# Regional Integration in Services in South Asia: Opportunities & Constraints

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**Abstract**

Regional integration in South Asia remains a distant priority for SAARC countries. In the area of services, this region offers great potential. This paper aims to examine the opportunities that exist in services and analyses the constraints that impede regional integration in services in South Asia. It highlights the gamut of scope and benefits that can be accrued from this regional integration in services provided certain constraints such as regulatory, infrastructural, institutional and business related constraints are addressed adequately. The paper argues, the region throws up several political economy challenges which merit immediate attention to further the cause of integration of services. It identifies intraregional mobility, trade facilitation, investment opportunities as the key drivers of regional integration. Sectors such as tourism and healthcare have huge potential and can be catalysts in the integration process. Intervention from governments of all member countries in specific sectors like tourism is crucial to realize the goal. The paper argues for an open, broad based, flexible regional services agreement which takes a liberal approach to services integration. It is important that regulatory harmonization, liberal investment policies, willingness towards free movement of natural persons and political will of highest order are encouraged to seek such integration in services.

**JEL: F1, F13, F15**

**Keywords:** South Asia, services, integration, liberalization, regulation

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## Section-I

## Introduction

South Asia is one of the most politically volatile and economically and historically underdeveloped regions in the world. It is home to a variety of countries having different per capita income, macro-economic performance, economic vulnerability index and human development index. Four Least Developed Countries (LDCs) such as Afghanistan, Bangladesh, Bhutan, and Nepal, two low income countries, namely India, and Pakistan and one middle income country Maldives[1] and one lower middle income country, i.e., Sri Lanka occupy more than one fifth of the world's population including half of this planet's poor.

Bedeviled with so many socio-economic depravities, this region, however, during last couple of years has emerged as one of the fastest-growing regions in Asia. According to ADB's Asian Development Outlook (2007) South Asia has averaged more than 7.5 percent growth since 2003, enabling it to reduce its poverty levels better than many other countries. South Asia hosts about 21 per cent of the world's population. Its intra-regional trade accounts for just 5 per cent of total trade. By comparison intra-regional trade makes up 25 per cent of ASEAN's total trade.[2] Latest trends in South Asia demonstrate its economic performance quite resilient in the presence of volatile global financial markets. Real GDP growth in the region is likely to remain above 7 percent in 2016 and 2017.[3]

South Asia exudes similar confidence in trade in services as much it does in trade in goods. As economy is moving towards more value-added services, (India's services sector's contribution to its GDP is around 59%) demand for services is rising in the economy. This is evident in regional integration in South Asia which holds considerable potential across many services sectors in South Asia (Chanda 2015). The value of commercial services of trade in 2015 in world economy is nearly twice as high as in 2005.[4] In 2005 world commercial trade in services registered about $US billion 2000 and went up to register around $US billion 3900 in 2015. In total, developing

[1] Maldives was officially taken off the United Nations list of Least Developed Countries (LDCs) on 1 January 2011. After Botswana in 1994 and Cape Verde in 2007, it is the third country to graduate from LDC status.
[2] East Asia Forum, May 11, 2016.
[3] South Asia Regional Update, April 2016, IMF.
[4] World Trade Statistical Review 2016, WTO, accessed on 1 August 2017 at https://www.wto.org/english/res_e/statis_e/wts2016_e/wts2016_e.pdf

economies registered about 52 per cent whereas developed economies secured around 43 per cent of world's total commercial trade in services in 2015.[5]

All this data suggest considerable potential in terms of trade in services in South Asia which is overwhelmingly powered by India. But in reality, the region fails to realize its true potential for a variety of reasons. It could be because of lack of political initiative, or may be the right mix of policies and strategies are missing. It could be due to some constraints like regulatory, infrastructural, institutional, cultural and business environment related constraints which are playing a major role in impeding such potential and restricting the region from attending services integration.

It is in this context the paper aims to examine the scope behind such regional integration in services; whether complementary trade and economic policies have been designed to realize regional integration of services in South Asia. It tries to explore what are the regulatory challenges existing among member countries of South Asia that undermines the integration process. Since the region has a diversity of political culture, social values and economic considerations, are political economy challenges then create serious impediments to foster regional integration in services?

The paper is divided into many sections to deal each issue mentioned above separately. Section I has already covered the introduction. Section II provides an overview of the service sector in South Asian countries. Section III provides an analysis of services integration through 'offers' and 'request' approach and negotiations carried out under SATIS framework. Section IV examines the regulatory and other business environment related constraints in South Asia to demonstrate lack of preparedness at individual country level to support regional services liberalization. Section V highlights the political economy challenges that obstruct opportunities in services for regional integration. Section VI provides conclusive findings and suggestions.

## Section-II

## Overview of the Service Sector in South Asian Countries

[5] World Trade Statistical Review 2016, WTO, at https://www.wto.org/english/res_e/statis_e/wts2016_e/wts2016_e.pdf accessed on 1 August 2017

Since beginning of the 1990s the services sector has witnessed significant growth in South Asian countries. Its contribution to GDP has increased compared to 1970s and 1980s.[6] With growth liberalization of the services, trade too has become a critical economic agenda for these economies. Some of their services sectors have undergone liberalization process mandatory under the provision of General Agreement on Trade in services(GATS). Under the request-offer process of GATS, there have been requests from other developing and developed countries to open up services sectors in South Asia. Additionally, they have also taken steps for the unilateral liberalization of the sector. As a part of their commitment to liberalize the sector South Asian countries have taken initiatives on their own. Such development is visible in the formation of South Asian Agreement on Trade in Services (SATIS) in 2010.

Many member countries have shown consistent performance in term of growth in the services sector in the region. Countries such as Bangladesh, Nepal and India have witnessed continuous rise in contribution to their GDP. In contrast, Bhutan, Pakistan and Sri Lanka experienced a rather fluctuating trend in the growth of their services sector. During the 2000s, the average growth rate in services sectors increased by 78 percent in Nepal compared to that during 1980s. The corresponding rates for Bangladesh, India and Sri Lanka are 64 percent, 41 percent and 23 percent respectively. However, growth rates in Bhutan and Pakistan witnessed a downward trend during 2010-2012 (Raihan 2013).

Over the last three decades, South Asian countries have undergone considerable structural changes in their economies. A major shift in the structure of their economies is noticed and it is tilting towards the services sector. South Asian region has experienced dominance of the services sector in its GDP and national production. Table 1 suggests that during the 2000s, with the exception of Afghanistan, the share of the services sector in the GDP had been more than 50 percent in these countries during the 2000s. The significant service subsectors in terms of output are distribution (wholesale, retail trade, restaurants and hotels), transport-storage and

[6] During the period 1980–2000, two of the economies (India and Bangladesh) increased their gross domestic product (GDP) growth rates by roughly 2 percentage points per annum relative to the rates they had sustained in the two decades prior to 1980. Sri Lanka's growth increased only marginally, but from the initially strong rate of 4.5 per cent per year. While average output growth declined after 1980 in Pakistan, it remained about 5 per cent per year. Growth rates of these magnitudes are impressive achievements that have helped these countries to reduce poverty rates and raise living standards. Indeed, South Asia grew more rapidly than any other region except East Asia. http://siteresources.worldbank.org/SOUTHASIAEXT/Resources/Publications/448813-1171648504958/SAR_integration_ch2.pdf, accessed on September 20, 2017.

communication, construction, and community-social and personal services within other activities. In most of these economies these sectors largely occupied major shares. The sub sectoral sectors like hotels, restaurants, etc. formed part of the main sector- tourism. These sub sectoral trends in services output reflect the importance of a variety of factors in shaping service sector performance in the South Asian countries (WDI, World Bank 2016).

**Table-1**

**Contribution of Services Sector to GDP in South Asia**[7]

| Countries | 2001-2010(%) (inclusive of other services) | 2001-2015(%) |
|---|---|---|
| Afghanistan | 46 | 55 |
| Bangladesh | 60 | 61 |
| Bhutan | 53 | 42 |
| India | 60 | 59 |
| Maldives | 86 | 73 |
| Nepal | 55 | 46 |
| Pakistan | 55 | 54 |
| Sri Lanka | 65 | 57 |

Source: based on WDI and author's calculations

Bangladesh, India, Maldives and Sri Lanka experienced consistent rise in the growth rates of services exports and imports over the last three decades. In contrast, Nepal and Pakistan encountered some fluctuating growth rates. India witnessed a continuous rise in it services exports since 2000. India was the second fastest growing services sector with its compound annual growth rate at 9 per cent, just below China's 10.9 per cent, during the last 11-year period from 2001 to 2012 (the Economic Survey 2013-2014, Ministry of Finance, Government of India) and Russia at 5.4 per cent was a distant third. The impressive growth of services exports helped India achieve healthy surpluses in the services trade during the 2000s, whereas, during 1980s and 1990s, India encountered deficit in the services trade.

[7] This contribution of services sector to individual countries to GDP is an approximate calculation where during 2001-2010 contribution of other services are included.

Among the world's top 15 countries in terms of GDP, India ranked 10th in terms of overall GDP and 12th in terms of services GDP in 2012, adding that services share in world GDP was 65.9 per cent but its share in employment was only 44 per cent in 2012(Economic Survey 2014-2015, Ministry of Finance, Government of India).

As per the Economic survey, in India, the growth of services-sector GDP has been higher than that of overall GDP between 2001- 2014. Services constitute a major portion of India's GDP with a 57 per cent share in GDP at factor cost (at current prices) in 2013-14, an increase of 6 percentage points over 2000-01.

Some of the South Asian member countries have also witnessed high growth in services. High growth in services exports during the 2000s also helped Maldives to widen trade surpluses. In contrast, Bangladesh, Nepal, Pakistan and Sri Lanka experienced deterioration in balance in trade in services during 2000s.

Table 2 also provides services sector's contribution to member countries GDP during 2011-2016 in South Asia. All countries in this data analysis are showing a consistent rise in performance of services sector. Services account for 50% or more of overall GDP in all the countries in South Asia, higher than in other developing regions such as ASEAN. In some countries such as Maldives sector contributes to over 80% of GDP reflecting high reliance on certain (tourism) services.

**Table-2**

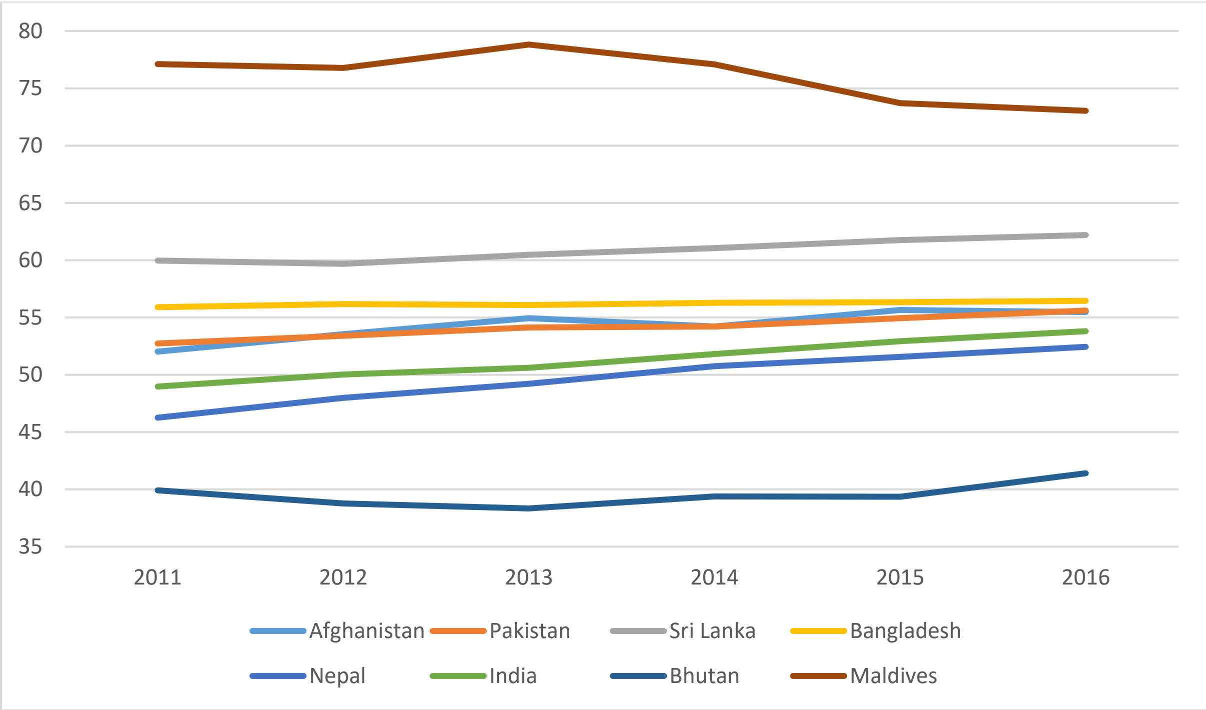
**Contribution of Services Sector to GDP of Member Countries in South Asia**

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|
| Afghanistan | 52.02 | 53.55 | 54.95 | 54.2 | 55.65 | 55.48 |
| Pakistan | 52.73 | 53.39 | 54.14 | 54.2 | 54.93 | 55.6 |
| Sri Lanka | 59.95 | 59.68 | 60.48 | 61.049 | 61.738 | 62.19 |
| Bangladesh | 55.896 | 56.162 | 56.088 | 56.28 | 56.346 | 56.45 |
| Nepal | 46.25 | 47.98 | 49.22 | 50.74 | 51.555 | 52.435 |
| India | 48.97 | 50.03 | 50.62 | 51.8 | 52.93 | 53.8 |
| Bhutan | 39.918 | 38.765 | 38.33 | 39.371 | 39.362 | 41.4 |
| Maldives | 77.124 | 76.772 | 78.818 | 77.083 | 73.709 | 73.034 |

Source: based on WDI Data, World Bank

**Figure-1**

**Contribution of Services Sector to GDP of Member Countries in South Asia**




The subsector composition of services exports for Bangladesh, India, Pakistan and Sri Lanka reveals that there has generally been a trend away from traditional services exports, such as travel and transport, towards other services. However, within the "other services" segment, only India and Sri Lanka reveal a commercial services orientation to their services export basket, with commercial services accounting for the bulk of other services exports and also for more than 90 percent of total services exports (Chanda, 2011a). In the case of Bangladesh and Pakistan, the shift towards other services exports has been dominated by government services and, overall, commercial services exports constitute only about half of total services exports. A common feature, however, is that computer and information services show the most significant increase in share across all four countries.

Employment in services sector has shown a rise in most of the South Asian countries. India Bangladesh, Maldives and Nepal experienced increase in their share due to the liberalization in some key services sectors such as IT, telecommunications and financial services. Services sector liberalization has helped employment growth. Comparative analysis has indicated employment elasticity of services is lower than that of manufacturing and agriculture in most of the South Asian countries (Raihan, 2013). Therefore, though the share of services sector in total employment had increased substantially over the last decade, its contribution to total employment has been much lower than its contribution to the GDP in all South Asian countries. Growth in employment is not as high as in output, less than about one third of total employment. Table 3 gives an idea about the share of services employment in total employment of the South Asian countries.

**Table-3**

**Share of Services Sector in Total Employment (%)**

| Countries | 2001-2010 | Latest year available[8] |
|---|---|---|
| Bangladesh | 36 | 35 in 2010 |
| Bhutan | 28 | 30 in 2011 |
| India | 26 | 27 in 2011 |
| Maldives | 58 | 60 in 2015 in travel and tourism |
| Nepal | 21 | |
| Pakistan | 36 | 35 in 2015 |
| Sri Lanka | 28 | 45 in 2015 |

Source: based on WDI data and author's calculation

[8] The data available in WDI, World Bank, at http://data.worldbank.org/indicator/SL.IND.EMPL.ZS accessed on August 04 2017.

Services being intangible and unstorable in nature, it becomes difficult to quantify, hence its exact contribution to employment doesn't reflect the actual employment that it does towards employment. Besides many of the personalized services and services in informal sector are difficult to capture, so the share of employment always remains below its official level. That is, it took Jagadish Bhagwati to remark that services to be traded can only be considered as 'oxymoron.' Table 4 suggests most of the South Asian countries witnessed marginal increase in employment in services sector. Maldives is having the highest share in employment in services sector in South Asia. Tourism being the mainstay of the economy employs large number of local people. Most of these new jobs were in tourism and tourism-related sectors; transport, storage, and communication; financial intermediation; and real estate, but of late a good number of jobs are taken by expatriate workers. Employment in industry is falling as manufacturing of garments ceased and companies engaged in fish preparation were forced to close down because of the intrusion of foreign vessels in the fishing market (ADB, 2015).

**Table-4**

**Employment share in Service Sector by South Asian countries (%)**

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|
| Afghanistan | 27.1 | 27.7 | 28.2 | 28.2 | 28.5 | 28.5 |
| Pakistan | 44.7 | 44 | 44.1 | 43.8 | 43.4 | 42.8 |
| Sri Lanka | 45.3 | 46.8 | 47.3 | 45 | 45.3 | 46.1 |
| Bangladesh | 35.7 | 36.5 | 37.1 | 37.7 | 38.5 | 39.4 |
| Nepal | 15.1 | 15.4 | 15.7 | 16 | 16.2 | 16.4 |
| India | 27.8 | 28.1 | 28.6 | 29.3 | 29.8 | 30.6 |
| Bhutan | 30.6 | 29.1 | 32.7 | 32.5 | 32.4 | 32.8 |
| Maldives | 68.2 | 67.7 | 68.6 | 68.9 | 68.8 | 69.2 |

Source: International Labour Organization (ILO)

ILO has further projected how the services sector employment is going to emerge in South Asian countries. Table-5 provides such projections.

**Table-5**

**International Labour Organization modelled estimates for next 5 years**

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| Afghanistan | 28.5 | 28.6 | 28.8 | 29 | 29.3 |
| Pakistan | 42.1 | 41.5 | 41 | 40.3 | 39.7 |
| Sri Lanka | 46.7 | 47.2 | 47.7 | 48.2 | 48.7 |

| | | | | | |
|---|---|---|---|---|---|
| Bangladesh | 40.3 | 41.1 | 42.0 | 42.8 | 43.7 |
| Nepal | 16.5 | 16.7 | 16.9 | 17 | 17.2 |
| India | 31.2 | 31.9 | 32.6 | 33.4 | 34.1 |
| Bhutan | 33.7 | 35 | 36.7 | 37.6 | 37.8 |
| Maldives | 69.5 | 69.9 | 70.3 | 70.6 | 70.9 |

Source:
http://www.ilo.org/ilostat/faces/oracle/webcenter/portalapp/pagehierarchy/Page3.jspx?MBI_ID=33&_adf.ctrl-state=3s0dkl5bm_79&_afrLoop=2248771752942144&_afrWindowMode=0&_afrWindowId=3s0dkl5bm_76#!

**Section-III**

**Analysis of Services Integration in South Asia**

At the Sixteenth SAARC Summit, the SAARC Agreement on Trade in Services (SATIS) was signed in 2010. It is framed on the guidelines of GATS and the purpose is to engage member countries in progressive liberalization of services. The general guidelines call for countries to make initial offers which make substantial sectoral and modal improvements over their existing WTO commitment in services.

Member countries believe this initiative would open up new vistas of trade cooperation and further deepen the integration of the regional economies. Member countries called for an early conclusion of negotiations on the schedules of specific commitments under the Agreement. The Agreement has been ratified by all Member States and has entered into force on 29 November 2012.

After Afghanistan becoming a member of the WTO in 2016, it has shown interest in the functioning of SATIS. Till end of 2015 eleven Meetings of the Expert Group on SATIS have been held. The Eleventh Meeting of the Expert Group held in Islamabad on 5 July 2015 observed that only Afghanistan, Bangladesh, Bhutan, India and Nepal are ready with their Final Offer Lists and are ready for tabling of these Final Offers. Subsequently, Maldives and Sri Lanka also informed that they are also ready with their Final Offer Lists under SATIS.

The share of services exports of Afghanistan in world services exports for 2011–2013 was recorded very low at 0.07 per cent and by the Afghanistan was not a member of the WTO. So its market in services was that of a restricted one. Afghanistan is new to services trade, especially services exports and hence recorded such low share. Bangladesh is also low in exporting services and registered a small increase in its share from 0.05 per cent in 2002–2004 to 0.07 per cent in 2011–2013. Bhutan emerged as the smallest exporter of services among SAARC countries with just 0.002 per cent share in world services exports for 2011–2013. India, on the other hand, emerged as the largest exporter of services among all the SAARC countries. India managed to almost increase its share of services exports in world services exports by three times. For the period 2002–2004 India's share was 1.40 per cent which increased to 3.22 per cent in 2011–2013. Maldives, Nepal and Sri Lanka were the other three countries that recorded very low share of services exports in world services exports. For the period 2011–2013, Maldives, Nepal and Sri Lanka recorded a share of 0.05 per cent, 0.02 per cent and 0.09 per cent, respectively. Pakistan emerged as the second largest exporter of services after India in the entire SAARC group. Even though Pakistan stood second as the exporter but its share was less at 0.14 per cent for 2002–2004 and 0.12 per cent in 2011–2013. The combined share of SAARC of its services exports in world services exports revealed that SAARC was able to almost grow three times from 2002–2004 to 2011–2013. For the period 2002–2004, the share of SAARC was 1.71 per cent and for 2011–2013 it was recorded at 3.63 per cent. Table-6 provides percentage share of services exports of SAARC countries. It is clear that India is the major contributor of services exports in SAARC group. Indications are that India will create further market space for its services in the world market and try to strengthen its position as global exporter of services.

**Table-6**

**Share of services exports of SAARC countries in World Services exports**

| Countries | 2002-2004 | 2005-2007 | 2008-2010 | 2011-2013 |
|---|---|---|---|---|
| Afghanistan | – | – | – | 0.07 |
| Bangladesh | 0.05 | 0.05 | 0.06 | 0.07 |
| Bhutan | 0.001 | 0.002 | 0.002 | 0.002 |
| India | 1.40 | 2.33 | 2.79 | 3.22 |
| Maldives | 0.02 | 0.02 | 0.04 | 0.05 |
| Nepal | 0.02 | 0.01 | 0.02 | 0.02 |

| | | | | |
|---|---|---|---|---|
| Pakistan | 0.14 | 0.12 | 0.13 | 0.12 |
| Sri Lanka | 0.07 | 0.06 | 0.06 | 0.09 |
| SAARC | 1.71 | 2.59 | 3.13 | 3.63 |

Source: UNCTADSTAT (2015), United Nations Conference on Trade and Development Statistics.

Sectors that have potential and experienced considerable growth are construction and engineering services, business services, financial, education, transport and tourism. These services are common across request lists indicating commonality of interest in these services. India's requests are the most extensive, with separate lists for least developed country (LDC) and non-LDC members of South Asian Association for Regional Cooperation (SAARC) and computer and related services and professional services being the sectors of most interest. The offers across member countries are, however, quite limited in both scope and depth (Pandey, 2012).

**Section IV**

**Regulatory and other Business Environment Related Challenges in South Asia**

Member countries of South Asia have been engaged in opening up and deregulation of their service sectors. This should in principle allow them to commit substantive market access in services and to bind in their existing levels of market access under integration arrangements. Table 5 explains the extent of FDI liberalization across services sectors that member countries of South Asia have undertaken.

**Table-7**

**Foreign Investment Regime in Services Sectors of South Asia**

| Countries | Telecommunication | Banking | Life insurance | Accounting | transportation | Tourism | Education |
|---|---|---|---|---|---|---|---|
| Afghanistan | 100 | 100 | 100 | 100 | 92 | 100 | 100 |
| Banglades | 100 | 100 | 100 | 100 | 100 | 100 | 100 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **h** | | | | | | | |
| **Bhutan** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **India** | **74** | **74** | **26** | **100** | **75** | **100** | **100** |
| **Maldives** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Nepal** | **100** | **100** | **100** | **51** | **67** | **100** | **100** |
| **Pakistan** | **100** | **49** | **100** | **100** | **92** | **100** | **100** |
| **Sri Lanka** | **100** | **100** | **100** | **100** | **52** | **100** | **100** |

Source: World Bank, Investing Across Sectors, 2015

A large number of services in South Asia have been permitted with 100 per cent Foreign Direct Investment (FDI) participation, but such policy only reflects border level liberalization. A firm may enter the host country's market but may not be able to provide deeper market access and competition as it will face constraints in terms of operation. For instance, if 100 percent FDI participation in tourism sector is allowed, then the tour operator will not have the 100 per cent facility. In that case, segments in the tourism sector remain restricted. Similarly, in case of waste management and water supply where 100 per cent FDI participation is permitted in a country like India, waste management may have been privatized but water distribution is still government controlled or SOE controlled.[9] Market related conditions especially SOEs driven and certain sectors which are extremely government controlled such as airports, electricity, ports will tend to dominate certain services and will undermine the market access granted through FDI liberalization. To substantiate further, foreign capital participation is allowed in several sectors in Bangladesh, but investments in the services sector may not enjoy benefits in the form of repatriation of profits as permitted in manufacturing. Many logistics and key service-providing sectors of supply chain such as airports, road transport, ports, electricity transmission and distribution are dominated by public sector enterprises and operate under monopolistic market structure tend to impede entry and operations of foreign investors. India is a good example of this case and restrictions on foreign equity ownership are greater than many South Asian nations and BRICS countries.[10] India is quite poor in terms of FDI liberalized indicators among the South Asian countries, at the same time it is the dominant player in services, hence expected to

[9] Delhi Jal (Water) Board is Government body in New Delhi, India and governed under typical government directives.

[10] http://iab.worldbank.org/~/media/FPDKM/IAB/Documents/Overview-IAB.pdf accessed on august 5 2017

provide momentum to the services liberalization and growth. In India, there is restriction in freight transport and other services such as insurance (26%), media (63%) and publishing.[11]

Pakistan has also considerable restrictions in providing foreign equity participation such as media (37%) and financial services (83%). It observes restrictive FDI ceilings and minimum investment requirements. Similar restrictions are also visible in Sri Lanka in media (40%) and transportation (52%). In Nepal restrictions are in accounting (51%) and transportation (67%).

These are essentially behind –the-border constraints or challenges that undermine market access and perfect competition. From that above analysis, it is evident that there is a big scope to develop a pro-business and pro-competitive environment which would make liberalization of services smooth and easy.

All these constraints or challenges relating to behind-the-borders are proving to be real impediments in regional integration of services. They are largely captured in the initiative of 'Ease of Doing Business Report' launched by World Bank. They are worked out in the Report in the form of 'Doing Business indicators.' These indicators may not be quite appropriate in terms of measuring the services, but definitely narrate the difficult and stringent regulatory and business environment prevalent in the region to foster regional services liberalization.

**Table-8**

**Doing Business Indicator Rankings for the South Asian Countries, 2017**

| Economy | Ease of doing Business rank | Starting a business | Dealing with construction permits | Getting electricity | Registering property | Getting credit | Protecting investors | Paying taxes | Trading across borders | Enforcing contracts |
|---|---|---|---|---|---|---|---|---|---|---|
| Afghanistan | 183 | 42 | 186 | 159 | 186 | 101 | 189 | 163 | 175 | 180 |

[11] World Bank, Investing Across Sectors, 2015, at http://iab.worldbank.org/Data/FDI-2012-Data, accessed on August 06, 2017.

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Bangladesh | 176 | 122 | 138 | 187 | 185 | 157 | 70 | 151 | 173 | 189 |
| Bhutan | 73 | 94 | 97 | 54 | 51 | 82 | 114 | 19 | 26 | 47 |
| India | 130 | 155 | 185 | 26 | 138 | 44 | 13 | 172 | 143 | 172 |
| Pakistan | 144 | 141 | 150 | 170 | 169 | 82 | 27 | 156 | 172 | 157 |
| Maldives | 135 | 65 | 62 | 145 | 177 | 133 | 123 | 134 | 147 | 105 |
| Sri Lanka | 110 | 74 | 88 | 86 | 155 | 118 | 42 | 158 | 90 | 163 |

Source: World Bank, Doing Business Indicators, 2017.

South Asian countries rank quite low across various business environment indicators. These indicators suggest that considerable infrastructural and regulatory constraints exist in terms of access to electricity, payment of taxes, enforcement contracts, protection of investors and bankruptcy procedures. Even if market access is provided through ‘offer and request’ to foreign investors by relaxing foreign equity ownership restrictions, regulatory and infrastructural factors would limit the actual extent of market entry and create operational constraints for the investors, both foreign and domestic. These regulatory problems further restrict intraregional FDI in south Asian region. Most of them are low level economies and in the presence of such regulatory constraints, they appear to have lost the spirit and possibility of attracting FDI. India a major outward source of FDI finds itself in an uncomfortable position as India and Pakistan between themselves do not experience much of cross-border investment. This so-called non-permit of cross-border investment may be due to security reasons. However consistent efforts are being made to seek foreign investment from either country. India has taken many steps in this regard.[12]

[12] “The government of India has reviewed the policy… and decided to permit a citizen of Pakistan or an entity incorporated in Pakistan to make investments in India,” said a statement from the ministry. A ban on investments in defence, space and atomic energy will remain and all propositions must be notified to the Indian government. The decision to accept foreign direct investment from Pakistan was taken in April this year when the trade ministers of the nuclear-armed South Asian rivals met in New Delhi. They also discussed ways to ease visa curbs on business travel and the possibility of allowing banks from both countries to open cross-border branches. Pakistan said that Indian government’s decision to allow Pakistan’s direct foreign investment in India was “a positive step”. At https://tribune.com.pk/story/415916/india-formally-allows-foreign-investment-from-pakistan/, accessed on September 21, 2017

But looking at the current situation it is felt that such constraints hardly pave any way in South Asia to experience any intraregional FDI flows in services. These barriers are a big hurdle in making the region attractive for any investors. If one considers tourism as a sector, it has immense potential in South Asia to generate enough business opportunities among nations. It's a sector which is currently well sought after as many economies in South Asia are doing better in terms of their economic growth and national income and are willing to spend their income on tourism.

Besides, tourism is a sector which has much commonality of interest and affinity among South Asian countries due to language, culture, history, religion and geography. All this helps to make tourism sector a rallying point for regional cooperation. There are several segments such as sports and recreational tourism, adventure and eco-tourism, religious and cultural tourism, and medical tourism, where the scope for intraregional tourism and its potential spinoff benefits in terms of infrastructure development and employment creation are well recognized. Tourism services have in fact been identified as a priority area for cooperation and integration in SAARC. Well-known private sector companies such as the Taj Hotels and Resorts Group, the Leela Group and the Oberoi Group, are present in the hotel segment of other SAARC countries, through equity ownership, management contracts and joint ventures. Some of the smaller economies of the region have also shown interest in investing in the larger countries.

Since tourism sector has a great potential, a concerted and unified approach is essential to reap such benefits. This sector needs a specific governmental intervention such as a governmental web portal can be created to showcase the cultural heritage of entire South Asia where respective government can provide their key inputs to make South Asia a touristic hub. This can be handled with the help and initiative of a body like SAARC Secretariat. Ministry of culture and tourism of all member countries need to travel that extra mile in organizing South Asian cultural festivals turn wise in different countries. Concerned country whoever is hosting that year the festival becomes the nodal agency for contact and publicity. Adequate advertisement and publicity must be carried out to draw tourist from Europe, North America, South East Asia and Non-resident Indians.

However, there exist several constraints that hamper prospects of integration in the sector including poor connectivity and infrastructure, restrictive bilateral air services, visa regime.

Absence of an integrated transport infrastructure in South Asia in terms of cross-border road and rail links, limited air connectivity between major cities and lack of transit facilities within the region are a major constraint to developing intraregional tourism. Some of the countries have no connection to even their capitals and other major cities. Air Services Agreements (ASA) in South Asia is also quite poor and below the expected level of connectivity. ASA among south Asian countries is quite restrictive compared to the outside world. An efficient, faster and affordable connectivity which is a precondition for any regional economic integration is seriously lacking in South Asia.

Another important constraint is the existing visa regime. Many South Asian countries have cumbersome visa processing environment. Requirements for business travel, employment, medical and educational purposes are not facilitated that is required under the aegis of globalization and liberalization. Multiple-entry visas are typically not provided. Visas tend to be given for a very short duration, usually 15–30 days on a single-entry basis. The documentation requirements between India and Pakistan are particularly onerous. Visa fees between some of the countries tend to be quite steep. Some of the countries do not have provision for transit visas, which affect connectivity to the rest of the region through India, which is the best connected. There are no separate counters for SAARC travelers to facilitate intra-regional business or leisure travel, unlike in ASEAN countries.

Infrastructural facility poses a challenge to promotion of intraregional tourism. Prominent among them are inadequate airline-related infrastructure and capacity, problems of land transport due to security concerns, lack of integrated tourism policies, high transactions costs arising from multiple taxes and regulations.

Like tourism, health service is another vital sector having huge potential for regional cooperation. SAARC social charter prescribes sharing of knowledge and expertise in the region such as eradication of Small Pox, TB, Malaria, Encephalitis, management and treatment, sharing of capacity of manufacture for drugs and adopting regional on drugs and pharmaceutical products (SAARC Secretariat, 2009). Many initiatives have been taken by private sector to forge regional cooperation in this sector. India has taken several initiatives by investing in establishment of hospitals in member countries. They have entered into joint venture with a local partner or through management contracts.

India's Apollo hospital opened its first overseas venture in Sri Lanka where it set up a 500 bed super specialty medical services. This healthcare facility serves as a hub for providing health care to a number of countries such as Seychelles, Indonesia, etc. (The Hindu, June 08, 2002). It also manages another hospital in Dhaka. Indians are scouting for entering into Joint Venture(JV) with Bangladesh as cultural similarities and geographical proximity are a big motivating factor for Indians to invest in health care in Bangladesh. Many patients from Bhutan and Nepal come to India for medical treatment. Pakistan is another potential source market for patients seeking high-end treatments at a reasonable cost. On the whole, India is a prominent player in health services in South Asia. Less than one fifth of all international tourists to India are from the SAARC countries. Yet, more than half of all foreigners who visit India for medical treatments are from SAARC countries. The statistics imply that while India gains a lot more from rest of the world in the tourism sector, it gains significantly from SAARC countries in the healthcare sector (Brookings India, 2014).

India may have emerged a hot destination for medical health care, but plethora of constraints exists in turning India to a real market for medical tourism. The existing visa norms in India are arduous and impose tremendous pressure, particularly on people from neighbouring countries. The medical visa has more restrictions and limited validity. This drives patients to go for destinations such as Thailand and Singapore, which have friendlier visa regimes.

Evidence of telemedicine between major hospital in India and SAARC countries exist. They are carried out in the areas of teleconsultation and tele diagnostic services. But these services are still very limited as they would require high-end training and specialized equipment. Acceptance of telemedicine is still very negligible.

Notwithstanding governmental initiatives, private sector drive in this health care sector is well recognized. Though investment is coming into certain country like Nepal in this sector, yet it was mired by political instability on and off. Telemedicine is constrained by high cost of equipment, maintenance of data security and bandwidth. India also lacks highly trained professionals in telemedicine. Constraint in this sector is also there because of mobility issue. Professional are not able to move from India to Sri Lanka to provide such services because there is a local union in Sri Lanka who prevents staffs entering from India to Sri Lanka. In its initial stages, Apollo had planned to employ locally and only import professionals that are in short supply in Sri Lanka.

Due to the shortage of specialized consultants in Sri Lanka, Apollo has to employ doctors from India or other Sri Lankan doctors settled abroad. However, the Sri Lanka Medical Council (SLMC) imposes conditions that make entry of doctors difficult. Indian doctors cannot practice in Sri Lanka till they are registered with the Medical Council in Sri Lanka. Initially, when Apollo was set up, Indian doctors could apply for registration before entering Sri Lanka (Taneja, et al 2004).

## Section V

## Political Economy Challenges towards Regional Integration

In 2000s and decade after, the economic policy pursued by South Asian nations didn't reflect full-blown open globalized policy. Rather it suggested how the region is still following an element of protectionism as a medium to integrate the region. Every nation in South Asian in spite of regional commonality in the field of culture and rich heritage is in conflict with the other nation such as India-Pakistan rivalry, India -Sri Lanka ethnic disturbance, Pakistan-Afghanistan terrorist angle, etc. As a result, openness to trade and policies followed by nations are somewhat not mutually sought after or complementary. Current perception is that India is a dominant player in overall trading activities of the region and there is a significant dependence on India as far as magnitude of trade in the region is concerned. For instance, smaller states like Nepal and Bangladesh chose to import from suppliers outside the region even at higher costs and showed considerable reluctance to accept Indian investments (Kher, 2012). Sri Lanka imports railway coaches from Romania when better quality coaches are available at a much cheaper price in India (in the state of Tamil Nadu). This dimension of course largely refers to trade in goods.

Trade in services in South Asia hasn't attracted much world-wide attention. That is because many of the South Asian economies are not so advanced economies to notice growth in services. For economy to witness growth in services has to be technology intensive and extremely technology-skilled which is missing among South Asian members barring India. Secondly, many member countries have not really carried out significant reforms to liberalize their services sectors. Services sector to a great extent is half baked. In totality, lack of advancement in regional services integration was due to unwillingness and inability of individual member countries to carry forward systemic and progressive liberalization required under the WTO regime.

Mode 4 one of the key modes for conducting trade in services among the member countries looked quite promising. But vested interests and industry lobby seem to have played quite a negative role in realizing its true potential. For example, in health sector there has been resistance from local professionals to entry of foreign service providers under cross-border investment projects in South Asia. Apollo's ventures in Dhaka and Colombo witnessed resistance from local health professionals to staffing by Indian doctors and health administrators (Chanda, 2015).[13]

Indian investors have faced problems on several fronts. Managing partnership with local stakeholders, problems with mobility of health care professionals, restrictive investment regulation and domestic lobbies in the host country are prominent constraints Indian investors encountered in Colombo and Dhaka which severely impeded regional investments. Apollo's venture has faced difficulty in these places over staffing. It has become difficult in locating professionals from India to these places because of severe resistance from local staffs and local doctors. Ethnic crisis between India and Sri Lanka has also played a negative role in allowing Indian doctors easily acceptable to Sri Lankans. In Sri Lanka, it has taken as much as six months for the local medical council to register an Indian doctor. Similarly, Indian investors found Nepal to be another unsafe destination because of its political instability, workers' indiscipline and unionization.

Many people from Afghanistan have also come to India to have better access to health care. Most of them used to visit Pakistan for such purposes now have started coming to India. It's not just the insecurity in the surrounding regions and in Pakistan that these Afghans are coming to India rather they are more attracted at the quality of Indian healthcare, which is much cheaper

[13] In Apollo Hospitals-First-World Health Care at Emerging –Market Prices, Harvard Business School, January 15 2005, President K Padmanabhan, stated, "When we started, we found that Sri Lankan patients were unwilling to accept Sri Lankan doctors. Since this was Apollo from India, why were there doctors from Sri Lanka? So we had to send a large number of doctors. We could not get qualified nurses either. Six were from Sri Lanka, 250 from India. Then came the interpretation services for Sinhalese patients. Initially, we found much more acceptance with Muslims who were relatively well off and were used to coming to India for treatment. The Tamils were comfortable. But after five to six months we got a good share of Sinhalese patients. They might have been frightened that the hospital was too expensive, with its granite floors, the large driveway and the helipad on the roof. Now we're seen more or less as a local hospital and a premium health care provider."

than in western countries. "We are hearing more and more from the applicants that even the Pakistani doctors are recommending them to go to India for treatment."[14]

In the context of India-Pakistan relations, investments has been constrained by ban on and off imposed by Indian government and also due to a strict visa policy. Entry to Pakistan for the health professionals from India has been difficult though the scope for India professionals is plenty.

Similarly in the field of telemedicine in Bangladesh where there is a huge demand for this exists because about 80% of people in Bangladesh live in rural areas and where proper health facilities are not available. Indian telemedicine providers interested in providing services to such locals in Bangladesh have also faced opposition from the local radiology fraternity due to concerns over displacement of local professionals.

India is keen to engage in serious trade in services with Sri Lanka. However, significance resistance form Sri Lankan side is noticeable as many Sri Lankan professionals are fearing that they would be displaced once Indian professionals are allowed to enter, work or provide such services. India’s proposal to sign a CEPA is not well received in Sri Lankan establishment.[15]

Move to dislodge the negotiations relating to CEPA largely stemmed from the fact that large number of professional services lobby in Sri Lanka, don’t want to see such agreement being signed with India. Fear of competition is the main hurdle that is forcing Sri Lankan to defer CEPA. Such concerns are further fueled by the fact that many professional-services firms in the region are proprietary in nature and are characterized by many small players who fear competition. The fear over Mode 4 is also due to lack of regulatory capacity to ensure legality of entry, enforce quality and standards, monitor adherence to codes of conduct, prevent overstay and address security considerations (Chanda, 2015).

A notable feature of the South Asian market is that there is a large volume of migrant workers crisscrossing the region who provide services in different countries of the region. Cross-border migration in South Asian countries is ‘illegal’, ‘undocumented’ or ‘clandestine’ in nature,

[14] “Shunning Pakistan, Afghans rush to India for quality healthcare”, Deccan Herald 29 May 2011.

[15] Sri Lankan Prime Minister Ranil Wickremesinghe reiterated his government’s position that it would not sign the Comprehensive Economic Partnership Agreement (CEPA) with India but it would enter into a pact on economic and technology collaboration with the neighbour, in The Hindu December 09, 2015, New Delhi, India.

however this is a serious issue which needs some urgent action because such services activities are going unnoticed and unreported. The national agencies in South Asian countries do not have proper estimates related to cross-border migration, which can range from simple border crossings to providing various activities (Wickramasekara, 2011). Cross-border clandestine migration leads to exploitation (including sexual exploitation) and the violation of migrants' human rights. Although it is one of the agenda items discussed regularly by regional platforms such as SAARC, no comprehensive policy has been formulated by South Asian countries to curb illegal and undocumented cross-border migration. There is an urgent need to recognize and regulate cross-border illegal/undocumented migration, but close cultural, social, historical and economic ties between countries in the region should also be taken into consideration before formulating any law (Srivastava & Pandey, 2017).

India and Nepal also wanted to explore opportunities in transport services. There was high level talk at the governmental level specially at the secretary level in 2004-05 to sign an agreement to see how such transport facilities can be expanded between these two countries so that the final objective of trade facilitation espoused by the WTO can be attained. Till now such initiative hasn't been formalized. Apparently, there is some fear from Nepal transporter's lobby that their businesses are going to be wiped out once they allow such kind of services to take place between these two countries. This in a way possibly explains the uncompetitiveness of transport sector of Nepal. Similar fears are also found in the area of audiovisual sector as the Indian entertainment industry will throw Nepali film industry out of business. Such kind of one-sided and unfounded fear and apprehension are unreasonable and only harming the true potential of opportunity. Such concerns are on rise because there has been a failure on the part of the government to disseminate and convince the stakeholders of entertainment industry in Nepal.

In fact, some of the South Asian member countries are Least Developed Countries(LDCs). Being relatively at underdeveloped stage they are not able to create institutions and mechanism to create a considered public opinion and explain the issues to the business stakeholders about the real benefits and losses embedded in such liberalization. Absence of such explanation and consultation are adding to the fear and protecting the vested interests of certain domestic business lobbies.

True potential of services sector in South Asia is yet to be realized. This is possible only when respective governments take the lead in implementing a unified strategy realistically carved out for a region like South Asia. A large part of it depends on the willingness of the political establishments sitting in each country coupled with a proactive role played by the private sector.

## Section VI

## Conclusion and Suggestions

It is evident that South Asia as a region has not made enough progress towards its services integration. It is mostly bilateral initiative that has been carried out at intergovernmental and private sector levels. Intergovernmental initiatives have been narrow in scope without any long-term strategy. There is a need to look at how a cohesive long-term planning and strategy can be adopted to carry forward the goal of South Asian integration of services.

Strained political relations among some SAARC nations adversely affect their economies and SAARC integration. Complex political problem and ethnic crisis have played a major role in loosening of unity in the region. Besides some of the initiative taken didn’t have proper planning and regulation to make them achievable such as transport services of Nepal.

It is important to develop a services integration approach which is doable and achievable. Deliverables may be well defined with proper timeline. This timeline needs to be carefully chosen for the sectors which can deliver within such timeframe. Some services which is less sensitive and requires less regulation may be put on fast track. Several underlying constraints need to be addressed such as movement of professionals, improvement in business climate, liberalization of investment procedure and proper establishment of institutional requirements.

In the field of investment there is no proper procedure or transparency as a result, even if there is an investment proposal that gets adequately delayed. To provide regular and updated information on the regulatory framework, governing investment in different services through government websites and reports is important. Information on bidding processes and award of contracts must be notified to clients in a systematic manner. It would also be useful to consider a regional investment treaty and double taxation treaties among the countries to remove the existing barriers to investment in the region. A common investment framework would help in developing investment policies and associated regulations in a coordinated manner and enable harmonization of rules and procedures, and mutual recognition of standards and technical specifications in services within the region.

India has emerged as a viable centre for medical tourism. This needs to be supplemented by bringing in liberal and transparent visa policy. Improved relations with Pakistan will result in a greater medical tourist flow into India, and patients in Pakistan can have greater access to quality healthcare. This require a strong formal understanding between the governments of SAARC countries on the movement of patients and their escorts. This is fundamental to improving access to quality healthcare within the SAARC region and fulfilling the unexplored potential of medical tourism within the Indian economy. It is observed that insurance and cross border payments sometimes become a hindrance for promotion of medical tourism. Most Indian insurers do not cover international patients' treatment within India, and several do not cover cross-border treatments. International insurers are prohibitively expensive even for the upwardly mobile population in the SAARC region. A solution to this can emerge through creation of a regional insurance scheme which can cover treatment within the region. There are useful lessons from the experience of similar regional blocs such as Common Market of the South (MERCOSUR) in Latin America, which was created to promote regional payment arrangements including medical treatments across borders.

Besides medical tourism, visa procedures and requirements for selected categories of persons need to be streamlined. Mobility relating to investment and professional exchange could be given priority by simplifying visa procedures and expediting visa approvals for categories such as business visitors, information and communication technologies(ICTs)professionals, academicians visiting other countries for transfer of knowledge, accounting professionals, and also other professionals against bonafide approved or prospective investment projects, institutional tie-ups, and exchange arrangements.

A well-defined realistic strategy may be adopted which provides scope for quick integration of services such as IT infrastructure and tourism. IT infrastructure is a prerequisite for any government to adopt as it is the real driver for market integration. Tourism is another potential sector in South Asia where fewer regulatory complexities can arise. Many countries have Buddhism as their religion, hence it will be easy to integrate such services by creating a Buddhist tourism circuit.

As most South Asian countries have potentiality to trade in the services sector, SAFTA is a viable forum to expand its scope. Political will and economic desirability should be there to bring this potential sector under the SAFTA framework sooner as there is a perception that South Asian region has more services complementarities than goods. The region remains largely unexplored. There has been an extensive coverage on India's services sector. The potentialities and the gains that India has achieved in global trade services is already known. These dimensions are very much familiar to the people who have been consistently working on this sector. What is perhaps significant is that there are large areas of similarities and complementarities among SAARC members in relation to services trade which can be mutually exploited to enhance their growth. However, the region by and large is a sensitive one and to make a decisive beginning in any cluster of services needs a strong political will and proper institutional and regulatory mechanisms. As is largely understood now that trade and investment are complementary in nature, therefore it would be an appropriate initiative to include investment and services as key areas of future discussions in any SAARC forum. Services sector in Pakistan is growing and contributing to its GDP and employment. Being part of the South Asia, it continues to experience similar kind of buoyancy in services trade, but unable to accelerate its momentum. That's because the push that needs to come from the government or the state seems to be lacking. Pakistan is yet to create mechanism which can provide some statistics that is essential while formulating policies for prioritized sectors. Pakistan needs to follow the policies of other SAARC countries closely to realize how the sector can be a viable mechanism to register high growth.

Opportunities are huge in Sri Lanka to promote trade in services. However, it is observed that to convert these opportunities into real gains, Sri Lanka has to undertake domestic reforms. A significant aspect of Sri Lankan economy is that many firms can deliver relevant services abroad but they are faced with serious barriers. The non-tariff barriers they face are curtailing their future growth. It becomes the duty of Sri Lankan government to take its industry's concerns into appropriate forums to abolish or minimize such obstacles.

Bangladesh is a major Asian LDC. As current world economy is characterized by services sector, Bangladesh has managed to capitalize on these opportunities better than its African counterparts. There is a significant scope for Bangladesh to promote its mode 4 as skilled and

English-speaking professionals can deliver services at cheaper prices to world economy. Nepal's challenge lies in prioritizing its sectors from which it should benefit maximum through the liberalization of trade in services. It's still a nascent economy trying to integrate itself with the world economy. Its slow process of integration is due to its long drawn political volatility and instability. There is a massive movement of Nepalese from the mainland to other neighbouring countries like India where menial services are provided by these people. Such services however don't get reflected anywhere in Nepal's economy or statistics. How to quantify this service is a big challenge for Nepal.

Tourism though has been mainstay of Maldives economy, yet the island has opened up its various sectors by taking unilateral liberalization. Import of foreign labour is an important issue in the policy formulation of Maldives. How this issue of foreign labour has impacted the aspect of domestic employment in Maldives is an important area of study.

Bhutan, a lower income country in South Asian region whose strength lies also in tourism. The economy is closely aligned with India by its strong trade and monetary links. Its late start to modernization and subsequently through a stable and careful government approach, the economy still remains in a considerably underdeveloped state. 85 per cent of the population derives a living from agriculture and other activities in the traditional sector. Today in relation to services trade, scope for financial and IT related services exist which need to be systematically developed through domestic reforms and international help.

In this entire drive towards integration of services in South Asia respective governments need to be sensitive towards establishing a common doable strategy in which private sector and the individual government have to play a key role. The role of private sector in investing in the individual economy will be the single most important factor. Building production network, creating an effective supply chain in the region, pushing for removal of non-tariff barriers and building productive capacity are considered essential objectives of the private sector in the run up to South Asian integration. The Government will be the key player in developing confidence building measures among its counterparts in the region. To a great extent, India needs to take the lead by formulating and negotiating a strategy that is in principle acceptable to member countries. Tackling of border issues and rise of terrorism, water sharing, hydropower projects, visa and transit are the immediate concerns that need to be handled at the highest political level so that sense of hostility and mistrust can be reduced to a great extent. That is the first step towards this integration.

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