal to that in IMF-BOP commercial services Sources: Karsenty (2000), IMF Statistical Yearbook (Various issues)**

Table 2: Sectoral Share of GDP in South Asian Countries

Sectors	Agriculture				Industry				Services			
Countries	**1980**	**1991**	**2000**	**2005**	**1980**	**1991**	**2000**	**2005**	**1980**	**1991**	**2000**	**2005**
South Asia *	37.80	30.60	24.20	19.00	24.90	27.40	26.70	27.00	37.30	42.00	49.20	54.00
Bangladesh	49.40	37.50	24.30	22.30	14.80	16.90	24.70	28.30	35.80	45.60	51.00	49.40
India	38.10	31.00	24.00	19.70	25.90	28.90	27.10	26.20	36.00	40.10	48.90	54.10
Pakistan	30.60	25.60	26.20	22.50	25.60	25.70	24.90	26.20	43.80	48.70	48.90	51.30
Sri Lanka	26.60	22.30	20.60	17.20	27.20	29.20	27.30	27.00	46.20	48.50	52.10	55.80
East Asia**	15.69	10.88	6.59	7.97	38.66	35.57	33.32	43.94	45.65	53.55	60.09	48.09
China	30.09	24.46	14.83	12.60	48.52	42.11	45.92	47.54	21.39	33.43	39.25	39.85
Hong Kong	0.81	0.22	0.07	_	30.90	21.99	13.29	_	68.29	77.79	86.63	_
Korea, Rep.	16.17	7.94	4.87	3.35	36.55	42.62	40.74	40.33	47.28	49.43	54.39	56.32
South East Asia	17.21	15.79	11.12	11.22	37.82	34.86	38.45	41.45	44.97	49.35	50.43	47.32
Indonesia	23.97	18.26	15.60	13.39	41.72	40.40	45.93	45.77	34.31	41.34	38.47	40.83
Malaysia	22.61	14.36	8.81	8.66	41.04	42.11	50.73	51.75	36.35	43.54	40.47	39.58
Philippines	25.12	20.98	15.76	14.34	38.79	34.01	32.27	32.25	36.10	45.00	51.97	53.41
Singapore	1.62	0.30	0.13	0.10	37.82	35.98	35.46	33.83	60.55	63.72	64.41	66.07
Thailand	23.24	12.65	9.02	9.94	28.68	38.66	41.99	44.08	48.08	48.69	48.99	45.98
Vietnam	_	40.49	24.53	20.89	_	23.79	36.73	41.03	_	35.72	38.73	38.07
Australia	6.68	3.50	3.98	_	38.91	29.07	26.07	_	54.41	67.43	69.95	_

Source: ADB, Asian Development Outlook, Various issues, and World Development Indicators, World Bank, Various issues
Note: * The region includes four countries only. ** The region includes seven countries only

Table 3: Exports of Commercial Services in Major Regions/ Economies of World (US $MN)

Regions/Economy	1980	1990	1998	1999	2000	2001	2002	2003	2004	2005	TE 2003-2005
Low & middle income Countries	65588	102929	268012	237556	261149	248580	266596	301238	423636	495951	406942
High income countries	297904	647432	1048583	1033861	1169694	1203824	1244630	1427894	1767896	1962711	1719500
World	363547	750361	1316688	1271417	1430843	1452403	1511226	1729132	2190577	2459852	2126520
East Asia & Pacific	9415	31204	87727	84486	85404	72725	82632	84513	129117	137881	117170
Europe & Central Asia	16176	15237	79857	65147	73142	71531	77656	96431	121538	142205	120058
Latin America & Caribbean	15855	25313	49216	40581	48444	48279	46516	51495	61844	72823	62054
Middle East & North Africa	2099	14872	23387	23831	23880	23439	22615	27869	-	-	27869
Sub Saharan Africa	8048	9487	13471	8851	9371	12427	10833	11897	24238	29946	22027
South Asia	4014	6816	14418	14660	20908	23932	27994	29033	44325	60989	44782
Bangladesh	172	296	252	266	283	242	305	398	420	242	353
India	2861	4610	11067	13940	17670	20390	24553	25043	39638	56094	25043
Pakistan	576	1218	1416	1446	1284	1302	1536	1475	1697	2042	1738
Sri Lanka	223	425	888	888	915	1344	1247	1386	1506	1519	1470
East Asia*	2402	14903	82497	87499	100254	102059	111272	124628	157661	180011	154100
China	_	5748	23879	26165	30146	32901	39381	46375	62056	73909	60780
Hong Kong, China	_	_	33790	35568	40362	41056	44546	46500	55101	62175	54592
Korea, Rep.	2402	9155	24828	25766	29746	28103	27345	31753	40505	43927	38728
South East Asia**	12060	38000	77417	78941	85393	82915	90652	98746	127645	140134	122175
Indonesia	_	2488	4340	4452	5061	5361	6519	5143	11755	12570	9823
Malaysia	1046	3769	11400	11800	13812	14331	14753	13459	16656	19463	16526
Philippines	1214	2897	7465	3468	3377	3072	3428	3389	4043	4462	3965
Singapore	4774	12719	22457	24845	28075	27367	29453	36172	46675	51200	44682
Thailand	1366	6292	13074	14542	13785	12932	15304	15694	18932	20495	18374
Vietnam	_	_	2616	2493	2702	2810	2948	3272	3867	4176	3772
Australia	3660	9835	16064	17342	18580	17042	18247	21617	25718	27767	25034

Source: World Bank, World Development Indicators, Various Issues
Note: * The region includes three countries only. ** The region includes seven countries only.

Table 4: Exports of Commercial Services in Total Exports (Merchandise and Commercial Services) (%)

Regions/Economy	1980	1990	1998	1999	2000	2001	2002	2003	2004	2005	TE2003-2005
Low & middle income Countries	11.0	12.8	16.9	14.6	13.0	13.9	13.9	13.1	14.6	14.0	13.9
High income countries	17.9	19.2	20.5	20.3	20.2	20.7	20.6	20.4	20.9	21.0	20.8
World	16.1	17.9	19.6	18.9	18.4	19.1	19.0	18.6	19.3	19.1	19.0
East Asia & Pacific	12.0	12.4	14.1	12.6	10.7	12.1	12.0	10.2	11.8	10.4	10.8
Europe & Central Asia	13.3	10.9	23.7	20.8	19.3	18.0	17.8	17.4	16.3	15.7	16.5
Latin America & Caribbean	13.9	15.0	14.5	12.1	12.0	12.3	11.8	12.1	11.8	11.4	11.8
middle East & North Africa	6.7	10.5	17.7	14.9	10.1	11.4	10.9	11.0	-	-	11.0
Sub Saharan Africa	9.4	12.5	14.3	10.6	9.2	11.9	10.6	9.7	14.4	13.6	12.6
South Asia	22.8	19.7	21.2	20.7	24.6	26.8	28.3	26.4	29.8	32.2	29.5
Bangladesh	17.8	15.0	4.7	4.9	4.2	3.6	4.8	5.4	4.9	2.5	4.3
India	25.6	20.4	24.5	27.6	29.5	31.9	33.3	30.9	34.4	37.1	34.1
Pakistan	18.0	17.9	14.4	14.0	12.3	12.3	13.4	11.0	11.3	11.4	11.2
Sri Lanka	17.4	17.6	15.8	16.2	15.1	21.8	21.0	21.3	20.7	19.3	20.4
East Asia*	12.1	10.4	14.5	14.7	14.0	14.8	14.4	13.5	13.5	13.3	13.4
China	_	8.5	11.5	11.8	10.8	11.0	10.8	9.6	9.5	8.8	9.3
Hong Kong	_	_	16.2	16.9	16.6	17.7	18.1	16.9	17.2	17.5	17.2
Korea, Rep.	12.1	12.3	15.8	15.2	14.7	15.7	14.4	14.1	13.8	13.4	13.7
South East Asia**	15.3	17.9	17.4	15.4	14.2	14.7	15.3	14.2	15.2	14.4	14.6
Indonesia	_	8.8	7.9	8.0	7.2	8.5	9.9	7.4	14.2	12.7	11.5
Malaysia	7.5	11.3	13.5	12.3	12.3	14.0	13.6	11.4	11.6	12.1	11.7
Philippines	17.5	26.3	20.2	8.7	7.8	8.6	8.9	8.6	9.2	9.8	9.2
Singapore	19.8	19.4	17.0	17.8	16.9	18.4	19.0	18.4	19.0	18.2	18.6
Thailand	17.4	21.4	19.4	19.9	16.6	16.6	18.3	16.3	16.4	15.7	16.2
Vietnam	_	_	21.8	17.8	15.8	15.8	15.1	14.0	13.1	11.7	12.9
Australia	14.3	19.8	22.3	23.6	22.5	21.2	21.9	23.5	22.9	20.8	22.4

Source: World Bank, World Development Indicators, Various Issues
Note: * The region includes three countries only. ** The region includes seven countries only.

Table 5: RCA of Commercial Service in major Regions/ Economies of the World

Regions/Economy	1980	1990	1998	1999	2000	2001	2002	2003	2004	2005	TE 2003-2005
Low & middle income Countries	0.7	0.7	0.9	0.8	0.7	0.7	0.7	0.7	0.8	0.7	0.7
High income countries	1.1	1.1	1.0	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
East Asia & Pacific	0.7	0.7	0.7	0.7	0.6	0.6	0.6	0.5	0.6	0.5	0.6
Europe & Central Asia	0.8	0.6	1.2	1.1	1.0	0.9	0.9	0.9	0.9	0.8	0.9
Latin America & Caribbean	0.9	0.8	0.7	0.6	0.7	0.6	0.6	0.6	0.6	0.6	0.6
middle East & North Africa	0.4	0.6	0.9	0.8	0.5	0.6	0.6	0.6	0.0	0.0	0.2
Sub Saharan Africa	0.6	0.7	0.7	0.6	0.5	0.6	0.6	0.5	0.8	0.7	0.7
South Asia	1.4	1.1	1.1	1.1	1.3	1.4	1.5	1.4	1.6	1.7	1.5
Bangladesh	1.1	0.8	0.3	0.3	0.2	0.2	0.2	0.3	0.3	0.1	0.2
India	1.6	1.1	1.5	1.5	1.6	1.7	1.7	1.6	1.8	1.9	1.8
Pakistan	1.1	1.0	0.7	0.7	0.7	0.6	0.7	0.6	0.6	0.6	0.6
Sri Lanka	1.1	1.0	0.9	0.9	0.8	1.1	1.1	1.1	1.1	1.0	1.1
East Asia*	0.7	0.5	0.4	0.5	0.4	0.4	0.4	0.4	0.4	0.3	0.4
China	0.0	0.5	0.6	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.5
Hong Kong	0.0	0.0	0.8	0.9	0.9	0.9	1.0	0.9	0.9	0.9	0.9
Korea, Rep.	0.8	0.7	0.8	0.8	0.8	0.8	0.8	0.8	0.7	0.7	0.7
South East Asia**	0.6	1.0	1.3	1.3	1.3	1.3	1.4	1.3	1.4	1.4	1.4
Indonesia	0.0	0.5	0.4	0.4	0.4	0.4	0.5	0.4	0.7	0.7	0.6
Malaysia	0.5	0.6	0.7	0.6	0.7	0.7	0.7	0.6	0.6	0.6	0.6
Philippines	1.1	1.5	1.0	0.5	0.4	0.5	0.5	0.5	0.5	0.5	0.5
Singapore	1.2	1.1	0.9	0.9	0.9	1.0	1.0	1.0	1.0	1.0	1.0
Thailand	1.1	1.2	1.0	1.1	0.9	0.9	1.0	0.9	0.9	0.8	0.9
Vietnam	0.0	0.0	1.1	0.9	0.9	0.8	0.8	0.8	0.7	0.6	0.7
Australia	0.9	1.1	1.1	1.2	1.2	1.1	1.2	1.3	1.2	1.1	1.2

Source: World Bank, World Development Indicators, Various Issues

Note: * The region includes Three countries only. ** The region includes seven countries only.

Table 6: RCA of Transport Services in major Regions/ Economies of the World

Regions/Economy	1980	1990	1998	1999	2000	2001	2002	2003	2004	2005	TE2003-2005
Low & middle income Countries	1.0	1.0	1.0	1.0	1.0	0.9	1.0	1.1	1.0	1.0	1.0
High income countries	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
East Asia & Pacific	1.1	1.0	0.9	1.0	1.0	0.6	0.8	0.8	0.8	0.9	0.8
Europe & Central Asia	-	0.9	1.1	1.1	1.1	1.1	1.4	1.3	1.4	1.4	1.4
Latin America & Caribbean	0.9	1.0	0.9	0.9	0.9	0.9	1.0	1.0	0.8	0.8	0.9
Middle East & North Africa	0.7	1.2	-	1.1	1.1	1.1	0.9	1.1	-	-	1.1
Sub Saharan Africa	1.3	1.1	0.9	1.0	1.0	1.0	1.2	1.1	0.7	0.7	0.9
South Asia	0.6	1.0	1.1	0.6	0.5	0.5	0.6	0.7	0.9	0.9	0.8
Bangladesh	0.6	0.5	1.4	1.5	1.4	1.3	1.4	0.8	0.8	1.0	0.8
India	0.4	0.7	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.6	0.5
Pakistan	1.2	2.1	2.2	2.4	2.8	2.7	2.4	2.5	2.2	2.2	2.3
Sri Lanka	0.5	1.4	1.8	1.9	1.9	1.3	1.8	1.8	1.7	1.8	1.8
East Asia*	1.6	1.5	1.1	1.2	1.3	1.3	1.4	1.5	1.5	1.6	1.5
China	_	1.7	0.4	0.4	0.5	0.6	0.6	0.8	0.8	0.9	0.8
Hong Kong	_	_	1.3	1.4	1.4	1.3	1.3	1.3	1.3		1.3
Korea, Rep.	1.6	1.2	1.6	1.9	2.0	2.0	2.2	2.4	2.3	2.3	2.3
South East Asia**	0.8	0.7	0.9	1.0	1.1	1.1	1.1	1.1	1.0	1.0	1.0
Indonesia	_	0.1	_	_	_	_	0.7	0.7	0.8	0.9	0.8
Malaysia	1.2	1.1	0.8	0.9	0.9	0.8	0.9	0.9	0.8	0.9	0.9
Philippines	0.4	0.3	0.2	0.4	0.6	0.8	1.1	1.2	1.0	1.0	1.1
Singapore	0.7	0.6	1.6	1.8	1.8	1.8	1.8	1.7	1.5	1.5	1.5
Thailand	0.6	0.8	0.8	0.9	1.0	1.0	1.0	1.0	0.9	0.9	1.0
Vietnam	_	_	_	_	_	_	_	_	_	_	_
Australia	1.3	1.3	1.1	1.1	1.0	1.0	1.0	1.0	0.9	0.9	0.9

Source: World Bank, World Development Indicators, Various Issues
Note: * The region includes Three countries only. ** The region includes seven countries only.

Table 7: RCA of Travel Services in major Regions/ Economies of the World

Regions/Economy	1980	1990	1998	1999	2000	2001	2002	2003	2004	2005	TE 2003-2005
Low & middle income Countries	1.2	1.2	1.4	1.4	1.3	1.4	1.4	1.5	1.6	1.6	1.6
High income countries	1.0	1.0	0.9	0.9	0.9	0.9	0.9	0.9	0.8	0.8	0.9
East Asia & Pacific	1.2	1.3	1.4	1.4	1.4	1.7	1.8	1.5	1.5	1.5	1.5
Europe & Central Asia	-	1.0	1.3	1.2	1.3	1.3	1.4	1.5	1.2	1.2	1.3
Latin America & Caribbean	1.4	1.5	1.6	1.6	1.6	1.6	1.6	1.7	2.0	2.0	1.9
middle East & North Africa	1.0	1.1	-	1.6	1.7	1.7	1.3	1.7	-	-	1.7
Sub Saharan Africa	1.1	1.1	1.4	1.4	1.7	1.7	1.6	1.9	1.4	1.5	1.6
South Asia	1.7	0.9	0.8	0.7	0.6	0.6	0.5	0.5	0.6	0.6	0.6
Bangladesh	0.3	0.2	0.7	0.6	0.6	0.6	0.6	0.5	0.6	0.5	0.5
India	2.0	1.0	0.9	0.7	0.6	0.6	0.4	0.4	0.6	0.6	0.5
Pakistan	1.0	0.4	0.2	0.2	0.2	0.2	0.2	0.3	0.4	0.3	0.3
Sri Lanka	1.6	0.9	0.9	0.8	0.8	0.5	1.0	1.0	1.2	1.0	1.1
East Asia*	0.6	0.9	0.7	0.7	0.7	0.9	1.0	0.8	0.9	0.9	0.8
China	_	0.9	1.2	1.2	1.2	1.7	1.7	1.2	1.5	1.4	1.4
Hong Kong	_	_	0.4	0.3	0.3	0.5	0.5	0.5	0.6		0.5
Korea, Rep.	0.6	1.0	0.6	0.6	0.5	0.7	0.7	0.6	0.5	0.5	0.5
South East Asia**	1.3	1.4	0.9	1.2	1.2	1.7	1.6	1.5	1.5	1.4	1.5
Indonesia	_	2.5	2.2	2.2	2.2	3.1	2.7	2.6	1.4	1.3	1.8
Malaysia	1.1	1.3	0.5	0.7	0.8	1.5	1.6	1.5	1.7	1.6	1.6
Philippines	1.0	0.5	0.4	1.7	1.4	1.8	1.7	1.5	1.8	1.7	1.6
Singapore	1.1	1.1	0.5	0.5	0.4	0.5	0.5	0.3	0.4	0.4	0.4
Thailand	2.4	2.0	1.1	1.1	1.2	1.7	1.7	1.7	1.9	1.7	1.8
Vietnam	_	_	_	_	_	_	_	_	_	_	_
Australia	1.2	1.3	1.1	1.1	1.1	1.6	1.7	1.7	1.9	1.9	1.8

Source: World Bank, World Development Indicators, Various Issues
Note: * The region includes Three countries only. ** The region includes seven countries only.

Table 8: RCA of Other Services in major Regions/ Economies of the World

Regions/Economy	1980	1990	1998	1999	2000	2001	2002	2003	2004	2005	TE 2003-2005
Low & middle income Countries	0.8	0.8	0.8	0.7	0.7	0.7	0.8	0.7	0.7	0.7	0.7
High income countries	1.0	1.0	1.1	1.1	1.1	1.0	1.0	1.1	1.1	1.1	1.1
East Asia & Pacific	0.7	0.7	0.8	0.7	0.7	0.7	0.7	0.9	0.9	0.8	0.9
Europe & Central Asia	-	1.0	0.7	0.8	0.7	0.7	0.6	0.6	0.7	0.7	0.7
Latin America & Caribbean	0.9	0.5	0.6	0.6	0.7	0.7	0.6	0.5	0.4	0.4	0.5
middle East & North Africa	1.4	0.7	-	0.5	0.5	0.5	1.0	0.6	-	-	0.6
Sub Saharan Africa	0.6	0.8	0.8	0.7	0.5	0.5	0.5	0.4	0.9	0.9	0.7
South Asia	1.0	1.1	1.1	1.4	1.6	1.6	1.8	1.8	1.4	1.4	1.5
Bangladesh	2.0	2.1	1.0	1.0	1.1	1.1	1.2	1.5	1.5	1.4	1.5
India	0.9	1.2	1.3	1.5	1.6	1.6	1.9	1.9	1.6	1.6	1.7
Pakistan	0.8	0.8	0.8	0.8	0.6	0.7	1.0	0.8	0.8	0.8	0.8
Sri Lanka	1.1	0.8	0.7	0.7	0.7	1.2	0.7	0.7	0.5	0.5	0.6
East Asia*	0.5	0.7	0.8	0.8	0.8	0.8	0.9	1.0	0.9	0.8	0.9
China	_	0.5	0.8	0.8	0.7	0.7	0.8	1.1	0.9	0.9	1.0
Hong Kong	_	_	0.9	0.9	0.9	1.0	1.1	1.2	1.0	_	1.1
Korea, Rep.	0.5	0.8	0.7	0.6	0.6	0.6	0.7	0.7	0.6	0.7	0.7
South East Asia**	0.9	0.8	0.8	0.5	0.5	0.5	0.6	0.7	0.7	0.8	0.7
Indonesia		0.3	0.0	0.1	0.0	0.0	0.1	0.1	0.9	0.9	0.6
Malaysia	0.7	0.6	1.3	1.0	0.9	0.7	0.8	0.9	0.7	0.8	0.8
Philippines	1.7	2.0	1.7	0.3	0.4	0.5	0.6	0.6	0.6	0.7	0.6
Singapore	1.2	1.2	0.7	0.7	0.7	0.8	0.9	1.1	1.1	1.1	1.1
Thailand	0.4	0.3	0.7	0.7	0.5	0.5	0.7	0.7	0.6	0.6	0.6
Vietnam	_	_	_	_	_	_	_	_	_	_	_
Australia	0.5	0.5	0.4	0.5	0.5	0.4	0.5	0.5	0.5	0.5	0.5

Source: World Bank, World Development Indicators, Various Issues
Note: * The region includes Three countries only. ** The region includes seven countries only.

Table 9: Distribution of Commitments across Groups of Members, March 2005

Members	**Average number of sub-sectors committed per number ***	**Range (lowest/highest number of sectors per schedule)**
Least developed economies	24	1-111
Developing and transition economies	53	1-149
Transition economies only	105	58-149
Developing economies only	42	1-123
Developed Economies	106	87-117
Accessions since 1995	103	37-149
All members	52	1-149

***Total number of sub-sectors: approximately 160**

Acceding countries are not only counted as a separate group, but are also included as members of other relevant groups (developing countries, least developed countries and, mostly, transition economies).
Source: Adlung and Roy and World trade and development report (2007)

Table 10: FDI Inflows (US $ millions)

Year	World	Developed Economies	Developing Economies	Asia	South Asia	East Asia	South East Asia
Average (1992-1997)	310879	180750	118596	74090	2489	43414	23708
1998	690605	472454	194055	102209	3504	65522	23111
1999	1086750	828352	231880	112588	3101	77285	28730
2000	1387953	1107987	252459	146067	3092	116212	23379
2001	817574	571483	219721	111854	3983	78644	19601
2002	716128	547778	155528	92009	4528	67282	14507
2003	557869	358539	175138	110137	5729	72174	19920
2004	742143	418855	283030	169999	7601	106314	35245
2005	945795	590311	314316	208744	9866	116253	41071
2006	1305852	857499	379070	259434	22274	125774	51483

Note: For the Average of (1992-1997) and 1998 to 2001, in South Asia Bhutan is excluded and in South East Asia Timore-Leste is excluded. These countries are not available in World Investment Reports

Source: World Investment Report Various (2007, 2006 and 2005)
Annexure table B.1. FDI flows, by region and economy

Table 11: Country wise and Region wise FDI Inflows (US$ million)

Region/Economy	2002	2003	2004	2005	2006
World	716128	557869	742143	945795	1305852
Developed Economies	547778	358539	418855	590311	857499
Developing Economies	155528	175138	283030	314316	379070
Asia	92009	110137	169999	208744	259434
South Asia	4528	5729	7601	9866	22274
Bangladesh	52	350	460	692	625
India	3449	4585	5771	6676	16881
Pakistan	823	534	1118	2201	4273
Sri Lanka	197	229	233	272	480
East Asia	67282	72174	106314	116253	125774
China	52743	53505	60630	72406	69468
Hongkong, China	9682	13624	34032	33618	42892
Korea, Republic of	2975	3892	8980	7050	4950
Taiwan Province of China	1445	453	1898	1625	7424
South East Asia	14507	19920	35245	41071	51483
Indonesia	145	-597	1896	8337	5556
Malaysia	3203	2473	4624	3965	6060
Philippines	1792	491	688	1854	2345
Singapore	5822	10376	19828	15044	24207
Thailand	947	1952	5862	8957	9751
Vietnam	1200	1450	1610	2021	2315
Australia	15632	9722	36007	-35160	24022

Source: World Investment Report various issues Annexure table B.1. FDI flows, by region and economy

Table 12: FDI Outflows (US $ millions)

Year	World	Developed Economies	Developing Economies	Asia	South Asia	East Asia	South East Asia
Average (1992-1997)	328248	275716	51351	39554	100	29547	9363
1998	687240	631478	53438	31647	68	28195	4225
1999	1092279	1014331	75488	41668	105	29751	9260
2000	1186838	1083885	98929	83805	524	71991	7516
2001	721501	658094	59861	50309	1449	26140	17476
2002	652181	599895	47775	35994	1149	27555	6379
2003	561104	514806	35566	18979	1378	14441	5402
2004	877301	745970	117336	87461	2247	62924	14212
2005	837194	706713	115860	77747	2579	49836	11918
2006	1215789	1022711	174389	117067	9820	74099	19095

Note: Average (1992-1997), 1998 to 2001 do not have the following countries
East Asia: Korea, Democratic People's Republic, Maco China, and Mongolia
South Asia: Afghanistan, Bhutan, Maldives, Nepal
South East Asia:Myanmar, Timor-Leste, Vietnam. These country data are not available in WIR Report for outflows.

Source: World Investment Report Various (2007, 2006 and 2005)
Annexure table B.1. FDI flows, by region and economy

Table 13: Country wise and Region wise FDI Outflows (US$ million)

Region/Economy	2002	2003	2004	2005	2006
World	652181	561104	877301	837194	1215789
Developed Economies	599895	514806	745970	706713	1022711
Developing Economies	47775	35566	117336	115860	174389
Asia	35994	18979	87461	77747	117067
South Asia	1149	1378	2247	2579	9820
Bangladesh	3	6	6	2	8
India	1107	1325	2179	2495	9676
Pakistan	28	19	56	44	107
Sri Lanka	11	27	6	38	29
East Asia	27555	14441	62924	49836	74099
China	2518	-152	5498	12261	16130
Hongkong, China	17463	5492	45716	27201	43459
Korea, Republic of	2617	3426	4658	4298	7129
Taiwan Province of China	4886	5682	7145	6028	7399
South East Asia	6379	5402	14212	11918	19095
Indonesia	182	15	3408	3065	3418
Malaysia	1905	1370	2061	2972	6041
Philippines	59	303	579	189	103
Singapore	4095	3143	8074	5034	8626
Thailand	106	486	76	552	790
Vietnam	-	-	-	65	70
Australia	7876	15602	10813	-33172	22347

Source: World Investment Report various issues
Annexure table B.1. FDI flows, by region and economy

Table 14: Average size of M &As deals by region/economy sale to number of deals (Sale/ No. of Deals)

			(Million of dollars)
Region/Economy	**2004**	**2005**	**2006**
World	74.4	116.8	126.2
Developed Economies	84.7	133.6	143.9
Developing Economies	42.7	68.8	79.4
Asia	28.8	58.2	68.4
South Asia	24.9	33.1	58.0
Bangladesh	30.0	47.7	110.0
India	22.0	33.4	41.2
Pakistan	79.6	34.5	508.2
Sri Lanka	-	2.5	2.0
East Asia	37.6	50.8	57.9
China	31.2	32.4	27.2
Hongkong, China	27.5	52.0	79.1
Korea, Republic of	102.5	181.7	72.9
Taiwan Province of China	17.3	29.1	183.0
South East Asia	18.4	47.0	50.5
Indonesia	28.2	110.9	13.9
Malaysia	11.2	20.2	39.0
Philippines	30.5	15.6	9.4
Singapore	13.1	50.9	65.2
Thailand	22.9	8.0	100.3
Vietnam	9.3	0.0	20.8
Australia	73.1	45.6	60.0

Source: World Investment Report 2007.
Table 7 Annexure table B.4. Value of Cross border M & As by region/ economy of Seller/Purchaser
Table 9 Annexure table B.5. Number of Cross border M & As by region/ economy of Seller/Purchaser

Table 15: Average size of M &As deals by region/economy purchase to number of deals (Purchase/ Number of Deals)

		(Million of dollars)	
Region/Economy	**2004**	**2005**	**2006**
World	74.4	116.8	126.2
Developed Economies	80.0	123.5	129.2
Developing Economies	47.3	84.2	118.1
Asia	33.1	67.6	99.4
South Asia	12.7	28.8	34.9
Bangladesh	-	-	-
India	13.5	29.1	35.6
Pakistan	4.7	-	-
Sri Lanka	-	-	1.0
East Asia	23.7	61.4	100.3
China	19.1	91.0	244.3
Hongkong, China	23.1	60.9	52.5
Korea, Republic of	22.7	17.3	61.5
Taiwan Province of China	47.3	37.3	35.5
South East Asia	42.8	43.0	53.4
Indonesia	35.1	235.1	22.7
Malaysia	7.6	13.2	24.9
Philippines	15.0	219.0	32.3
Singapore	71.8	31.5	77.7
Thailand	10.9	17.9	20.6
Vietnam	-	-	3.3
Australia	53.0	111.2	92.2

Table 8 Annexure table B.4. Value of Cross border M & As by region/ economy of Seller/Purchaser
Table 10 Annexure table B.5. Number of Cross border M & As by region/ economy of Seller/Purchaser

Table 16: Matrix of inward FDI performance and potential, 2005

	High FDI performance	Low FDI performance
	Front-runners	**Below potential**
High FDI potential	Azerbaijan, Bahamas, Bahrain, Belgium, Botswana, Brunei Darussalam, Bulgaria, Chile, China, Croatia, Cyprus, Czech Republic, Dominican Republic, Estonia, Hong Kong (China), Hungary, Iceland, Israel, Jordan, Kazakhstan, Latvia, Lithuania, Luxembourg, Malaysia, Malta, Netherlands, Panama, Poland, Portugal, Qatar, Singapore, Slovakia, Thailand, Trinidad and Tobago, Ukraine, United Arab Emirates and United Kingdom.	Algeria, Argentina, Australia, Austria, Belarus, Brazil, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Islamic Republic of Iran, Italy, Japan, Kuwait, Libyan Arab Jamahiriya, Mexico, New Zealand, Norway, Oman, Republic of Korea, Russian Federation, Saudi Arabia, Slovenia, Spain, Sweden, Switzerland, Taiwan Province of China, Tunisia, Turkey, United States and Venezuela.
	Above potential	**Under-performers**
Low FDI potential	Albania, Angola, Armenia, Colombia, Congo, Costa Rica, Ecuador, Egypt, Ethiopia, Gabon, Gambia, Georgia, Guyana, Honduras, Jamaica, Kyrgyzstan, Lebanon, Mali, Mongolia, Morocco, Mozambique, Namibia, Nicaragua, Republic of Moldova, Romania, Sierra Leone, Sudan, Suriname, Tajikistan, Uganda, United Republic of Tanzania, Uruguay, Viet Nam and Zambia.	Bangladesh, Benin, Bolivia, Burkina Faso, Cameroon, Democratic Republic of Congo, Côte d 'Ivoire, El Salvador, Ghana, Guatemala, Guinea, Haiti, India, Indonesia, Kenya, TFY Rep.of Macedonia , Madagascar, Malawi, Myanmar, Nepal, Niger, Nigeria, Pakistan, Papua New Guinea, Paraguay, Peru, Philippines, Rwanda, Senegal, South Africa, Sri Lanka, Syrian Arab Republic, Togo, Uzbekistan, Yemen and Zimbabwe.

Source: UNCTAD, based on annex table A.I.6.

Table 17: Global Competitiveness Index 2007-2008

Country	Over All Index	Basic requirements	Efficiency enhancers	Innovation and sophistication factors
	Rank	Rank	Rank	Rank
United States	1(5.67)	23	1	4
Chad	131(2.78)	130	130	128
South Asia				
Bangladesh	107(3.71)	11	91	111
India	48(4.47)	74	31	26
Pakistan	92(3.82)	98	81	78
Sri Lanka	70(3.85)	85	73	47
East Asia				
China	34(4.55)	44	45	50
Hong Kong SAR	12(5.37)	5	3	21
Korea, Rep.	11(5.07)	14	12	7
Taiwan, China	14(5.35)	19	17	10
South East Asia				
Indonesia	54(4.18)	82	37	34
Malaysia	21(5.15)	21	24	19
Philippines	71(3.98)	93	60	65
Singapore	7(5.46)	3	6	13
Thailand	28(4.76)	40	29	39
Vietnam	68(4.09)	77	71	76
Australia	19(5.18)	12	10	23

Source: The Global Competitiveness Report 2007-2008 © 2007 World Economic Forum
Note: Value in parenthesis shows Score

Table 18: FDI flows as percentage of Gross Fixed Capital Formation, 2002-2006 by region and economy (Percent)

	Inward Flows					
Region/economy	**2002**	**2003**	**2004**	**2005**	**2006**	**2004-2006**
World	10.6	7.3	8.5	10.4	12.6	10.5
Developed Economies	10.9	6.4	6.6	9.3	11.8	9.2
Developing Economies	9.5	9.3	12.9	12.6	13.8	13.1
Asia	7.7	7.7	10.3	11.3	12.9	11.5
South Asia	3.2	3.5	3.5	4.4	9.3	5.7
Bangladesh	0.5	2.9	3	4.6	3.9	**3.8**
India	3	3.4	3.2	3.6	8.7	**5.2**
Pakistan	7.2	4.2	7.5	13.1	24.1	**14.9**
Sri Lanka	5.6	5.7	4.7	4.4	6.2	**5.1**
East Asia	8.9	8.1	10	10	10.1	10.0
China	10.4	8.6	8	8.8	8	8.3
Hongkong, China	26.4	4.6	96.4	90.4	103.9	96.9
Korea, Republic of	1.9	2.1	4.5	3	1.9	3.1
Taiwan Province of China	2.9	0.8	2.8	2.3	10.3	5.1
South East Asia	9.7	10.6	19.6	19.8	20.9	20.1
Indonesia	0.4	-1.3	3.4	12.3	6.4	7.4
Malaysia	14.5	10.8	19.1	15.2	20.1	18.1
Philippines	13.3	3.7	4.9	12.6	14.1	10.5
Singapore	25.6	46.5	77.5	57.6	79.5	71.5
Thailand	3.3	5.7	14	17.5	16.5	16.0
Vietnam	11	11	10.6	11.5	12.5	11.5
Australia	16.5	7.4	21.6	-19.2	11.9	4.8

Source: World Investment Report various issues

Table 19: FDI flows as percentage of Gross Fixed Capital Formation, 2002-2006 by region and economy (Percent)

	Outward Flows					
Region/economy	**2002**	**2003**	**2004**	**2005**	**2006**	**2004-2006**
World	9.7	7.4	10.1	9.2	11.8	10.4
Developed Economies	12	9.2	11.8	11.1	14.1	12.3
Developing Economies	2.8	1.6	5.5	4.7	6.4	5.5
Asia	3.1	1.4	5.4	4.2	5.9	5.2
South Asia	0.8	0.8	1.1	1.2	4.2	2.2
Bangladesh	-	0.1	-	-	0.1	**0.1**
India	1	1	1.2	1.4	5	**2.5**
Pakistan	0.2	0.1	0.4	0.3	0.6	**0.4**
Sri Lanka	0.3	0.7	0.1	0.6	0.4	**0.4**
East Asia	3.7	1.6	5.9	4.3	6	5.4
China	0.5		0.7	1.5	1.9	1.4
Hongkong, China	47.6	16.4	129.5	73.1	105.3	102.6
Korea, Republic of	1.6	1.9	2.3	1.9	2.8	2.3
Taiwan Province of China	9.8	10.4	10.5	8.5	10.3	9.8
South East Asia	5.1	3.5	8.7	5.8	7.8	7.4
Indonesia	0.5		6.2	4.5	3.9	4.9
Malaysia	8.6	6	8.5	11.4	20.1	13.3
Philippines	0.4	2.3	4.1	1.3	0.6	2.0
Singapore	18	14.1	31.5	19.3	28.3	26.4
Thailand	0.4	1.4	0.2	1.1	1.3	0.9
Vietnam	-	-	-	0.4	0.4	0.4
Australia	8.3	11.9	6.5	-18.1	11.1	-0.2

Source: World Investment Report various issues

Table 20: FDI stocks as percentage of Gross Domestic Product, 2002-2006 by region and economy (Percent)

	Inward Stocks		
Region/economy	**1990**	**2000**	**2006**
World	8.4	18.3	24.8
Developed Economies	8.2	16.4	24.2
Developing Economies	9.6	25.6	26.7
Asia	9.1	26.5	24.9
South Asia	1.2	4.7	6.5
Bangladesh	2.2	4.4	6.3
India	0.5	3.8	5.7
Pakistan	3.6	9.8	11.4
Sri Lanka	8.5	9.8	10.9
East Asia	9.2	33.8	29.1
China	5.4	17.9	11.1
Hongkong, China	58.6	269.9	405.7
Korea, Republic of	2	7.4	8
Taiwan Province of China	5.9	5.5	14.2
South East Asia	17.8	44.3	39.5
Indonesia	7	15	5.2
Malaysia	23.4	58.4	36
Philippines	7.4	17.1	14.6
Singapore	82.6	121.5	159
Thailand	9.7	24.4	33
Vietnam	25.5	66.1	54.8
Australia	23.7	27.8	32.6

Source: World Investment Report 2007

Table 21: FDI stocks as percentage of Gross Domestic Product, 2002-2006 by region and economy (Percent)

	Outward Stocks		
Region/economy	**1990**	**2000**	**2006**
World	8.7	19.7	26.1
Developed Economies	9.7	21.7	30.7
Developing Economies	4.2	13.3	13.9
Asia	3.3	15.4	15.2
South Asia	0.1	0.4	1.3
Bangladesh	0.1	0.1	0.2
India	-	0.4	1.5
Pakistan	0.5	0.7	0.7
Sri Lanka	0.1	0.5	0.7
East Asia	5.5	24.5	22.7
China	1.2	2.6	2.8
Hongkong, China	15.5	230.1	363.5
Korea, Republic of	0.9	5.2	5.3
Taiwan Province of China	18.3	20.7	32
South East Asia	2.7	15.1	17.3
Indonesia	0.1	4.2	4.8
Malaysia	1.7	17.6	18.7
Philippines	0.3	2.1	1.8
Singapore	21.2	61.2	89
Thailand	0.5	1.8	2.7
Vietnam	-	-	-
Australia	9.8	21.4	30

Source: World Investment Report 2007

Annex-1

Relevance of GATS to the South Asian Countries

The core principles of the GATT, namely MFN and NT apply generally to the GATS. However, these are highly qualified (Srinivasan, 1998). First, a member can exempt any service from the application of MFN and seek further exemptions within sixty days beginning four months after entry into force of the Uruguay Round agreement. Second, a member can improve, modify or withdraw all or part of its specific commitments on financial services during this period. Third, NT applies only to sectors and sub-sectors listed in the member's schedule.

The GATS imposes few limitations on national policy, with the only requirement that there should be no discrimination across alternative sources of supply (Hoekman, 1995). The participating countries are not required to alter regulatory structures or to pursue an active antitrust or competition policy. The positive-list approach enabled many developing countries to accede to GATS with minimal commitments. Accordingly, the GATS may affect developing countries only in a limited way since its rules apply only if specific commitments are made.

There are certain Articles in the GATS, which deal with specific provisions relating to developing countries (UNCTAD-World Bank, 1994). These include Article III (transparency), IV (increasing participation of developing countries), V (economic integration), XII (measures to safeguard the balance of payments), XV (subsidies), XIX (negotiation of commitments) and XXV (technical collaboration). Articles IV and XXV deal exclusively with developing countries. The Annex on telecommunications contains a special article on technical cooperation in the telecommunications industry.[28]

GATS Article IV seeks increasing participation of the developing countries in world trade in services through negotiated specific commitments for access to technology on a commercial basis, improved access to distribution channels and information networks, and the liberalisation of market access in sectors of export interest to developing countries. With regard to transparency, the industrialised nations were asked to establish contact points within two years of the entry into force of the agreement. These points would facilitate the access of developing country services suppliers to information relating to the commercial and technical aspects of specific

[28] The developed countries are required to abstain from imposing conditions on the access to and use of public telecommunications transport networks and services. The conditions may, however, be imposed by the developed countries if necessary to ensure the availability of services to the general public, protect the technical integrity of networks or prevent the supply of services by countries that have not made specific commitments in the area of telecommunications. On the other hand, the developing countries may impose reasonable conditions on the access to and use of telecommunications networks that they consider necessary to strengthen domestic telecommunications infrastructure and capacity and to increase their participation in international trade in telecommunications services. The GATS members are expected to make available to developing countries information on international telecommunications services and developments in telecommunications and information technology in order to assist in the strengthening of their domestic telecommunications industries.

services, requirements for registration, recognition and obtaining of professional qualifications, and the availability of services technology. The final provision of Article IV states that special priority shall be given to least developed countries in the implementation of provisions of Article IV.

GATS Article XXV on technical cooperation reaffirms the access of developing country services suppliers to contact points to be established in developed countries (Article IV). It further states that technical assistance to developing countries shall be provided at the multilateral level by the competent Secretariat and shall be decided upon by the Council for Trade in Services. Apart from the secretariat, other multilateral organisations, such as the United Nations and the World Bank, could also be involved in providing such assistance.

Although the developing countries are accorded limited special and differential treatment under GATS, this agreement contains no provisions similar to Part IV of the GATT on more favourable treatment of developing countries. GATS Article XIX allows developing countries to make fewer specific commitments than industrialised nations. The developing countries have limited flexibility to offer less liberalisation of services than developed countries but they are not allowed a free ride. The GATS is based on the argument that if the national governments have concern for economic efficiency, the optimal policies would be the same both for developed as well as developing countries.

The following section provides details about GATS schedules of commitments.

The GATS expresses desire the “to facilitate the increasing participation of developing countries in trade in services and the expansion of their service exports including, *inter alia*, through the strengthening of their domestic services capacity and its efficiency and competitiveness”. The preamble clearly recognises the right of all parties to regulate the supply of services within their territories. It takes “particular account of the serious difficulty of the least-developed countries in view of their special economic situation and their development, trade and financial needs”.

Though the GATS may justifiably be credited with having created a more secure environment for trade in services, it has not generated either the negotiating momentum to reduce such protection or the rules to ensure that it takes a desirable form (Mattoo 2000). The developing countries need to play a different strategy during the ongoing negotiations. Rather than resist the liberalisation of domestic markets and seek a dilution of multilateral rules, they need to push aggressively for further liberalisation. The possible approaches could include expanding market access in the main areas of interest in key destination markets and deepening the regions own liberalisation commitments in certain sectors and modes, in line with development objectives. South Asian countries also need to develop their domestic infrastructure, build domestic capacity and undertake domestic reforms in order to derive the benefits arising from improvements in market access in GATS.