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TALKING POINTS

Mr. Chair

First of all let me express my sincere thanks to WTO and especially the Trade in Services and Investment Division for giving me this opportunity to present some thoughts in this workshop. I would also thank the secretariat for their excellent administrative and financial support to enable my participation in the event.

I see many scholars here in this room and hopefully we can learn from them about the technical problems that LDCs are facing in their service export trade and how these can be addressed. However, my role is very limited and I have been asked to present general policy observations on the importance of services trade in LDCs and the challenges behind developing our export capacity and what we need to do for a meaningful participation in the world market. I will refer particularly to my own country examples and set out the efforts that we made to enhance our service export capacity. I am going to present in this meeting not as an expert but as a policy maker and my opinions in this presentation will be more of a practical nature.

Mr. Chair, allow me to highlight some of the general issues in service trade development for LDCs, and also reasons why we have not been able to participate meaningfully in world markets.

Services trade it is more important to Landlocked and Least Developed Countries (LLDCs) than other LDCs, because the existing geographic bottlenecks make LLDCs merchandise products more expensive and less competitive in the world market. Especially LLDCs are paying extra production costs than those of normal LDCs. The extra production cost may vary from country to country, in my own country it is almost 15-20 % above the costs of neighbouring countries. This means that most of the LLDCs products are 15 to 20 % less competitive in the world market. This situation suggests that a shift from merchandise trade to service trade is desirable.

We know that the services sector in LDCs plays an increasingly important role for growth and development through the generation of opportunities for greater income, productivity, employment, investment and trade and of course, its positive impact on poverty reduction. We are also aware that manufacturing activities and competitiveness increasingly depend on services or "servicification". But shifting from the agricultural and manufacturing sector to services is also not easy.

If we look at the degree of readiness of LDCs for the service liberalization process, we can see that LDCs have been working in parallel with our development partners and significantly liberalized services trade. The IMF and World Bank were active players to develop competitive economies in developing and Least Developed Countries. Similarly they had designed several structural adjustment programmes for the LDCs and most of the cases, whatever the result, we followed them.

We can briefly examine our service liberalization process globally, bilaterally, regionally and multilaterally. Globally, If we review the service trade liberalization process of LDCs in the world, since the mid-eighties, most of the LDCs gradually followed a liberal service approach which shifted from an inward-looking state-led development strategy to open economic policies and a free market oriented economic system' by eliminating several restriction in service trade.

Bilaterally, most of us are engaging with our bilateral investment agreements that may help export performance of services. My own country Nepal is an active regional player with bilateral investment agreements, with a view that increased investment may help promote services trade. So far, Bilateral Investment Protection and Promotion Agreements (BIPPA) have been signed with six countries and Double Tax Avoidance Agreements (DTAA) with ten countries. Similarly, regional trade agreements have

also emphasized the need for service trade and accordingly we are moving toward negotiation of services liberalization. My country has two regional agreements, the South Asia Free Trade Agreement, and Bay of Bengal Multi Sectoral Technical and Economic Cooperation (BMISTEC). Under Trade in Services (SATIS) within the framework of South Asian Free Trade Agreement (SAFTA), Nepal has offered liberalization of 11 sectors and 70 subsectors. Preparation of offers in the context of the Bay of Bengal Multi Sectoral Technical and Economic Cooperation is underway.

With regard to the multilateral level, the WTO is further liberalizing the service trade with a view to enable LDCs to participate equally in world services trade.

But in contrast, current services export performance of LDCs is rather frustrating. The service sector accounts for a significant proportion of GDP in most LDCs, on average around 50%. Various recent studies suggest that trade in services, when measured in value added terms, accounts for almost 50% of world trade. The WTO World Trade Report 2019 reveals that between 2005 and 2017, developing economies gained over 10 percentage points in their share in global trade, reaching US\$ 3.4 trillion in world services exports and US\$ 4.5 trillion in global services imports. By contrast, in the same period, LDCs increased their share in global services exports by 0.1 percentage point. In 2017, LDCs accounted for only 0.3 per cent of world services exports, or US\$ 38.3 billion, and, in imports, their participation was at less than 1 per cent, with services imports totalling US\$ 124.1 billion. This shows where we stand now.

If we generalise, the tourism sector is the common competitive product of each LDC, and makes up a significant part of LDCs economies. The World Trade Report 2019 reveals that LDCs' services exports are unbalanced. "With tourism as the largest sector which is 34.4 per cent of services exports, the share of LDCs' services exports through consumption abroad, estimated at 43.1 per cent in 2017, is at least twice as big as in most developing economies and five times bigger than in developed economies."

We - LDCs in this room - are aware that trade in services can help create opportunities to expand our outputs of services in sectors where we have a comparative advantage. We know that it creates jobs, contributes to GDP, generates foreign exchange, and keeps us close to the world market by improving our poor transport infrastructure while overcoming our landlocked-ness problem by allowing for cross-border trade that is de-linked from geography. But the benefits do not come in a vacuum. It needs a lot of reforms that sometimes are beyond of our development capacity.

One question is still unanswered: since we have started liberalizing our services sector along with our economic policy for the last four decades, why are the benefits for us so negligible in terms of participation in the world trade? Most of us are still lagging behind in competitive service trade.

The reason for this is obvious, most of us had not realized the multifaceted contribution of services to the national economy and its impact on goods trade. We missed to design and implement a services-driven development strategy within a coherent and comprehensive policy framework that ensures linkages with other policy areas and overall national development objectives. In our case, we partially failed to do it. As a result, due to the complexity of the services sector, even if some of us developed such a strategy, implementation remained a big challenge. This has led to slow progress in positively integrating us into the global services economy and increasing our participation in services trade.

Some of the LDCs in the world have been very gradually shifting from their traditional merchandise economy structure to service trade. For example a recent study of the Asian Development Bank (ADB) shows that Nepal's growth in services exports is better than its growth in merchandise exports. Services exports have averaged 13.1% annual growth during 2008-2017, surpassing the growth of neighbouring countries, Bangladesh and India, but falling short of Sri Lanka. Services income, particularly from travel and tourism, and communication has increased, signalling a shift from agro-based to service-oriented economy.

Also, Nepal's services trade export is growing gradually by maintaining a positive trade balance from 2011 to 2017. I don't say we have achieved enough, but it is an indication that LDCs can also participate in world trade if they are given a level playing field. I do not consider that this is a significant achievement. Lots remains to be done, but there are many LDCs with export potential who need to address the remaining challenges.

It is therefore high time to review our existing efforts to reap the benefits from services trade. I don't know how much of us are being able to take full advantage of the WTO services waiver. As far as my country is concerned, we are at the very beginning in using the WTO service waiver.

If we turn to the challenges, both external and internal challenges are responsible for the slow development of service trade in LDCs. Similar challenges exist for diversifying services exports of LDCs in order to integrate into global services exports.

On the internal front, if we are trying to leapfrog into services trade, then human resource development is imperative. In most of the cases, services sectors like banking and finance, telecommunication, health and education are more skill intensive than the manufacturing sector. This therefore necessitates skilled manpower to produce quality service products – and this is a big challenge for us. Nepal has a surplus in manpower in the country, but unfortunately, we are exporting abroad mainly unskilled labour.

Though many LDCs have a plethora of internal coordinating mechanisms, however there is still a feeling among agencies that services trade is only the responsibility of the commerce ministry. This is certainly the case for Nepal.

Inadequate logistic services are another crucial challenge for service trade in most of the LDCs. Better logistic infrastructure development certainly would help enhance export promotion. Many LDCs are still lacking infrastructure in tourism, IT-BPO and others.

Policy inconsistency is another challenge in services trade. Policies are in our case sometimes not really facilitating service trade, and in some cases policies and practices pursue contradictory objectives.

Establishing an effective regulatory system is one of the important components to promote trade in services. Nepal does not have a specific regulatory body to administer trade in services. Thus the issues of safety standards in adventure tourism, aviation and quality standards in hotel and restaurants have been emerging time and again.

Information Technology-driven services are another potential growth sector for Nepal like other LDCs. But it is quite difficult and expensive for us to chase the fast-growing technology.

External challenges they are in general very similar to all of us as our LDCs group. They encompass stringent immigration and labour market regulation, recognition and licensing provisions, limits on foreign equity, discriminatory treatment with respect to taxes, subsidies and other policies.

As I mentioned, services trade in LDCs is an important component to minimise their overall trade deficit but taking full advantages from trade in services is quite complex business for all of us. Studies show that the potential gains from service sector liberalisation are substantial. But there are also risks which need to be considered against the risks of not liberalising. A range of complementary policies, including appropriate regulation, the creation of competitive market conditions, the provision of specialised training of adequate quality and scale, and policies to protect health, environment and consumers and ensure adequate access to services, are crucial if liberalisation is to deliver the expected benefits.

Some of the efforts that require our attention are the following:

- (i) Promoting services export;
- (ii) Creating an enabling environment for service development; and
- (iii) Mobilizing Development Partners for technical support to develop services through strengthening domestic institutions and improve structural capacity.

As far as (i) promoting services exports are concerned, reengineering the Trade Promotion Agency to shift its focus on services exports, conducting feasibility studies on promoting subcontracting activities in target markets, making use of the diaspora for export promotion, promote national branding and strengthen national private sector association activities by providing them support and encouraging participation in the decision making process, conducting in-depth qualitative and quantitative studies on current and possible future supply possibilities of service exports (and related constraints) with a view to identifying modes and sectors of interest etc.

With regard to (ii) creating an enabling environment for service development, we can increase awareness, develop or strengthen the data collection and dissemination of services export, prepare a master plan for service development, and strengthen established and emerging services. Furthermore, we can improve the legislative framework for services, including sector specific legislation and regulations. Another area of focus lies on skill development.

With regard to the mobilization of development and trading partners, we can simply ask our development partners to assist us to conduct R&D for potential service sector development along with a market intelligence report.
