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Comparative Advantage of Trade in Services of Sri Lanka in the SAARC Region

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Introduction

SAARC (South Asian Association for Regional Cooperation) was established to enhance welfare of the South Asians through economic and cultural relationships among its members. Member states comprise of Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. Preferential trading agreements among member states act as a stimulus to strengthen national and SAARC economic resilience. So far member nations have implemented a free trade agreement (SAFTA) to maximize the realisation of the region's potential for trade and development, which would benefit the people of the region greatly.

The Export and Import economic policy has both advantages and disadvantages. In Sri Lanka, the export and import economy resulted in an unsymmetrical export portfolio which has continuously earned deficit trade balances. The trade in services is different from the trade in goods due to the inherent characteristics of services such as intangibility, invisibility, transience and non-storability. General Agreement on Trade in Services (GATS) classifies the entire range of services trade as Mode 1, Mode 2, Mode 3 and Mode 4 (United Nations, 2010).

According to Burange *et al.*, (2009), many developing countries obtain large benefits from service exports. Due to the skilled and semi-skilled labour force these countries commence service exports under the Mode 1 and 4. The share of services trade as a percentage of total trade in Sri Lanka in 1978 was about 44.4 percent and 54.6 percent in 2000. Further, the contribution from services to GDP in 2010 was 59.3 percent.

Objectives

The main objective of this study is to evaluate regional competitiveness of trade in services of Sri Lanka to enhance trade strategies through mutual trade agreements.

In addition to, that the following sub objectives are expected to be achieved:

- To identify competitive position of SAARC countries
- To develop strategic trade direction in SAARC countries

Methodology

Revealed Symmetric Comparative Advantage (RSCA) indices were used to identify the service sectors in which Sri Lanka has comparative advantage. Trade profiles of selected countries with SAARC region/World were used for this purpose. Dalum *et al.* (1998) have made Revealed Symmetric Comparative Advantage (RSCA) index, which is formulated as follows:

$$RSCA_{ih} = (RCA_{ih} - 1) / (RCA_{ih} + 1)$$

and

$$RCA_{ih} = (X_{ih}/X_{it}) / (X_{wh}/X_{wt})$$

Where;

RCA_{ih} = revealed comparative advantage ratio for country i in service h ,

X_{ih} = country i 's exports of service h

X_{it} = total exports of country i

X_{wh} = world / SAARC exports of service h

X_{wt} = total world/SAARC exports

The values of $RSCA_{ih}$ index can vary from minus one to plus one. $RSCA_{ih}$ greater than zero implies that country i has comparative advantage in group of services h . In contrast, $RSCA_{ih}$ less than zero implies that country i has comparative disadvantage in group of services h .

The research study is based on data on exports and imports statistics published by the International Trade Centre (ITC). The study focuses on all export services of SAARC region and the research time frame is five years from 2006 to 2010.

Results

According to the findings (Table 01 and 02), Sri Lanka had 0.601 , 0.327 , 0.733 , 0.594 and 0.399 RSCA values in 2010 on Transportation, Travel, Communication, Construction and Insurance Services respectively. But, RSCA was minus (-1.00) for Financial services, Royalties, and Personal and Cultural services.

Table 1: RSCA Index of SAARC Region for selected countries (2006-2010)

Service Description	RSCA Index - SAARC					RSCA Index - World				
	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010
Transportation										
- Sri Lanka	0.48	0.60	0.61	0.61	0.60	0.51	0.52	0.53	0.54	0.38
- India	-0.05	-0.06	-0.05	-0.05	-0.05	-0.02	-0.18	-0.18	-0.07	-0.33
Travel										
- Sri Lanka	0.20	0.25	0.19	0.19	0.33	0.17	0.12	0.01	0.03	0.02
- Bangladesh	-0.28	-0.02	0.18	0.25	0.09	-0.30	-0.16	0.01	0.10	-0.28
- Maldives	0.47	0.53	0.58	0.53	0.54	0.44	0.43	0.45	0.41	0.22
- Bhutan	0.45	0.57	0.70	0.71	0.66	0.43	0.47	0.60	0.62	0.40
- India	-0.01	-0.02	-0.03	-0.03	-0.02	-0.04	-0.16	-0.20	-0.18	-0.38
Communicatio										
- Sri Lanka	0.39	0.44	0.31	0.76	0.73	0.71	0.64	0.46	0.79	0.63
- Nepal	0.36	0.46	0.44	0.47	0.70	0.69	0.65	0.57	0.51	0.59
- India	-0.00	-0.02	-0.02	-0.12	-0.14	0.43	0.25	0.16	-0.06	-0.33
Construction										
- Sri Lanka	0.21	0.33	0.44	0.41	0.59	0.07	0.06	0.05	0.05	-0.20
- India	-0.67	-0.60	-0.68	-0.68	-0.51	-0.14	-0.31	-0.40	-0.36	-0.71
Insurance										
- Sri Lanka	0.27	0.30	0.40	0.42	0.40	0.41	0.35	0.38	0.40	0.18
- India	-0.36	-0.30	-0.27	-0.31	-0.30	0.19	0.08	-0.02	-0.01	-0.22
Financial										
- Sri Lanka	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
- India	0.05	0.03	0.03	0.03	0.04	-0.08	-0.20	-0.13	-0.12	-0.21
Computer and Information										
- Sri Lanka	-0.78	-0.60	-0.57	-0.56	-0.59	0.32	0.52	0.53	0.55	0.30
- India	0.06	0.04	0.04	0.04	0.05	0.90	0.86	0.86	0.86	0.78
Royalties and License fees										
- Sri Lanka	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
- India	-0.28	-0.07	-0.10	0.01	0.00	-0.94	-0.91	-0.93	-0.91	-0.97
Other business services										
- Sri Lanka	0.75	-0.35	-0.22	-0.05	-0.26	-0.16	-0.19	-0.20	-0.20	-0.43
- India	-1.00	0.02	0.01	-0.00	0.01	-1.00	0.18	0.03	-0.15	-0.18
- Pakistan	0.78	-0.35	-0.19	-0.02	-0.29	-0.10	-0.19	-0.17	-0.17	-0.46
- Bangladesh	0.85	0.01	0.20	0.29	0.18	0.13	0.17	0.22	0.14	-0.02
- Nepal	0.78	-0.31	-0.18	0.09	0.11	-0.09	-0.16	-0.16	-0.06	-0.09
Personal, Cultural and Recreational										
- Sri Lanka	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
- India	0.06	0.04	0.04	0.04	0.04	-0.19	-0.16	-0.05	-0.21	-0.62

Source: Compiled by authors based on ITC Statistics Database

Table 2: Strategic Trade Direction Matrix

Service Exporter	Service Importer							
	Country	IND	PAK	SRL	BGD	MLD	NEP	BHT
	India (IND)	FS, PC, CI	CO, FS, CI, PC	CI, RO, PC, FS, OB	TP, IN, FS, CO, CI, RO, PC	TP, CO, IN, FS, CM, CI, OB, PC	TP, IN, FS, CO, CI, RO, PC	CO, FS, CM, CI, OB, RO, PC
	Pakistan (PAK)	TP, TV, CM, OB, RO	No	FS, OB, RO, PC	TP, TV, IN, CO, CI, RO	TP, CM, IN, FS, CO, CI, OB, PC	TP, TV, IN, FS, CO, CI, RO, PC	CM, FI, CO, CI, OB, RO, PC
	Sri Lanka (SRL)	TP, TV, CM, IN, CO	TP, TV, CM, IN, CO, CI	TP, CM, IN, CO	TP, TV, CM, IN, CO, CI, OB	TP, CM, IN, CO, CI, OB	TP, TV, CM, IN, CO, CI	TP, CM, IN, CO, CI, OB
	Bangladesh (BGD)	TV, CM, OB	CM, FS, OB, PC	FS, OB, RO, PC	OB	TP, TV, CM, IN, FS, CI, OB, PC	TP, IN, FS, CI, OB, RO, PC	CM, FS, CI, OB, PC
	Maldives (MLD)	TV, RO	TV, RO	TV, RO	TV, RO	RO	TV, RO	RO
	Nepal (NEP)	TV, CM, OB	CM, OB	OB	CM	TP, CM, IN, OB	No	CM, OB
	Bhutan (BHT)	TP, TV, IN	TV, IN	TV, FS, RO	TP, TV, IN	TP, TV, CM, IN, FS, OB	TP, TV, IN, FS, RO	TV

Source: Compiled by authors based on ITC Statistics Database

Note : Services given in the Bold in the matrix should be specialized in the corresponding country

Abbreviations :

TP – Transportation, TV – Travel, CM – Communication, CO – Construction,
 IN – Insurance, FS – Financial Services, CI – Computer and Information
 RO – Royalties OB – Other Business PC – Personal and Cultural

Computer and Information service indicated a negative (-0.591) RSCA value in the SAARC region, though it became positive (0.302) when the RSCA value was computed in comparison to the rest of the world. Other Business services indicated a negative (-0.260) value for the SAARC region in 2010, while, the index vis-à-vis global comparison was -0.432 .

Conclusion and Policy Recommendations

As far as the study revealed, compared to year 2006, Sri Lanka has been able to stabilise its comparative advantage and export specialisation in the service sector by 2010. However, the strength of competitiveness in service exports fluctuated throughout. Sri Lanka has not attempted exporting financial services, royalties and license fees, and personal, cultural and recreational services to international markets, despite having the highest comparative advantage in the SAARC region for Transportation, Construction, Insurance and Communication services. In addition, Sri Lanka has comparative advantage on travel compared to India and also demonstrates a significant advantage in Computer and Information services after India.

Strategic position of SAARC counties (Table 2) reflects the service trade advantage in the region; viz: India in Financial Services, Personal & Cultural, and Computer & Information services, Bangladesh on Other Business Services, Maldives on Royalties and Bhutan on Travel. However, Pakistan and Nepal do not have strategic positions on service trade in the region. Even though these countries individually do not have strategic positions for certain services they could have significant advantage if bilateral trade agreements are implemented. Therefore it is concluded that SAARC region is able to enhance its trade in services by increasing intra -regional trade among the members.

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