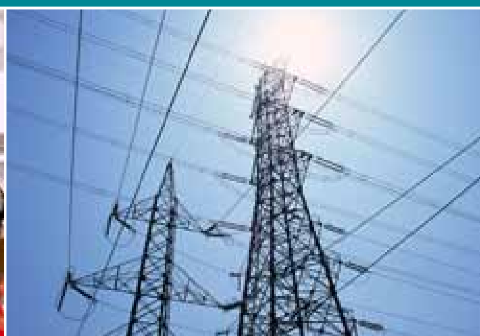
Prospects for a services agreement in South Asia:

Trade, investment and development issues

United Nations Development Programme

POVERTY REDUCTION



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Resilient nations.

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Foreword

The services sector has been a key driver of economic growth in South Asia since 1990 and accounts for nearly 50 percent of the region's gross domestic product. The sector contributes significantly to output, employment, trade and investment flows across countries in the region. Recognizing the need to leverage the dynamism of the services sector to reinvigorate regional cooperation efforts in South Asia, the South Asia Free Trade Agreement (SAFTA) Ministerial Council directed the drafting of a SAARC Agreement on Trade in Services (SATIS). The SAARC Preferential Trading Arrangement (SAPTA) took effect only in December 1995 and was replaced by the SAFTA in January 2006.The Declaration of the 14th SAARC Summit in 2008 called upon member countries to work towards an early conclusion of a SATIS. It also highlighted the need for regional cooperation on a variety of policy issues to complement efforts at promoting integration of services in the region.

This report argues that there are good reasons to include services under SAFTA, not least because of the potential all round gains that the sector could bring to the member countries. As a result of the performance of and policy trends relating to services in South Asia over the past decade or so, conditions are more conducive to reaching a regional agreement on services, perhaps even more so than on goods. The single most important condition is the dynamism of this sector and its growing contribution to overall economic activity. The recent focus on services by countries in the region is reflected in their common goal of upgrading their services infrastructure. They have also identified the sector as a key driver for trade and investment liberalization and for regulatory reforms, thereby further enhancing its potential. This convergence of interests and approaches possibly contributes to a greater willingness to negotiate regional liberalization and intraregional collaboration in services. Geographic proximity as well as cultural and linguistic ties among the South Asian countries constitute an added reason, considering how relationship-based marketing, social networks and cross-border movements of service providers play an important role in driving services-related trade and investment flows. In recent years, some South Asian countries have entered into extraregional economic cooperation, trade and investment agreements or other partnership agreements that extend beyond goods and services. This underscores the growing recognition of the importance of services to these economies and of the potential offered by more broad-based regional and bilateral arrangements to boost their services sectors.

The report pulls together national and regional information on services, at the aggregate level and in individual service sectors, to obtain a consolidated picture of recent trends in liberalization in South Asia wherever data was available. These trends are expected to have a significant bearing on regional integration, growth and development objectives in the region. The larger objective is to provide an evidence-based analysis for the ongoing services negotiations and for providing concrete policy options to further a more inclusive process of regional integration across the region.

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Abbreviations and acronyms

ADB	Asian Development Bank
APT	Asia-Pacific Telecommunity
ASEAN	Association of Southeast Asian Nations
BBIN-GQ	Bangladesh-Bhutan-India-Nepal Growth Quadrilateral Initiative
BIMSTEC	Bay of Bengal Initiative for Multi-Sectoral and Technical Economic Cooperation
BOOT	build, own, operate, transfer
CAGR	compound annual growth rate
CECA	Comprehensive Economic Cooperation Agreement
EBA	Everything But Arms (initiative of the European Union)
EU	European Union
EPA	Economic Partnership Agreement
FDI	foreign direct investment
FIPB	Foreign Investment Promotion Bureau
FTA	free trade agreement/area
GATS	General Agreement on Trade in Services
GDP	gross domestic product
ICT	information and communications technology
ILO	International Labour Organization
IPP	independent power producer
IT	information technology
ITU	International Telecommunications Union
kWh	kilowatt-hour
LDC	least developed country
MDG	Millennium Development Goal
MW	megawatt
PTA	Preferential Trading Arrangement
R&D	research and development
RCA	revealed comparative advantage
SAARC	South Asian Association for Regional Cooperation
SAFAS	SAARC Framework Agreement on Trade in Services
SAFTA	South Asian Free Trade Agreement
SAPTA	SAARC Preferential Trading Arrangement
SASEC	South Asia Subregional Economic Cooperation
SATIS	SAARC Agreement on Trade in Services
SATRC	South Asian Telecommunications Regulators' Council
SEB	State Electricity Board
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific
UNWTO	United Nations World Tourism Organization
USAID	United States Agency for International Development
WTTC	World Travel and Tourism Council
WTO	World Trade Organization

Executive summary

Overview of services in South Asia

Services have been a key driver of overall economic growth in South Asia since the 1990s. The rate of growth of this sector has consistently outperformed that of gross domestic product (GDP). Its share in the region's GDP increased from 36 percent to nearly 50 percent over the 1980-2006 period. The regional picture also holds at the individual country level. However, the data reveal that the level of employment in services has not been commensurate with the sector's contribution to output and overall growth. This could undermine national efforts to realize some of the Millennium Development Goals relating to poverty alleviation and human development.

Subsectoral trends reflect the importance of a variety of factors in shaping the performance of services in South Asia. These include deregulation and policy reforms in areas such as telecommunications and financial services, the role of rising incomes and domestic demand in driving growth in segments such as trade and distribution services, and a lack of diversification in the smaller economies. Non-commercial services, such as public adminis-tration, government services, and community, social and personal services, contribute significantly to services growth in some countries of the region. Trade data indicate not only an increase in intraregional trade in services, but also the growing participation of South Asia in world trade in services. This reflects the region's growing competitiveness and thus the sector's considerable trade potential. However, there are considerable asymmetries within the region in terms of magnitude, pattern, growth and potential, and the regional trends are in large part driven by India's performance.

All four modes of service delivery under the General Agreement on Trade in Services (GATS) of the World Trade Organization (WTO) could help further regional integration of the sector. The study shows that the potential for complementarities and congruence of interests and policy approaches with regard to services is likely to be much greater than for goods. The analysis suggests that the dynamics of rising incomes and consumption, and the liberalization and reform measures undertaken in services, as well as the role of the public sector in services delivery, could influence the scope for intraregional trade, investment and collaboration in this sector. It also reveals that any attempts at regional integration of services would involve asymmetries in trade potential and interests, and that the dominant player, India, would need to play an important role in driving the intraregional integration process forward.

The report discusses only four services, but there may well be other services of potential interest in the South Asian context. This deliberate narrowing of scope is driven by the broader objective of providing an in-depth and detailed account of the kinds of issues and concerns associated with a representative set of services which cut across different service clusters, namely infrastructural, commercial and social services, rather than trying to provide a wide ranging but cursory account of all possible services that may be of interest in the South Asian context.

Telecommunication services

Telecommunication services show particular promise for regional integration for a number of reasons, including their high growth rates and rising contribution to GDP, the opening up of the sector to foreign ownership in several of the South Asian countries, the potential for pooling of resources for investment and regulatory capacity-building, and the common goal of all the countries in this region to augment investment in telecoms infrastructure and establish regulatory frameworks in order to improve efficiency, affordability and access. Such commonalities of policy trends and objectives, combined with large resource gaps and investment requirements, create scope for both collaborative and commercial relations in telecom services within the region.

The chapter describes the various intergovernmental and industry initiatives in telecom services within South Asia. It focuses on issues such as enhancing regional connectivity, promoting information-sharing and human resource development, establishing community information centres, strengthening and harmonizing regulations and standards, and developing common software tools to enhance content availability on the Internet. However, progress in addressing these issues has been limited due to institutional and regulatory challenges. In particular, integration is constrained by a lack of institutional transparency, anti-competitive practices, a tendency to prefer incumbents, lack of independence of the telecom regulatory authorities, political interference and lobbying by incumbents, regulatory uncertainties, policy gaps arising from differences between policies on paper and those in practice, the continued monopoly of certain segments, problems of infrastructure – in particular spectrum allocation – and high surcharges and levies on telecom operators due to some countries' strong dependence on this sector for revenues.

Some steps are outlined for promoting regional integration in telecom services. These include accelerating discussions on regulatory cooperation and implementing specific initiatives such as the harmonization of mobile numbers for number portability in the region, reducing intraregional call rates – which could bring wider benefits to many other sectors – and improving the investment climate, as well as streamlining investment approval and clearance procedures within the region in general in order to encourage more intraregional investments in this sector.

Energy services

The growth in demand for energy has consistently outpaced growth of production, making energy security and improved competitiveness and efficiency in this sector a priority for all governments in the region. In the past decade or more, almost all the South Asian countries have embarked on reforms of their power sector, including liberalization and promotion of private participation and foreign investment for the development of energy infrastructure, renewable energy and energy-efficient technologies, expanding the use of indigenous resources, diversifying energy supply sources, and establishment of regulatory frameworks. However, more reforms are needed to overcome poor governance, inefficiencies, lack of transparency and accountability, anti-competitive cross-subsidization policies, reversals of tariff reductions, and populist resistance to pro-competitive and commercially justified measures. Given the strategic and sensitive nature of energy services, none of the South Asian countries that are members of the WTO have scheduled this sector under GATS, reflecting their unwillingness and unpreparedness to conduct negotiations and undertake commitments with regard to this sector multilaterally, despite undertaking reforms unilaterally.

The chapter outlines various intergovernmental and private sector initiatives in this sector, including under South Asian Association for Regional Cooperation (SAARC), including bilateral projects to promote trade in hydropower and electricity, subregional programmes supported by various multilateral and bilateral development agencies, and discussions on pipelines and trade in natural gas. However, a variety of political, institutional, infrastructural and geographic factors have made it difficult to harmonize regulations, agree on common policies and standards, and develop trading mechanisms for the sector. Thus, despite complementarities in energy resource endowments and consumption needs, the potential for regional energy cooperation remains largely unexploited.

Several proposals are made for deepening regional integration of the energy sector, including the setting up of an apex regional body consisting of State-owned enterprises and leading private sector companies engaged in energy exploration, production and sales in the region, promoting dialogue among energy companies, undertaking joint initiatives to develop a common understanding of energy-related issues and to bring together the technical knowledge and expertise available in the region, and the adoption of a regional energy charter to facilitate regional harmonization of energy policies. The chapter also suggests the need for a broad-based regional forum comprising a wide range of stakeholders, given the cross-cutting nature of issues associated with energy development and trade. The "energy ring" concept and a phased approach to integration are proposed, first by trading in spare capacity, then undertaking short- and long-term power exchange, followed by joint construction of power stations and associated plurilateral trade in power. The importance of supporting reforms at the national level to make the investment climate more conducive to attracting and retaining private investors is also stressed.

Tourism services

South Asia accounts for a negligible share of international tourist arrivals and receipts, though its popularity as a tourist destination is growing. In recent years, government policies have aimed at promoting the sector by relieving infrastructure and transport-related bottlenecks, while also ensuring environmental protection and cultural promotion. However, there are differences of approach and objectives, as well as in the models of tourism development.

Tourism is among the most liberalized services in South Asia. Private participation by foreign and domestic investors is permitted in all the countries, though the extent of entry and associated conditions vary. Almost all the countries have scheduled this sector under GATS, although these commitments tend to be less liberal than their existing policies. Given the region's focus on infrastructure development and investment in the tourism sector, the relatively liberal policy environment and the commonalities across the countries in terms of language, culture, history, religion and geography, tourism is perhaps one of the most promising areas for regional integration in South Asia. An area of interest in SAARC since the 1980s, it has been identified as a priority sector for intergovernmental cooperation and deeper regional integration. In addition, the private sector in some of the South Asian countries has evinced considerable interest in investing in this sector, particularly in the hotels segment. However, little progress has been made and the potential for regional tourism remains largely unrealized. This is because key challenges, such as improving air connectivity, streamlining visa formalities and identification of specific joint tourism promotion projects, have received little attention at the regional level.

The chapter proposes some steps for fostering regional cooperation in tourism. These include lowering travel costs between the countries; improving transport connectivity, especially air links; improving visa procedures and provisions for intraregional travel; streamlining the tax structure in the tourism industry; joint marketing and development of tourism projects around selected themes such as religion, heritage, nature and geography; and sharing of best practices within the region. The need to undertake initiatives at the subregional level is also highlighted.

Health services

The South Asian countries, for the most part, fare very poorly on key human development indicators. They are among the lowest ranked countries in terms of availability of physical and social infrastructure in the health sector and also in terms of basic health indicators such as mortality rates. The poor health indicators are in part a reflection of the low priority given to health care by most of the governments of the region. Nonetheless, fairly liberal health policies have resulted in the growth of private players in health-care delivery and private sector participation through cross-border investments, particularly in the hospitals segment. This segment has been opened to 100 percent foreign participation in most of the countries, and the operating terms and conditions are also very liberal. GATS commitments in this sector are limited mainly to hospital services, and they are conditional on meeting various social and other obligations.

Thus there are considerable opportunities for commercial ventures and collaboration in health care – a potential well recognized by SAARC. The SAARC Social Charter contains various provisions pertaining to health-related objectives, and it calls for sharing information and capacity-building and for a coordinated approach to health-related issues. However, a variety of infrastructural, human resource, regulatory, perception-related, logistical and cultural barriers continue to hinder the full realization of these intraregional opportunities.

For promoting regional integration in health services, the report proposes four aspects that need to be targeted regionally: medical tourism, cross-border investments, capacity-building and regulatory cooperation. It recommends facilitating cross-border investments, particularly in hospitals and, potentially, in telemedicine centres; facilitating regional mobility of patients; instituting mechanisms to make the region more attractive as a destination for medical tourism, both within and beyond the region; and initiating joint efforts in research, training and capacity-building through institutional tie-ups. It also suggests the need for intergovernmental dialogue for capacity-building, joint research and development (R&D), promotion of information and communications technologies (ICTs) for health, and regulatory cooperation with regard to mutual recognition of qualifications, standards and accreditation of medical establishments.

Key findings from the sector analyses

The analyses of trends, intraregional initiatives and constraints in the services sector reflected in this report indicate that the potential for gains from the integration of services in South Asia arises from an interesting mix of asymmetries, complementarities and commonalities across the countries. Asymmetries and complementarities in size, levels of development, technical and institutional capacities, private sector enterprises, and financial and human resources create scope for resource flows between the different countries to leverage these differences or to address existing gaps. At the same time, common objectives and interests arising from infrastructural, income and regulatory conditions in the countries create scope for cooperation and for increased trade and investment ties in various services to address the common goals of physical and social infrastructural development, employment creation, universal service provision, equity and poverty alleviation.

However, the sector analyses also reveal that there has been virtually no progress in regional integration of services so far. Very few concrete programmes and projects have been undertaken. Cooperation has been limited mainly to bilateral arrangements, which have been narrow in scope and piecemeal in nature. Private sector initiatives have made comparatively more progress, especially in the less-regulated service activities, but even in these the extent of engagement has been limited. Nor have there been any significant governmental efforts to create a climate that is conducive to regional investment and trade flows.

The report identifies four mutually interdependent factors that influence the degree and pace of integration of services in South Asia: infrastructure gaps; the presence of a dynamic private sector; social, cultural and historical ties; and the institutional and human resource requirements of different countries in the region. It suggests that regional integration of health services could be best affected by greater mobility of production factors in the form of financial and human resource flows and the mobility of consumption factors in the form of consumer flows, along with greater intraregional investment.

Approach to regional integration of services and negotiating strategies

This report recommends a phased approach to integrating services in South Asia and a clear time table for deliverables over the medium and long terms. Certain services that involve fewer sensitivities or complex regulatory issues could be fast tracked and pilot projects initiated.

To boost intraregional investments, the report recommends a focus on administrative and procedural reforms, such as faster clearance and approval procedures, fast-track clearance for priority services and greater trans-parency of investment regulations. It also recommends the adoption of a regional investment treaty and a multilateral tax treaty, supported by national efforts to improve the overall business environment. In the context of intraregional mobility of persons, the report stresses the need to streamline visa procedures and requirements for select categories of persons within the region, such as investors in key services and special categories of service consumers and providers. Also needed are institutional and regulatory cooperation in specific services and on wider issues of investment, standards and mutual recognition. Equally important are regional discussions among a wide range of stakeholders to share information, exchange best practices, collect data, conduct joint feasibility and impact analysis studies, identify priority areas, develop soft skills and create regional templates for investment and immigration-related initiatives.

Regarding negotiating modalities, the report recommends that countries proceed with negotiations as long as there is a minimum core group of three or more member countries that are willing to discuss a sector or issue. The initial group of participants could then expand gradually, drawing on existing bilateral and plurilateral agreements. Likewise, there should be a progressive approach to scheduling, with initial scheduling being limited to services that have been identified as high priority or for fast track. The report also suggests that special and differential treatment be provided to the least developed countries in the region, allowing them longer implementation periods or a narrower coverage of sectors and subsectors in the scheduling process.

Political economy challenges to regional integration of services

None of the measures required to further regional integration in services can be delinked from the root problem of politics. There are two fundamental problems. The first has to do with political instability and fragility that characterize many of the SAARC member countries and which constrain their ability to implement reforms and make the requisite investments in social and physical infrastructure. This in turn limits the scope and depth of any liberalization efforts undertaken in a regional services agreement and the ability to engage in cooperation and relationship-building efforts with other countries in the region.

The second major problem is the structural and geopolitical asymmetry among the countries in South Asia. Although the large differences in endowments, economic size, trade baskets and strategic importance of the member countries create scope for complementarities that offer potential for trade and investment flows, they also pose challenges in terms of the distribution of the benefits from regional integration and create differences in the strategic interests of the members. Thus, any services agreement is bound to reflect these asymmetries. Intergovernmental cooperation alone will not be sufficient; parallel efforts among industry, civil society and academics through continual dialogue and institutional cooperation at various levels will also be essential for building confidence, removing distrust and developing the will to proceed with regional integration while balancing the interests of the individual member States.

Chapter 1

There has been a spurt of regional and bilateral integration efforts over the past decade and particularly since the establishment of the World Trade Organization (WTO) in 1995. According to the WTO, over 400 agreements – bilateral, intraregional and cross-regional – have been negotiated since 1995. Whether this phenomenon has been spurred by factors such as the slow pace of negotiations in the WTO or the sensitivities involved in making concessions on a most-favoured-nation (MFN) basis is debatable, as is the fact that strategizing of mutual interests is easier through regional and bilateral arrangements than through the multilateral trading system. There has also been much debate as to whether these arrangements are building blocks or stumbling blocks to multilateral trade liberalization and whether they may ultimately undermine the multilateral trading system.

Whatever the causes and consequences of such arrangements, it is clear that every region in the world, and almost every country in the world, is pursuing some kind of integration arrangement with its own economic, geopolitical and strategic interests in mind. The nomenclature has grown as rapidly as the range of agreements, including preferential trade agreements (PTAs), free trade agreements (FTAs), economic cooperation agreements (ECAs), economic partnership agreements (EPAs), trade and investment agreements (TIAs) and other variants of these, suggesting that these integration schemes have widely varying scopes and objectives. Some are narrow, focusing only on trade liberalization in goods; others are very broad, ranging beyond goods to cover services, investment, mobility of persons, intellectual property rights, scientific and technological cooperation, and other areas of collaboration. The extent of liberalization under these different arrangements also varies, from very shallow to far-reaching, deep integration.

1.1 Background and motivation

The member countries of the South Asian Association for Regional Cooperation (SAARC) – Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka (and more recently Afghanistan) – are no exception to these recent trends in regional integration efforts.[1] Nevertheless, the process of regional cooperation in SAARC has been relatively slow. SAARC was set up in 1985 to provide a forum for regional cooperation and to foster greater social and economic development. It took a decade for the grouping to shift its focus to trade promotion as a concrete means of achieving greater regional integration, starting with the signing of the SAARC Preferential Trading Arrangement (SAPTA) in April 1993 and its entry into force in December 1995. The aim of SAPTA was to pave the way for progressively deeper integration, moving from a preferential trade agreement to a free trade agreement

1 Throughout this report, South Asia and SAARC are used interchangeably, and both terms refer to the member countries of SAARC (excluding Afghanistan, which joined only in 2007, and the Islamic Republic of Iran, which some international agencies consider to be part of South Asia).

in the form of the South Asian Free Trade Agreement (SAFTA). This was to be followed by a customs union, a common market and ultimately an economic union. The signing of SAFTA in January 2004 and its entry into force in January 2006 signalled the first step towards deeper integration. Its goal was to achieve a fully operational regional FTA by 2013 for the developing country members of SAARC and by 2016 for the least developed country (LDC) members. Various subsequent SAARC summits discussed the idea of a South Asian Economic Union and the establishment of regional institutions and frameworks, but to date few, if any, concrete steps have been taken to push this process forward.

Many studies and experts have highlighted the failure of SAPTA, and later SAFTA, to promote greater intraregional cooperation. The share of intraregional trade in SAARC has increased only marginally, from 2.68 percent in 1990 to 4.85 percent in 2005, compared with the Association of Southeast Asian Nations (ASEAN), where the share increased from 19 to 28 percent over the same period. SAARC's intraregional trade also compares very poorly with that of regional groupings in other parts of the world as well.[2] Likewise, the limited data available on intraregional investment flows suggest that the SAARC member countries by and large are not important destinations or sources for foreign direct investment (FDI).[3] Intraregional trade and investment has failed to take off despite rapid economic growth in several of the SAARC member countries over the past decade. Unilateral trade and investment liberalization undertaken by SAARC members in recent years (representing a marked shift from an earlier protectionist orientation), and, significantly, the emergence of an important regional and global player – India – within the region, which could provide the much-needed impetus to regional integration efforts.

Studies on regional integration in South Asia point to a variety of factors that have hampered progress under SAARC. These include the strained bilateral political relations between India and Pakistan, security concerns, competing trade baskets, corruption, the poor state of transport and related services infrastructure and, most importantly, a lack of political will. In addition, factors specific to the architecture of the agreements under SAARC have played a role, such as the narrow coverage of the regional commitments, the limited trade interest and potential of the member countries in the products covered and the modalities of trade liberalization. Factors inherent to the region are also believed to have impeded progress, such as limited market size, lack of scale economies and similar trade structures. Thus, most studies tend to be pessimistic about the prospects for further integration through SAARC, concluding that the economic rationale for such a regional bloc is weak and that SAFTA can be beneficial only if it moves towards a fully-fledged FTA and promotes pan-Asian integration (ADB, 2008a).

However, such studies, based on quantitative and qualitative analyses, suffer from one basic limitation. They analyse the existing framework and scope of SAFTA and examine only

2 Asian Development Bank, Asia Regional Integration Centre Integration Indicators Database at: http://aric.adb.org/indicator.php (accessed 17 November 2008).

3 There are exceptions, such as FDI from India to some of the smaller SAARC countries.

the prevailing composition and pattern of trade flows, which is primarily dominated by traditional products such as textiles, leather and agricultural goods. It could be argued that the conclusions regarding the prospects for regional cooperation may be quite different if SAFTA were to extend the terms of its ambit and if its negotiating modalities were changed. The few studies that present a positive outlook for SAFTA generally argue for widening its scope, in particular to include services and cross-cutting areas, such as investment and movement of persons, in the negotiating agenda.

Successive SAARC summits have emphasized the need to implement SAFTA in letter and in spirit as a stepping stone to broader regional cooperation if progress is to be made and its full benefits realized. The 14th SAARC Summit Declaration is significant in that it specifically stated the need to integrate services into SAFTA and recognized that in order for SAFTA to realize its full potential, there had to be a collective vision for the region, embodying the free flow of goods, services and ideas. It called upon member countries to work towards an early conclusion of a SAARC Framework Agreement on Trade in Services (SAFAS). This was echoed in the subsequent 15th SAARC Summit Declaration in Colombo in August 2008, which stated, "Extending SAFTA to include services would considerably broaden its scope and impact and boost competitiveness in key emerging sectors such as banking, communications and aviation." That Summit further highlighted the need for regional cooperation on a variety of policy issues, including domestic regulations and regulatory frameworks, data and standards, to complement efforts at promoting services integration in the region. In March 2008, the SAFTA Ministerial Council directed the drafting of a SAFAS by the end of 2009 (though its completion was delayed). In April 2010, the SAARC Agreement on Trade in Services (SATIS) was signed by all the SAARC member countries.

Working groups on subregional economic cooperation have since been formed to examine issues relating to transport and tourism services and subsectors. The South Asian governments have also recommended specific areas for action, many of which have a bearing on services. These include improving mobility of persons, strength-ening communication and transport links, fostering intraregional trade and investments in the energy sector and implementing measures for trade facilitation. This extension of SAFTA to include services and investments is part of ongoing discussions to further regional cooperation, with proposals for an eventual South Asia Economic Union, though no concrete actions to this end have been taken so far.

Independently of these regional efforts, the member countries have also entered into some subregional initiatives for trade liberalization. One example is the Bangladesh–Bhutan–India–Nepal Growth Quadrilateral Initiative (BBIN–GQ) within the SAARC framework, which aims at promoting rapid economic development through identification and implementation of specific projects. Another is the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), which involves some SAARC member countries (Bangladesh, Bhutan, India, Nepal and Sri Lanka) along with some non-members (Myanmar and Thailand), and seeks to foster cooperation in a variety of areas.[4] There are also several bilateral trade agreements between various SAARC member countries, such as the Indo-Bhutan treaty on economic cooperation, the multiple treaties between India and Nepal (covering trade, transit and unauthorized trade), the Pakistan-Sri Lanka FTA and the Indo-Sri Lanka Free Trade Agreement, signed in 1998 and in effect since 2000. These agreements are more liberal and have been implemented much faster than those concluded under SAFTA.[5] Overall, South Asian countries are involved in 21 bilateral arrangements, indicating that bilateral efforts are being pursued concurrently with regional efforts.

These recent developments naturally raise questions about the potential role that could be filled by services in SAFTA. Is there a strong case to be made for including this sector in SAFTA? Can the expansion of SAFTA to services and investment provide the dynamism that has been lacking to date in South Asian integration? This report argues that there is a convincing case for extending SAFTA to include services due to the potential gains they offer member countries. Recent performance and policy trends in services in South Asia have made conditions conducive to a services agreement, perhaps even more so than for goods.

The single most important development is the dynamism exhibited by the services sector in South Asia and its growing importance in overall economic activity, including output, employment, trade and investment flows. The sector has experienced higher growth rates than other sectors in almost all the South Asian countries and also compared with growth rates of services in other parts of Asia and in other countries with comparable levels of development. Today, services constitute close to 50 percent or more of gross domestic product (GDP) in all the South Asian economies. The Asian Development Bank (ADB, 2008b) notes that the high GDP growth rates (of 7 percent or more) in several countries in the region and the overall improvement in the region's economic performance in recent years are directly related to the growth in services. The rise of services prior to sustained industrialization has in fact been a particular feature of the region, unlike in other parts of Asia (ibid.). The greater capacity of the SAARC countries to produce and trade in certain services, the availability of high-quality services and the role of new economic geography in driving tradability of certain services, creates opportunities for complementarities in trade and investment within the region (SATIN, 2008).

This potential is further enhanced by the recent focus on services as a priority sector for trade and investment liberalization and for regulatory reforms through SAARC as well as by the common goal of all the economies in this region to upgrade their services infrastructure. It indicates a certain convergence of interests and approach to the services

4 These areas are: trade and investment, technology, transport and communications, energy, tourism and fisheries.

5 For instance, compared with a negative list of 1,065 and 1,183 for Sri Lanka and Pakistan, respectively, under SAFTA, under the bilateral FTA between these two countries, the negative list contains only 697 and 540 items, respectively (Weerakoon, 2008).

sector and therefore, perhaps, a greater willingness to negotiate regional liberalization and intraregional collaboration in services. There is the added benefit of geographic proximity of the SAARC countries as well as their cultural and linguistic considering how, as relationship-based marketing, social networks and cross-border movement of service providers play an important role in driving trade and investment flows in services. In recent years, some South Asian countries have concluded extraregional economic cooperation, trade and investment agreements, or other partnership agreements, that extend beyond goods to services. This further highlights the growing recognition of the importance of services to these economies. Thus, on various grounds it can be argued that there is a rationale for extending SAFTA to include services.

However, there are many other issues that need to be addressed in the context of a South Asian services agreement. What should be the shape of such an agreement? Which segments and issues should be the priority areas for negotiations? What are the likely benefits to the countries involved? What challenges and sticky areas will the negotiations encounter and can they overcome them, given the political economy realities and resource and capacity constraints that characterize the region? To address such a wide range of questions, an in-depth analysis of the prospects for services integration in South Asia is clearly warranted. An understanding of these issues would not only help inform the ongoing negotiations under SAFTA but would also provide a much-needed stock-taking of the services sector in South Asia.

1.2 Outline and objectives

This report draws on national and regional information on services, at the aggregate level and for individual services, to provide a consolidated picture of recent trends and liberalization in South Asia. It can thus serve as a useful factual basis for the ongoing services negotiations under SAFTA and for future academic and policy work in this region. The report has four broad objectives. First, it seeks to highlight the role and performance of services within the region at the aggregate, regional level and use this as a basis for identifying those services and areas that offer the most promising prospects for regional integration. Second, it examines the status of liberalization and reforms in the services sector and current levels of regional engagement in services to provide an overview of the policy environment as well as existing opportunities and interests in the regional market. Third, it provides an overview of the multilateral and extraregional/bilateral commitments in services made by the SAFTA member countries, so far, and their positions on key issues as a basis for assessing their preparedness to commit under SAFTA. The fourth and final aim is to outline negotiating priorities in different services and on cross-cutting issues, based on the earlier analysis of opportunities and constraints, and to point out possible modalities for negotiation. In doing so, the report also touches upon the growth and development implications of using services as a means for furthering regional integration in South Asia.

The report is structured in line with these four objectives. Following this introduction, chapter II provides the rationale for services integration in South Asia by discussing trends in services' growth and its contribution to output, employment, trade and investment in each of the countries of the region. The subsequent chapters, III to VI, focus on a representative set of services, namely telecommunications, energy, tourism and health care, and address issues relating to infrastructure, commercial and social services. These chapters follow a similar pattern. They first provide an overview of the sector from a global and regional perspective and then examine trends in the sector in the individual countries. This is followed by a discussion of the status of regulatory reforms and liberalization in each of these services. They then take a look at the current status of intraregional trade and investment relations and cooperation initiatives in the selected services and their ramifications for alleviating poverty and addressing development goals in the region. Next, an overview of the commitments made in these sectors by the South Asian countries under the WTO and in the context of other regional and bilateral agreements highlights their preparedness for regional negotiations on services. Each of these chapters concludes with suggested measures for deepening integration in the service concerned.

Chapter VII draws upon the analysis in the preceding chapters to outline some negotiating priorities and modalities. It highlights the key drivers of services integration in South Asia and the main channels through which such integration could take place. The chapter suggests the need to adopt a gradual approach to negotiations on services under SAFTA, arguing that the proposed services framework agreement should first incorporate the most promising and least contentious services, where there is already recognition of potential and a demonstrated interest on the part of governments and the private sector. Thereafter, there should be a gradual inclusion of the more difficult and challenging services once the member countries have acquired greater institutional and regulatory capacity and achieved proven outcomes to facilitate the process. The nature of commitments that could be undertaken by individual member countries under SAFTA are outlined, as well as the approach on the cross-cutting issues of investment and movement of service providers. The report concludes by highlighting the complex political economy factors that characterize South Asia and pose the biggest challenge to any form of integration in the region. It also discusses the need to ensure an equitable distribution of benefits from a regional integration of services.

1.3 Scope and limitations of the study

As mentioned, Afghanistan has been excluded from the analysis even though it has recently become a member of SAARC, mainly because of the limited and poor quality of data available for that country and the political circumstances that make it difficult to compare Afghanistan with other countries in the region. The terms South Asia and SAARC are at times used interchangeably, but they always refer to the same countries.

The analysis mainly covers the period 1990 through 2007 or 2008. Thus, the impact of the 2008–2009 global economic and financial crises on output and trade in services in South Asia is not captured. This choice of period is primarily due to the availability of consistent and common time series data for that period for most of the required indicators across all the countries in this region. To some extent, this choice of years is also justified by the fact that the overall objective is to understand the general trends and characteristics of the growth of services in the region over a sufficiently long period – roughly the past two decades – which may otherwise be masked by aberrations in more recent data due to the effects of the recent global crisis on these economies and on the performance of their services sectors.

This report discusses only four services, but there may well be other services of potential interest in the South Asian context. This deliberate narrowing of scope is driven by the broader objective of providing an in-depth and detailed account of the kinds of issues and concerns associated with a *representative* set of services that cut across different service clusters (infrastructural, commercial and social services) rather than trying to provide a wide-ranging but cursory account of all possible services that may be of interest in the South Asian context. However, the discussion does focus indirectly on several other services, such as transport, information technology (IT), financial and research and development (R&D) services, among others, in terms of their bearing on opportunities and constraints in the selected services and in other areas. Thus the discussion clearly recognizes the interdependence of various services, touching upon these links wherever relevant.

The focus of the analysis in this report is largely intraregional. Many issues that may also be analysed from a national perspective have been approached differently. Once again, the links between national policies and preparedness for regional cooperation are highlighted, wherever relevant.

Finally, the data on services, especially at the intraregional and subsectoral levels, and a cross-section of these two, are extremely poor. This greatly constrains any empirical analysis and modelling that could otherwise have been attempted to quantitatively assess the potential for services integration in South Asia and the resulting trade and growth implications for the region.

Notwithstanding these limitations, this report should provide a better understanding of the prospects for and challenges to services integration in South Asia, its potential benefits and the implications of such integration for the realization of the broader goals of both SAFTA and the member countries. This report builds on existing work on South Asian integration through its coverage of the services sector. Unlike previous studies on South Asia, which take a national perspective or consider South Asia vis-à-vis the rest of the world, this report adopts an intraregional perspective on trade, investment and opportunities for collaboration. It argues that increased trade and investment flows in services within South Asia and with the rest of the world could help promote growth and diversification of this sector in South Asia and thereby contribute to realizing the region's poverty alleviation and human development objectives.

Chapter 2

There has been a general lack of dynamism and political will to push regional integration in South Asia. There has been, however, a degree of progress bilaterally between some member countries of SAARC, such as under the Indo-Sri Lanka FTA, which has been expanded more recently to a Comprehensive Economic Partnership Agreement (CEPA) that includes services and investment, or the FTA between Pakistan and Sri Lanka, or the bilateral agreements between India and Nepal and India and Bhutan. A major stumbling block for the region has been the strained relationship between the two largest members of SAARC – India and Pakistan, resulting in little, if any, progress in trade and investment between these two countries. This has dampened prospects for deeper integration. Added to these political dynamics are several characteristics inherent to this region, such as limited market size and purchasing power, the competing production and trade structures of member countries and inadequacies in physical infrastructure and governance, which have greatly constrained regional integration.

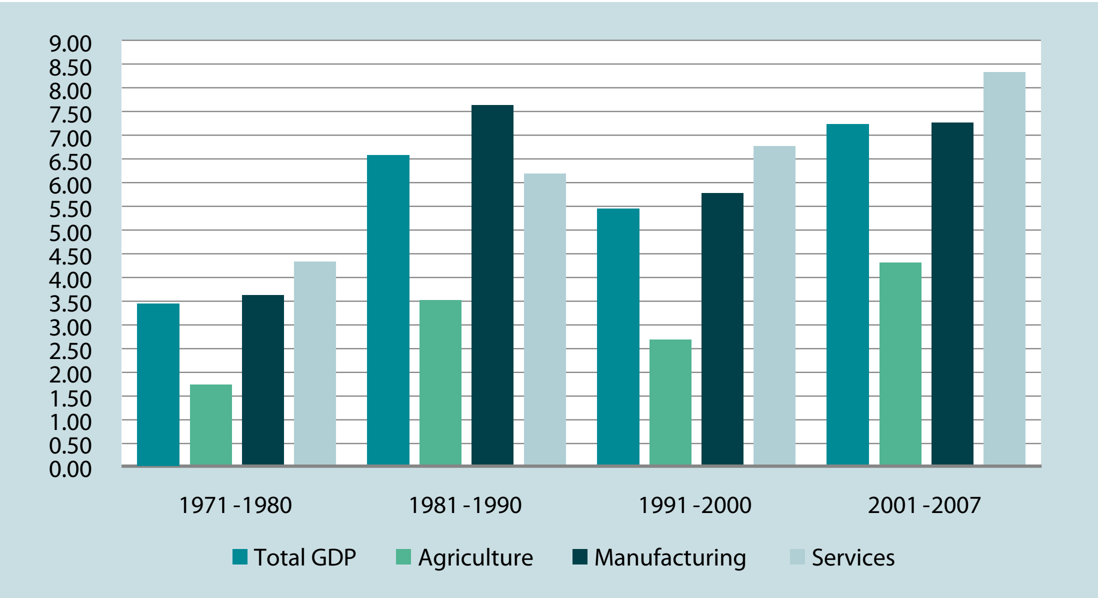
In this context, is an expansion of SAFTA to include services justified? Would the region's characteristics also pose problems for the integration of services, or does this sector in the SAARC countries have certain attributes that may enhance the prospects for its regional integration? A close examination of recent trends in the services sector and various performance indicators in the individual member countries of SAARC and the region as a whole seems to suggest that conditions may be more conducive for the integration of services than for goods and that the potential for complementarities and congruence of interests and policy approaches is also likely to be much greater for services than for goods.

2.1 Growth of services and their contribution to output

In South Asia, the services sector has clearly outperformed other sectors of the economy in terms of higher growth rates and less volatility. Its average annual growth rate has consistently increased, from slightly less than 4.5 percent in the 1970s to just over 6 percent in the 1980s to over 6.5 percent in the 1990s and a further 8.3 percent in the 2000–2007 period (figure 2.1). Although the manufacturing sector has also grown, its performance has been less steady than that of services, with the average annual growth rate rising to a little over 7 percent in the 1980s, then dropping to less than 6 percent in the 1990s and rising to around 6.5 percent in the current decade. Growth of the agricultural sector has not only been much lower but also highly volatile.

Services have been a key driver of overall economic growth in South Asia since the 1990s. It has consistently outperformed overall GDP growth, thus helping pull up overall economic growth in the region and compensating for volatility in other sectors.[6]

Figure 2.1: Trends in GDP and sector growth in South Asia (at constant 1991 prices), 1971–2007 (%)



Source: Author's calculations, based on United Nations statistical database, at: http://unstats.un.org/unsd/databases.htm (accessed on 31 October 2008).

The relatively superior performance of the services sector over the past two decades has also resulted in the sector's growing contribution to South Asia's GDP. Interestingly, this increased share has been directly at the expense of the agricultural sector. During the period 1980–2006, the share of agriculture in the region's GDP declined from 33 percent to around 18 percent and was almost exactly offset by services, whose share in GDP increased from 36 percent to nearly 50 percent (table 2.1). The contribution of the manufacturing sector increased only marginally over this period.

6 In the United Nations database (which is the source for the figures and tables used in this section), utilities (electricity,gas and water supply) is included in manufacturing and so shares do not change. The only place utilities are included under services is in the subsector table, but this table is from another source (national statistics), so there is no change in the relative shares because only the subsector table uses a different source and disaggregation. If utilities were to be considered as part of the services sector (as they are in the rest of this report), there would be changes in the relative shares of the manufacturing and services sectors in South Asia's GDP.

Table 2.1: Trends in South Asia's GDP and sector composition of GDP, 1980–2006

	1980	1990	1995	2000	2006
Total South Asian GDP (US$ million)	245,722	429,139	511,555	619,201	1,155,549
Agriculture (%)	33.0	26.9	24.3	21.9	18.3
Industry (%)	21.4	23.9	24.5	51.8	25.0
Services (%)	36.4	39.1	42.2	46.3	48.7

Source: Same as figure 2.1.

South Asia emerges as the region that, barring Southern Africa, has experienced the largest increase in the share of services in GDP over the past 15 years or so (table 2.2). Between 1990 and 2006, the share of services in South Asia's GDP increased by nearly 10 percent, compared with most other regions, where the increase was quite marginal and less consistent. In some regions, such as South America and South-East Asia, the sector even declined in importance. South Asia is also the only subregion in Asia where the contribution of the services sector increased during this period, and when compared with sub-Saharan Africa (a region consisting of countries with comparable levels of income), the contribution of services was several percentage points higher. Thus, South Asia stands out in terms of the services sector's growing role in value addition.

Table 2.2: Contribution of services to GDP in different regions, 1990–2006 (%)

Regions	1990	1995	2000	2006
World	61.4	65.0	67.2	67.0
Southern Africa	54.4	60.6	63.9	64.8
Sub-Saharan Africa	42.6	48.2	45.7	45.0
Caribbean	66.7	67.4	65.7	68.6
South America	56.7	58.1	58.4	53.4
East Asia	44.5	47.7	50.2	49.0
West Asia	47.5	49.8	46.5	45.6
South-East Asia (ASEAN)	48.2	48.9	48.0	46.9
South Asia, excl. Afghanistan	43.5	46.4	50.2	52.9
European Union (EU-27)	63.5	67.2	69.7	71.3
North America (Canada + USA)	68.2	69.5	70.0	71.5

Source: Same as figure 2.1.

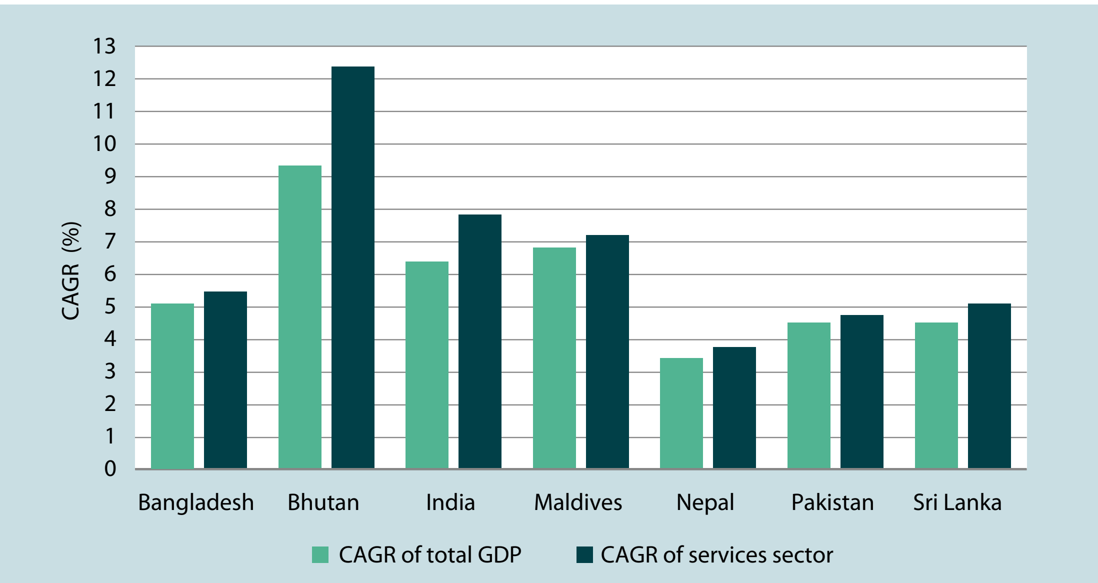
A comparison of South Asia's growth performance vis-à-vis the other regions also shows a relatively higher growth rate of services throughout the 1990s and in recent years. Among the developing regions, South Asia is the only region that has consistently exhibited a higher growth rate of services than of overall GDP, once again highlighting the importance of this sector in driving overall growth. In the 2001–2006 period, the services sector recorded a compound annual growth rate (CAGR) of 11.2 percent, compared with 10.2 percent for ASEAN and 6.9 percent for the world. However, the overall growth of the region and of its services sector closely mirror those of India, where the services sector experienced a CAGR of 11.6 percent, over the 2001–2006 period.[7] India has therefore been the main driver of the growth of services in South Asia (discussed in further detail later in this chapter).

The regional picture also holds at the individual country level. Although the sector's growth rate and how this compares with overall GDP growth varies across the seven countries, a broadly common pattern emerges (figure 2.2). Services have been growing faster than the rest of the economy in all these countries, thereby helping raise overall GDP growth and, over time, increasing their contribution to domestic output.

Owing to these trends, services today account for over half of the GDP of all the countries of South Asia, ranging from a low of about 53 percent in Nepal to over 80 percent in Maldives (table 2.3). The two smallest economies – Maldives and Bhutan – are highly dependent on services, reflecting the absence of a diversified economic base as well as their heavy dependence on a few services (as discussed later in this chapter).

There is, however, considerable asymmetry across the seven countries in terms of the relative size of their services sector and the sector's relative growth performance over the past two decades. The services sector in India is almost one thousand times larger than that of the smallest economy in South Asia, Maldives, and around eight times larger than that of the second-largest economy, Pakistan. This naturally reflects significant differences in the capacity, scope and potential of services across the countries in this region (table 2.4).

Figure 2.2: Growth rates of GDP and the services sector in SAARC countries, 1995–2007 (%)



Source: Same as figure 2.1.
Note: CAGR compound annual growth rate

7 Calculations based on the United Nations statistical database, at: http://unstats.un.org/unsd/databases.htm (accessed on 31 October 2008).

Table 2.3 Sector composition of GDP in South Asian countries, 1980–2007 (%)

Country		1980	1985	1990	1995	2000	2007
Bangladesh	Agriculture	40.70	38.28	34.65	30.06	29.52	24.49
	Manufacturing	13.66	12.95	14.35	17.81	18.00	20.88
	Services	45.64	48.77	51.00	52.13	52.48	54.62
Bhutan	Agriculture	55.16	51.19	39.03	31.07	22.30	16.81
	Manufacturing	3.12	5.51	18.82	19.67	13.05	12.71
	Services	41.72	43.30	42.15	49.26	64.65	70.48
India	Agriculture	37.15	33.80	30.20	25.93	21.99	17.83
	Manufacturing	17.88	19.72	21.87	23.26	22.11	21.57
	Services	44.98	46.47	47.93	50.81	55.90	60.60
Maldives	Agriculture	15.60	15.56	14.90	11.01	8.43	6.26
	Manufacturing	10.06	10.04	9.95	10.01	11.34	10.81
	Services	74.35	74.40	75.14	78.98	80.23	82.93
Nepal	Agriculture	47.54	48.78	47.21	39.58	36.80	37.05
	Manufacturing	4.85	6.48	6.94	9.70	10.47	9.94
	Services	47.61	44.74	45.86	50.72	52.73	53.01
Pakistan	Agriculture	30.11	26.57	24.89	25.38	24.26	20.90
	Manufacturing	18.79	20.59	22.81	22.40	22.93	25.39
	Services	51.10	52.84	52.30	52.23	52.81	53.71
Sri Lanka	Agriculture	30.64	28.71	25.33	21.98	18.76	15.59
	Manufacturing	20.59	20.59	23.72	26.39	28.95	28.80
	Services	48.77	50.70	50.94	51.63	52.29	55.61

Source: Same as figure 2.1.

Table 2.4: GDP and growth rates of the services sector in South Asian countries, 1980–2007

Country	Services sector GDP (US$ million at 1990 prices)				Compound annual growth rate of services (%)		
	1980	1990	2000	2007	1980–1990	1990–2000	2000–2007
Bangladesh	9,244.02	15,039.03	24,711.07	37,959.77	5.0	5.1	6.3
Bhutan	47.19	115.53	364.66	790.08	9.4	12.2	11.7
India	76,046.83	140,299.83	285,647.78	516,334.77	6.3	7.4	8.8
Maldives	48.75	147.18	335.95	551.29	11.7	8.6	7.3
Nepal	1,181.78	1,789.93	3,352.04	4,106.86	4.2	6.5	2.9
Pakistan	14,400.86	2,6731.11	39,841.91	62,070.44	6.4	4.1	6.5
Sri Lanka	1,944.10	3,247.38	5,711.42	8,376.43	5.3	5.8	5.6

Source: Same as figure 2.1.

The differences in growth performance are also quite revealing. While the comparatively higher growth rates of the services sectors in Bhutan and Maldives can be explained by their small base, they also reflect potential niches within this sector, as highlighted by the very high share of services in their GDP and by the disaggregated data (table 2.5). The fluctuating trends in their growth rates also reflect their high degree of dependence on specific segments of the services sector, which renders them vulnerable to trends in those segments. In contrast, India's services sector exhibits a consistently high growth rate, which has also increased over time, reflecting the growing capacity and potential of this sector. For the remaining countries, the services sector exhibits more moderate and at times fluctuating growth rates. These are also countries where the services sector has not been as significant in driving overall growth (figure 2.2). Nepal exhibits the weakest and most volatile growth performance over the given time period. These significant differences in performance are indicative of the potential complementarities in services within the region. This has a bearing on the scope for intraregional integration and collaboration in services and is indicative of likely asymmetries in the roles of different countries in this integration process and also in the resulting distribution of benefits.

An examination of the subsectoral trends in services output across the South Asian countries also highlights their differences in scope and potential. It indicates the segments where each of the countries has exhibited higher and relatively sustained growth and those on which some of the South Asian economies are highly dependent, thus revealing potential areas of complementarity and competition among the countries (table 2.5).[8] Table 2.5 shows that although the output of different service activities varies considerably among the countries of South Asia, there are also similarities. Those service activities that have registered growth rates of 8 percent are highlighted in the table to help identify similarities and differences in these trends across the countries. Notwithstanding differences in data classification and availability, the services such as construction, wholesale and retail trade and distribution, and communications and transport are the largest contributors to GDP (12–20 percent). One exception is Maldives, where tourism services dominate, accounting for over a third of GDP. Government services or public administration-related services, which are non-commercial in nature, are also significant contributors to GDP in several countries in the region, indicating that part of the growth of the sector is non-tradable in nature. In terms of growth trends, communication services have the highest growth rates (over 10 percent) in most of the countries, and financial services have also grown rapidly in many of them.

8 As the definition of services and subsector classifications vary from country to country on account of differences in the national accounts tabulation and data collection procedures, no pooling together of subsector composition of services GDP has been attempted for the region. The differences in statistics on services constrain the ability of researchers to synthesize available information in a standardized and statistically accurate manner. Recent initiatives under the aegis of SAARC to address this issue are therefore important.

Table 2.5: Output and compound annual growth rate of selected services in South Asian countries, 2001 and 2007 (%)

Bangladesh	Total services	2001	2007	5.42
		100.0	100.0	
1	Power and water supply	2.50	2.71	6.67
2	Construction	13.86	15.29	6.91
3	Wholesale and retail trade	23.12	23.65	5.76
4	Hotels and restaurants	1.10	1.16	6.23
5	Transport, storage and communications	16.16	17.04	6.22
6	Financial intermediaries	2.70	2.89	6.47
7	Real estate renting and business activities	14.94	12.76	3.08
8	Public administration and defence	4.39	4.59	6.10
9	Education	3.84	4.24	6.94
10	Health and social work	3.75	3.82	5.66
11	Community, social and personal services	13.65	11.84	3.30
Bhutan	**Total services**	**2000**	**2006**	**8.01**
		100.0	**100.0**	
1	Electricity, gas and water supply	13.80	15.86	10.17
2	Construction	16.90	15.17	6.35
3	Wholesale and retail trade	5.40	6.95	11.99
4	Hotels and restaurants	0.54	0.88	15.82
5	Transport, storage and communications	11.02	11.24	8.32
6	Financial, insurance and real estate			11.00
6.1	Finance and insurance	4.79	7.90	16.02
6.2	Real estate and dwellings	3.86	2.57	1.90
7	Community and social services	17.23	14.22	5.09
8	Public administration	12.55	10.69	5.56
9	Education and health	4.68	3.53	3.74
10	Private social, personal and recreational services	0.59	0.52	6.17
India	**Total services**	**2000–2001**	**2006–2007**	**8.05**
		100.0	**100.0**	
1	Electricity gas and water supply	4.16	3.31	4.51
2	Construction	9.93	11.24	9.66
3	Trade, hotels and restaurants			7.59
3.1	Trade	22.30	21.71	7.29
3.2	Hotels and restaurants	2.18	2.31	8.55
4	Transport, storage and communications			12.49

4.1	Railways	2.01	1.83	6.27
4.2	Transport by other means	8.13	8.23	7.89
4.3	Storage	0.14	0.10	2.24
4.4	Communications	3.30	7.67	21.46
5	Financing, insurance, real estate and business services			8.25
5.1	Banking and insurance	9.49	10.43	9.17
5.2	Real estate and ownership of dwellings	12.78	11.92	6.63
6	Community, social and personal services			5.18
6.1	Public administration and defence	11.42	8.80	3.77
6.2	Other services	14.16	12.45	5.74
Maldives	**Total services**	**2001**	**2007**	**6.91**
		100.0	**100.0**	
1	Electricity, gas and water supply	4.00	4.94	10.20
2	Construction	4.07	6.84	15.14
3	Wholesale and retail trade	5.10	4.27	4.24
4	Tourism	36.97	30.97	4.24
5	Transport and communications	16.50	20.94	10.61
6	Finance	3.89	3.32	4.50
7	Real estate	8.96	6.76	2.69
8	Business services	3.33	2.65	3.48
9	Government administration	14.71	17.61	9.69
10	Education, health and social services	2.47	1.71	1.46
Nepal	**Total services**	**2002–2003**	**2006–2007**	**13.54**
		100.0	**100.0**	
1	Electricity, gas and water supply	4.18	4.22	13.79
2	Construction	21.95	11.03	-1.07
3	Wholesale and retail trade	19.61	23.56	17.78
4	Hotels and restaurants	0.00	2.91	2.90
5	Transport, storage and communications	14.82	15.74	14.91
6	Financial intermediation	19.65	7.17	-7.20
7	Real estate renting and business	0.00	13.53	3.17
8	Public administration and defence	0.00	3.36	3.46
9	Education	0.00	10.63	2.73
10	Health and social work	0.00	2.44	4.02
11	Other community, social and personal services	19.79	5.40	-12.42

Pakistan	Total services	2000–2001	2007–2008	5.44
		100.0	100.0	
1	Electricity, gas and water supply	5.81	2.97	-3.07
2	Construction	4.24	4.64	6.64
3	Transport storage and communications	20.38	17.44	3.40
4	Wholesale and retail trade	31.35	29.70	4.72
5	Finance and insurance	5.43	11.28	15.53
6	Ownership of dwellings	5.53	4.60	3.03
7	Public administration and defence	10.87	11.32	5.97
8	Community, social and personal services	16.38	18.06	6.73
Sri Lanka	Total services	2002	2007	5.97
		100.0	100.0	
1	Electricity and water supply			
1.1	Electricity	2.76	3.16	8.40
1.2	Gas	0.35	0.30	3.11
1.3	Water	0.19	0.16	3.29
2	Construction	9.30	9.35	6.07
3	Wholesale and retail trade			
3.1	Import trade	13.87	13.28	5.20
3.2	Export trade	7.16	6.79	5.05
3.3	Domestic trade	15.01	15.63	6.69
4	Hotels and restaurants	0.32	0.60	17.70
5	Transport and communications			
5.1	Transport	14.21	15.80	7.86
5.2	Cargo handling – ports and civil aviation	0.95	0.97	6.21
5.3	Post and telecommunications	0.93	1.98	20.30
6	Banking, insurance and real estate	12.08	12.64	6.78
7	Ownership of dwellings	6.33	4.73	0.95
8	Government services	12.88	11.19	3.53
9	Private services	3.67	3.43	4.77

Source: National accounts statistics of all countries from their respective central bank documents, statistical bureaus and other official sources.

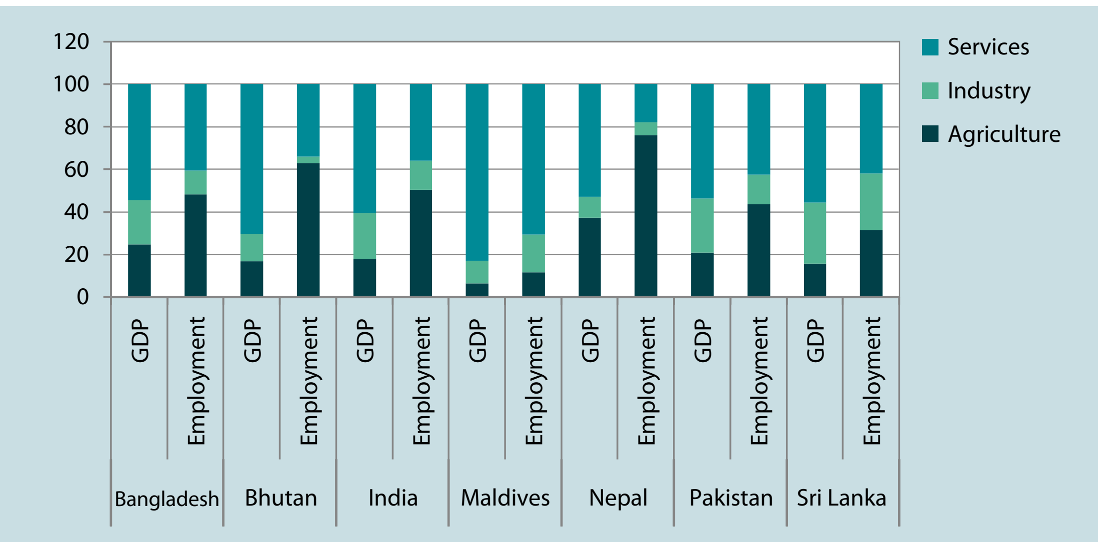
Various factors have influenced the performance of the services sector. They include deregulation and policy reforms in areas such as telecommunications and financial services, rising incomes and domestic demand (which have been driving growth in segments such as trade and distribution services) and a lack of diversification in the smaller economies like Maldives. The subsector composition also indicates the importance of non-commercial services, such as public administration, government services and community, social and personal services, in some of the countries. This reflects the role of domestically oriented provision and consumption in driving services growth in the region. From this it can be inferred that the general growth dynamics of rising incomes and consumption, liberalization and reform measures undertaken in services and the role of the public sector in services delivery are likely to play an important role in determining the scope for intraregional trade, investment and collaboration in this sector within South Asia.

From a development perspective, however, a concern is that modern, less labour-intensive services, such as business services, communications and banking, have outperformed traditional personal services, such as tourism and transport, in South Asia. While this trend reflects higher labour productivity growth in the modern services and is in line with trends seen in other parts of the world, it also implies that the contribution of services to development and poverty alleviation goals in South Asia is contingent on the extent to which this sector creates jobs and on the extent to which it provides inputs to and fosters productivity improvements in other sectors of these economies.

2.2 Contribution of services to employment

Official statistics suggest that the share of services in employment has increased in many of the countries in the last 20 years. But the rate of growth of employment in services has been far lower than the rate of growth of the contribution of services to GDP, by around 10 percent or more (figure 2.3), which poses challenges for job creation. The discrepancy is highest in Nepal where the services sector contributes to 53 percent of GDP but to only 18 percent of employment. Likewise in India, where the sector's contribution to GDP has risen the most consistently, reaching more than 60 percent, its contribution to employment remains much lower, at 35 percent. The only country where services account for a significant share of employment is Maldives, again reflecting the high dependence of this economy on certain service segments, such as tourism.

Figure 2.3: Contribution of services to GDP and employment in South Asian countries (%)



Source: Based on national accounts statistics and labour surveys (various years) of each country.

This divergence in the sector's contribution to GDP and employment has led some researchers and analysts to term the growth of the services sector as 'jobless growth' and to raise questions about the sustainability of services-led growth. It could be argued that there are problems with the availability of employment data (particularly with regard to informal and contractual activities, which cover many services sector transactions), thus making it difficult to fully capture the contribution of services to employment. However, the limited national accounts and labour survey data that are available suggest that in South Asia this sector has not been very employment-intensive. As some analysts have argued, the growth of services may in part reflect increased total factor productivity, as opposed to increased factor accumulation (see Banga and Goldar, 2004; Singh, 2006).

According to the International Labour Organization (ILO, 2008), although the agricultural sector still accounts for nearly half of total employment in South Asia, no other region of the world has experienced a faster decline in agricultural employment over the past decade. Between 1997 and 2007, there was a greater increase in employment in manufacturing (6.4 percent) than in services (4.9 percent), which contrasts with the manufacturing sector's much lower contribution to GDP when compared with services. Hence, as pointed out by the ILO, manufacturing has tended to be more employment-intensive than services. The ILO statistics further suggest that the services sector, despite its contribution to overall growth in the South Asian economies, has not adequately addressed the need to create long-term quality jobs in the region and help fulfil the United Nations' Millennium Development Goal (MDG) of achieving "full and productive employment and decent work for all, including women and young people". According to the ILO (2008), 77.2 percent of those employed remain vulnerable. Moreover, available data on gender disaggregation of employment in services in South Asian economies indicate that the share of males employed exceeds that of females. The ILO and several other studies also note that the share of informal and contract-based employment in services is high, raising concerns about the long-term sustainability of jobs in the services sector and the vulnerability of those employed in services.

For the most part, services output growth has exceeded employment growth, with employment elasticities below 1 (table 2.6). Futhermore, there has been a declining trend in this elasticity for several of the countries, corroborating the earlier discussion that services have not contributed commensurately to employment as compared with their output. Disaggregated information on certain services, including trade and distribution services, transport, communications and financial services, and community, personal and social services, shows their employment elasticities as mostly lower than 1; for most of the countries these have been declining. In contrast, employment elasticities in the informal economy show an overall upward trend and are higher than those in the formal economy.[9]

9 See: www.saarc-sec.org/data/pubs/rpp2005/pdfs/Chapter6.pdf (accessed on 21 April 2010).

Table 2.6: Employment elasticity trends in South Asian countries, by sector, 1980–2004

Country	Sector	Employment elasticity with respect to GDP		
		1980–1990	1990–2000	2000–2004
Bangladesh	Agriculture	0.16	0.84	2.02
	Manufacturing	-0.16	0.42	0.82
	Services	2.89	0.79	0.56
	All sectors	0.36	0.76	0.82
India	Agriculture	0.52	0.01	0.003
	Manufacturing	0.49	0.29	0.05
	Services	0.60	0.42	0.10
	All sectors	0.42	0.15	0.02
Maldives	Agriculture	n.a.	0.52	n.a.
	Manufacturing	n.a.	0.29	n.a.
	Services	n.a.	0.81	n.a.
	All sectors	n.a.	0.81	n.a.
Nepal	Agriculture	n.a.	n.a.	0.62
	Non-agriculture	n.a.	n.a.	1.51
	All sectors	n.a.	n.a.	0.76
Pakistan	Agriculture	0.49	0.45	0.20
	Manufacturing	0.33	0.27	1.07
	Services	0.46	0.94	1.26
	All sectors	0.39	0.60	0.71
Sri Lanka	Agriculture	0.1	-0.1	0.1
	Manufacturing	0.1	0.2	0.3
	Services	0.2	0.2	0.3
	All sectors	0.1	0.1	0.3

Source: www.saarc-sec.org/data/pubs/rpp2005/pdfs/Chapter6.pdf (accessed on 21 April 2010).
Note : n.a. = not available

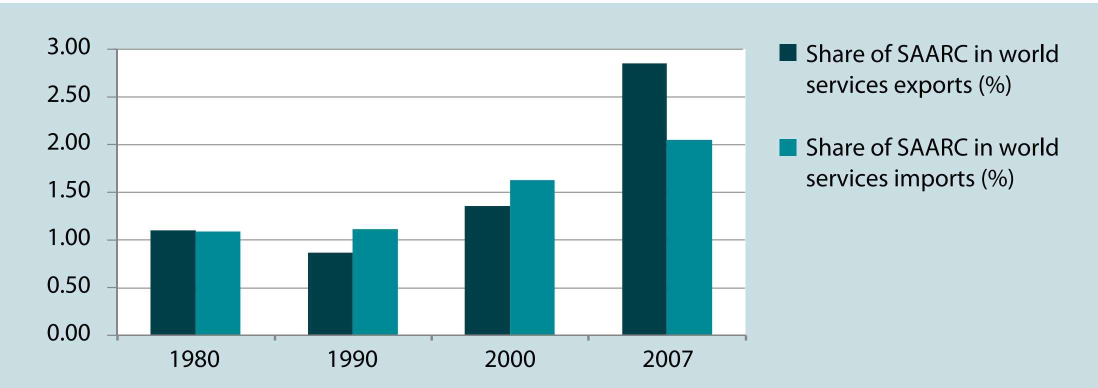
In sum, employment in services exhibits a mixed picture. While the sector has expanded in importance in terms of its contribution to growth and output, its role in creating gender-neutral and quality employment remains more limited. Thus, from an intraregional perspective, it would be important to assess the implications of intraregional trade, investment and collaborative efforts for the creation of quality, long-term, sustainable jobs in the services sector, and any regional integration efforts in services would need to be cognizant of this issue.

2.3 Services trade in South Asia

In addition to directly contributing to GDP, services also influence the performance of other sectors of the economy. Hence, poverty alleviation and sustained economic growth in the region are dependent on the services sector's performance, which could be considerably boosted by the opening up of these economies to regional and world markets through trade. Such integration could also help overcome constraints, such as their limited domestic markets and sluggish employment growth.

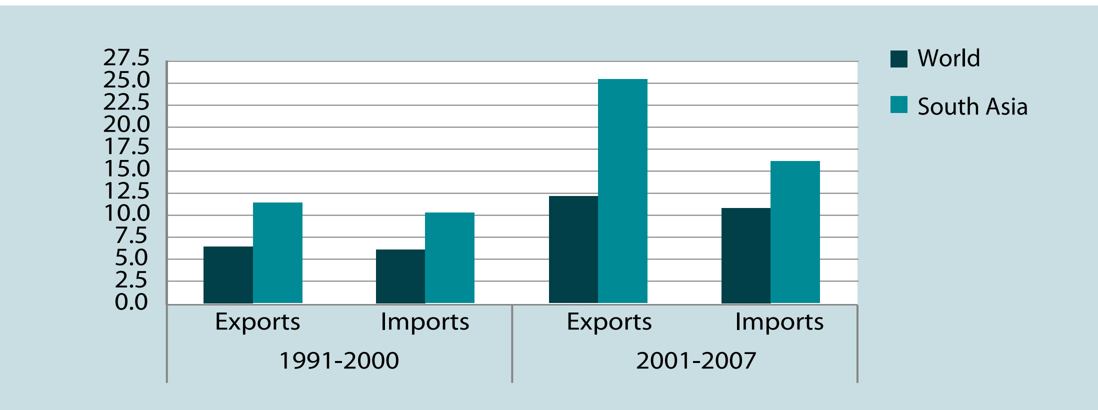
An examination of the data on trade in services for South Asia shows that the sector's growth has contributed not only to increased intraregional trade but also to the region's increased participation in world trade in services: from a share of around 1 percent to nearly 3 percent for exports of services and to around 2 percent of imports of services (figure 2.4). This trend suggests that the growth of services in South Asia has been trade-oriented, particularly with regard to exports. This orientation is also evident when comparing the growth in South Asia's trade in services with that of the world. The average annual rates of growth for South Asia's exports and imports of services exceeded those for the world during the periods 1991–2000 and 2000–2007 (figure 2.5). This difference is not only greater for South Asia's exports of services as opposed to its imports of services, but it has also increased in the more recent period compared with the 1990s. The services sector thus appears to have a higher export, as opposed to import, orientation in South Asia.

Figure 2.4: South Asia's participation in world trade in services, 1980–2007 (%)



Source: Author's calculations, based on *UNCTAD Handbook of Statistics 2008* (online database), at: http://stats.unctad.org/handbook/ReportFolders/ReportFolders.aspx (accessed on 24 October 2008).

Figure 2.5: Average annual growth rate of trade in services, South Asia and the world, 1991–2000 and 2001–2007 (%)



Source: Same as figure 2.4.

South Asia's exports of services grew steadily throughout the 1980s and 1990s, accelerating in the post-2000 period. Comparing this region's trade in services with that of other regions shows even more striking results – although all regions experienced a spurt in exports of services during the 2001–2007 period, most likely reflecting the general growth and dynamism of this sector around the world in recent years due to technological, regulatory and structural factors, South Asia registered the highest growth rate of services exports. It recorded a CAGR of 23.5 percent during this period, much higher than the CAGR of 11.8 percent for the world and other high-growth regions.[10]

A similar picture emerges when comparing the growth trends in South Asia's imports of services with those of other regions, although South Asia does not emerge as the region with the highest growth rates of imports, and the difference is less striking than in the case of its exports of services. There is again an acceleration of the growth of imports of services in the post-2000 period (as also in other regions). The CAGR for services imports in South Asia increased from 7.6 percent in the 1996–2000 period to 13.6 percent in the 2001–2007 period, which is greater than the CAGR of 2.9 percent and 10.3 percent, respectively, for world imports of services in the corresponding periods. South Asia has also shown the lowest volatility in growth of imports of services throughout the 1990s and recently.[11] Hence, although this region's services imports have grown less rapidly than its services exports, the trends are indicative of increasing liberalization of the sector and an overall tendency to its greater openness, comparable to that observed in other regions in recent years.

Given the growth of exports and imports of South Asia's services sector, the contribution of services to the region's total trade has increased over time, constituting around one fourth of all trade flows (merchandise plus services) in recent years. This is comparable to the contribution of services to overall trade in developed regions, such as the European Union. The only other developing region that shows a larger share of services in total trade is the Caribbean, at close to 30 percent, while the shares in all others regions are less than 20 percent.

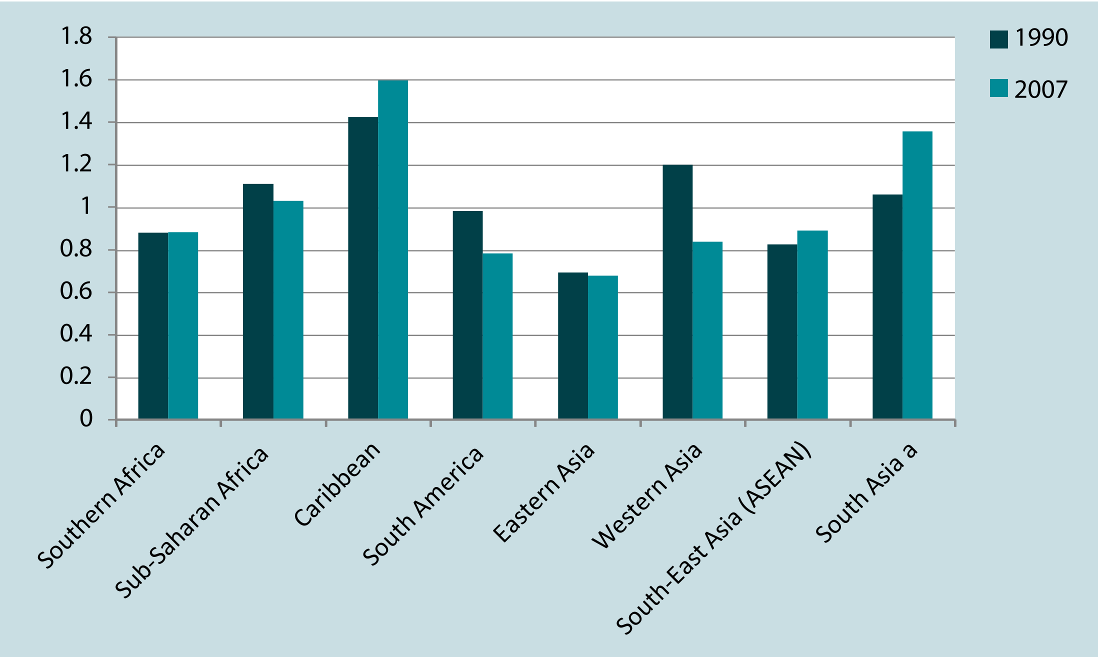
The aforementioned trends are indicative of South Asia's growing competitiveness in services, also evident in the trends in South Asia's revealed comparative advantage (RCA) indices for services exports compared with those of other regions over the past two decades (figure 2.6).[12] South Asia is one of only two developing-country regions where the RCA index for services increased between 1990 and 2007. It is also the region that recorded the greatest increase in this index over this period, from 1.07 to 1.31, and it ranks second in terms of the value of its RCA index, after the Caribbean.

10 Author's calculations, based on *UNCTAD Handbook of Statistics 2008* (online database).

11 Based on *UNCTAD Handbook of Statistics 2008* (online database).

12 The RCA index, also known as the Balassa index, is the ratio of the share of a country's exports of a particular product (or group of products) in a country's exports to another country/reference region/the world to the share of that same product in the other country/region/world's exports.

Figure 2.6: Revealed comparative advantage indices for services exports in selected regions, 1990 and 2007



Source: Same as figure 2.4.

* Excluding Afghanistan.

While the RCA in South Asia's services exports has been rising, its RCA in merchandise exports has been declining over this period, and the gap between the two has in fact widened (figure 2.7). This diverging trend may also be indicative of the limited scope for intraregional trade in commodities (as discussed earlier) compared with that in services.

Figure 2.7: South Asia's revealed comparative advantage in services and merchandise trade, 1990–2007

Source: Same as figure 2.4.

Thus, taking all the overall regional trends into consideration (i.e. growth in exports and imports of services, growing participation in world markets and competitiveness indicators), South Asia's performance suggests considerable trade potential for its services sector. However, it is necessary to determine whether these broad regional trends are also evident in each of the countries in South Asia, what kinds of asymmetries may be present and whether similar potential also exists at the intraregional level.

A cross-country examination of trends in South Asia's trade in services reveals that there are considerable asymmetries in terms of magnitude, pattern, growth and potential, akin to the asymmetries seen in services output (table 2.7). India's services exports were over a thousand times greater than those of Bhutan and around 40 times greater than those of the second-largest services exporter, Pakistan. The magnitude of difference is similar for imports. Except for India and Maldives, all the other countries have had a negative balance of trade in services. These variations in the value of trade in services and the clear dominance of India are indicative not only of asymmetries but also of the scope for complementarities in this sector among the South Asian countries.

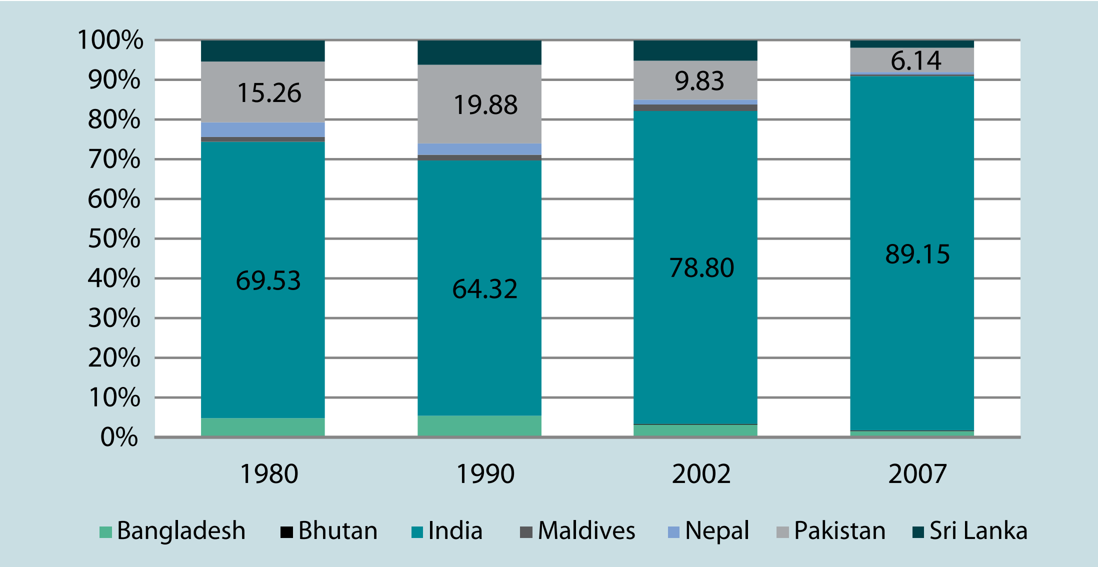
Table 2.7: Trade in commercial services in South Asian countries, 1980–2007 (US$ million at current prices)

Country		1980	1985	1990	1995	2000	2005	2006	2007
Bangladesh	Exports	172	207	296	469	283	474	603	679
	Imports	444	401	554	1,192	1,523	2,011	2,111	2,417
Bhutan	Exports		17	28	15	20	42	52	60
	Imports		39	28	27	28	82	65	57
India	Exports	2,861	3,274	4,609	6,763	16,030	55,508	75,057	86,366
	Imports	2,915	3,815	5,943	10,062	18,896	47,545	63,053	78,080
Maldives	Exports	52	61	101	230	345	317	470	544
	Imports	40	24	37	75	108	201	228	266
Nepal	Exports	118	92	166	592	410	271	252	
	Imports	84	112	159	305	193	424	488	
Pakistan	Exports	565	743	1,218	1,432	1,284	2,043	2,245	2,204
	Imports	734	1,011	1,863	2,431	2,109	7,206	8,094	8,410
Sri Lanka	Exports	223	234	425	800	915	1,519	1,604	
	Imports	344	440	620	1,169	1,592	2,051	2,359	

Source: WTO, International trade statistics, at: www.wto.org/english/res_e/statis_e/its2009_e/its09_toc_e.htm (accessed on 24 October 2008).

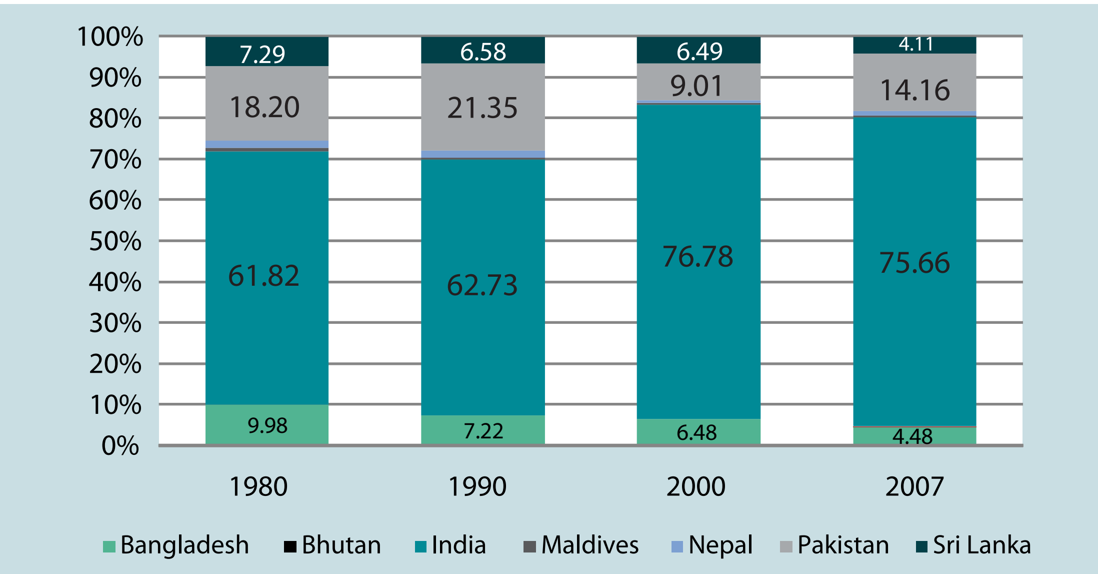
This stark difference in size is reflected in the relative importance of each of the South Asian countries in world trade in services and in South Asia's trade in services. India's dominance in both respects is clear; its share in South Asia's overall exports of services grew from about 64 percent in 1990 to close to 90 percent in 2007 (figure 2.8), while its share in the region's imports of services grew from about 62 percent to around 76 percent during the same period (figure 2.9). The share of the second-biggest contributor, Pakistan, declined over this period for both exports and imports, while the shares of all the other countries remained stagnant or grew negligibly.

Figure 2.8: Share of countries in South Asia's exports of services, selected years (%)



Source: Same as figure 2.4.

Figure 2.9: Share of countries in South Asia's imports of services, selected years (%)

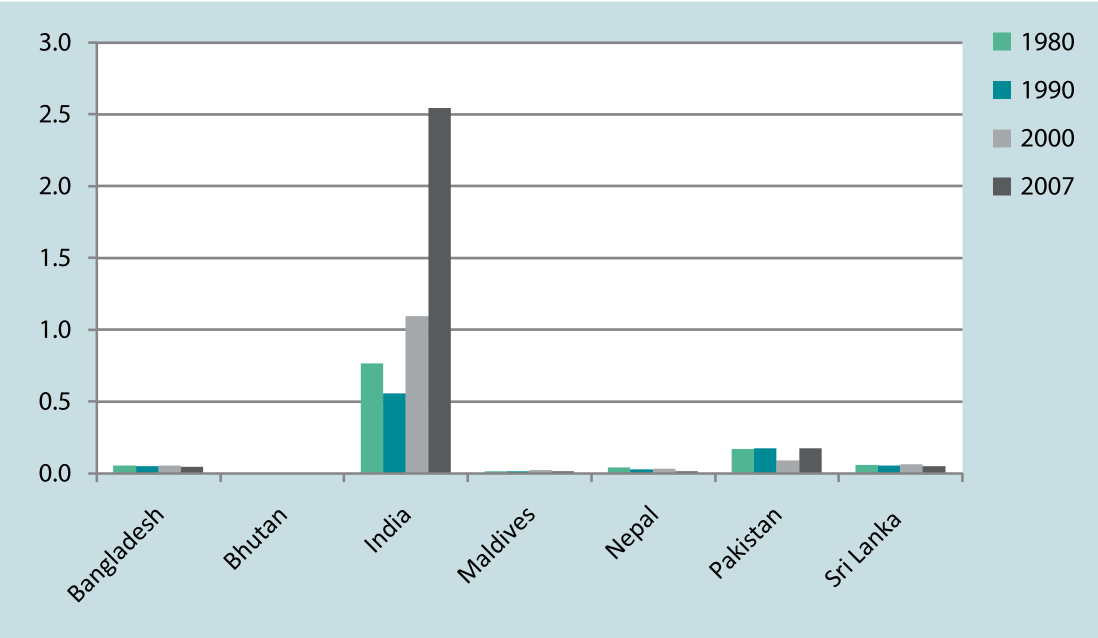


Source: Same as figure 2.4.

India is the only country in South Asia to have significantly increased its share in world services exports as well as imports during the 1990–2007 period. Its share in world exports of services increased from less than 1 percent in 2000 to 2.5 percent in 2007 (figure 2.10), and likewise, its share in world imports of services increased from a little over 1 percent in 2000 to over 1.5 percent in 2007 (figure 2.11). The shares of all the other countries of the region in world exports and imports of services remained negligible, at between 0 and

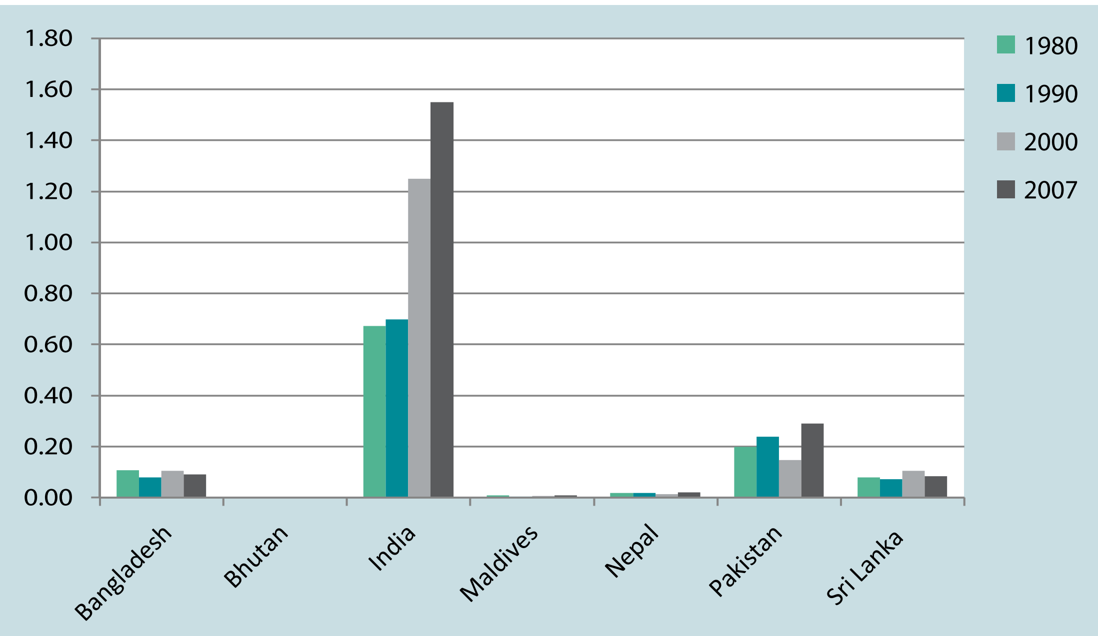
0.3 percent throughout this period. Thus the trends seen earlier in South Asia's services are largely a reflection of trends in India's trade in that sector, which raises the issue of whether there would be a sufficient convergence of interests across the South Asian countries in pushing for regional integration of services.

Figure 2.10: Share of South Asian countries in world exports of services, selected years (%)



Source: Same as figure 2.4.

Figure 2.11: Share of South Asian countries in world imports of services, selected years (%)



Source: Same as figure 2.4.

A similar picture emerges when comparing growth trends in exports of services. While the average annual growth rate for South Asia as a whole almost trebled between the period 1991–1995 and 2001–2007, only in India did the growth rate show a consistently upward trend (table 2.8). Several countries experienced a deceleration in their services exports during the 1996–2000 period before growth picked up after 2000. Also, for many of the countries, the average growth rate was lower in the 2001–2007 period compared with the 1991–1995 period, indicating that the output growth in services after 2000 (shown earlier) did not necessarily translate into increased competitiveness and exports for all the countries. This is also consistent with the fact that in some countries, several non-commercial services have grown in importance. The data also indicate that services exports have been quite volatile in most of the countries, particularly Nepal and Pakistan.

Table 2.8: Average annual growth rate of services exports of South Asian countries, selected periods (%)

Country	1991–1995	1996–2000	2001–2007
South Asia	9.14	13.42	25.20
Bangladesh	12.31	3.57	10.51
Bhutan	0.00	0.00	18.88
India	8.12	20.02	27.51
Maldives	18.92	8.68	9.52
Nepal	28.86	-3.15	1.27
Pakistan	5.45	-5.23	26.10
Sri Lanka	13.52	3.01	10.35

Source: Author's calculations, based on United Nations statistical database, at: http://unstats.un.org/unsd/databases.htm (accessed on 31 October 2008).

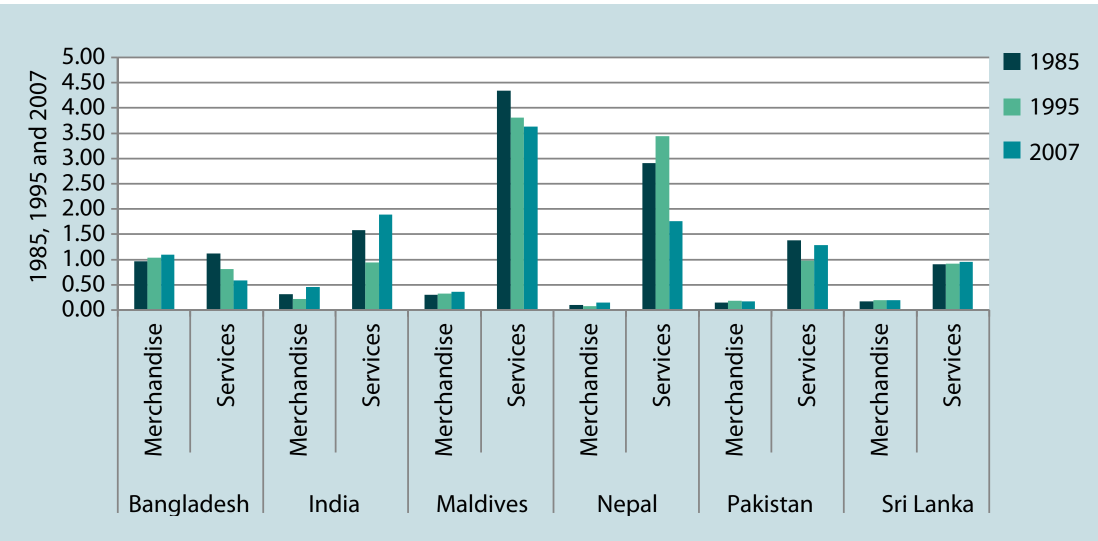
Overall, the preceding data for services show that growth in South Asia's trade and the region's growing competitiveness and penetration of world markets is in large part driven by India's performance. This means that any attempts at regional integration of services would obviously involve asymmetries in trade potential and interests, that the dominant player, India, would have an important role in driving the intraregional integration process and that there may be very different distributional effects of such integration across the countries in the region.

Should one then conclude that there is not much of a basis for pursuing intraregional integration in services within South Asia and that there is little benefit to be derived for countries other than India? Interestingly, an examination of the trends in competitiveness in services vis-à-vis merchandise trade in South Asia and a closer look at the subsector composition of trade in services within South Asia suggest that there are potential complementarities that could be exploited regarding particular subsectors as well as modes of delivery.

In all the countries, the RCA for services exceeds that for merchandise trade, although only India has experienced an increase in this RCA, while all the other countries except Bangladesh have remained at similar levels of competitiveness over the 1985–2007 period. This suggests better prospects for intraregional trade in services than in goods, for which the RCAs are lower than 1 in all the countries except Bangladesh (figure 2.12).

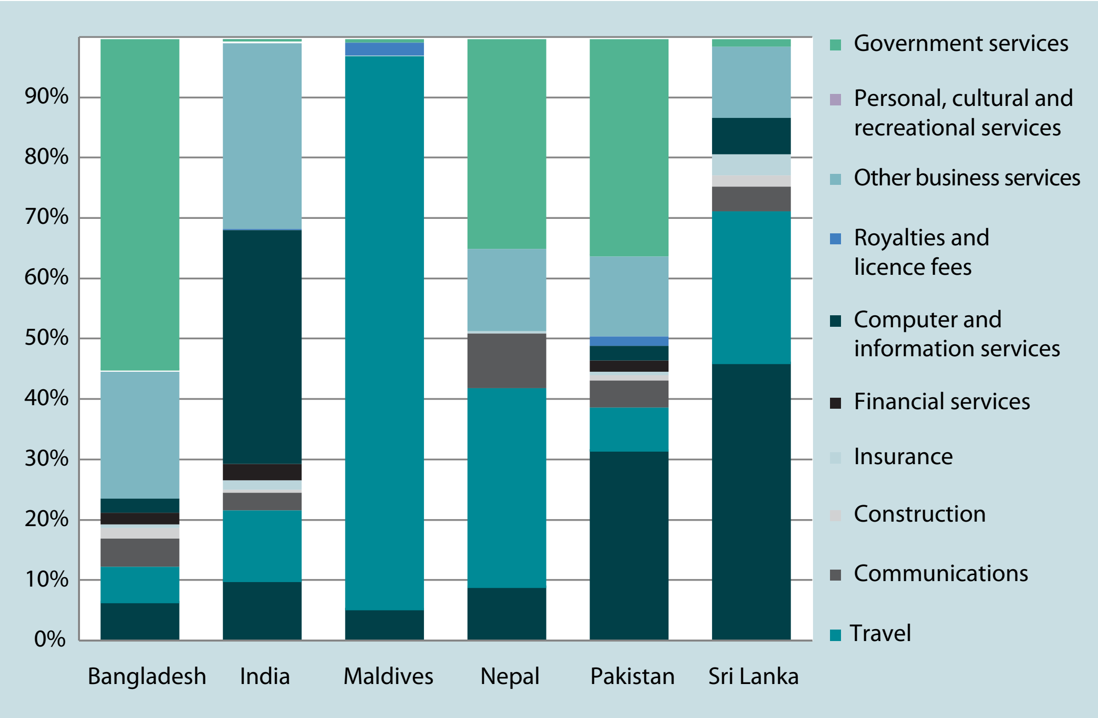
This is also evident from the currently very low shares of intraregional trade in goods despite integration efforts, owing to the high degree of overlap in the merchandise trade structure within South Asia. An examination of the composition of trade in services in the South Asian countries reveals that there are possible complementarities across the countries in this region. This could also provide a basis for promoting intraregional trade in services. Figures 2.13 to 2.16 show the breakdown of services exports and imports for all the South Asian countries, except Bhutan, for which comparable disaggregated services trade statistics were not available) in 1995 and 2006, respectively.

Figure 2.12: Trends in RCA indices for merchandise and services trade in South Asian countries, 1985, 1995 and 2007



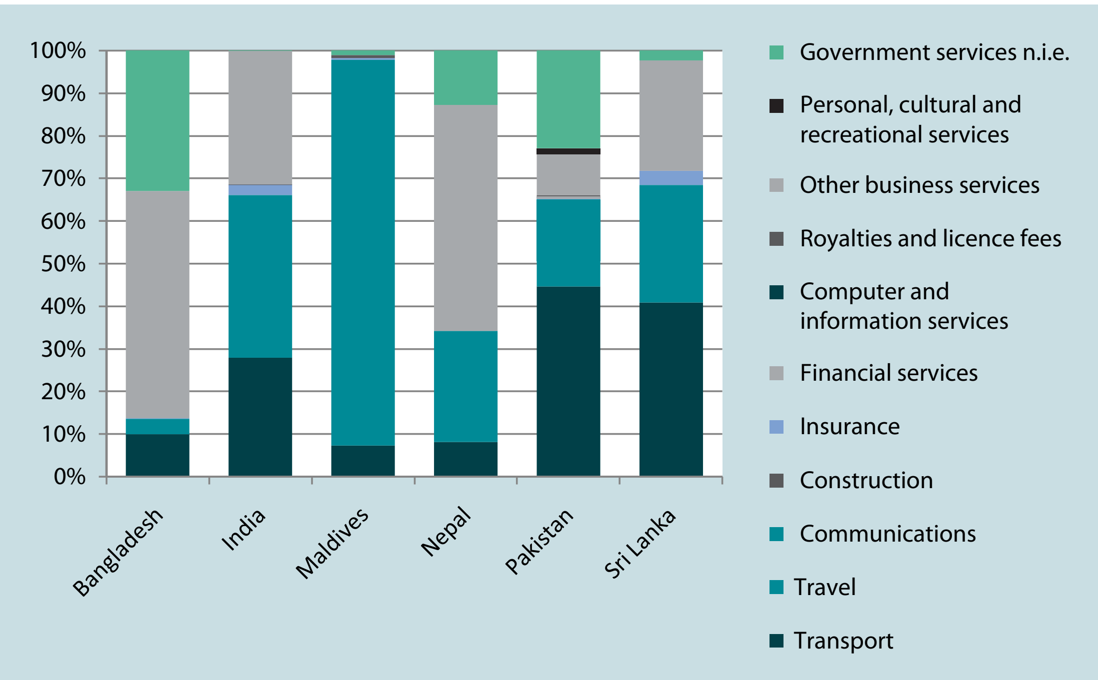
Source: Same as figure 2.4.

Figure 2.13: Share of major services in the total exports of South Asian countries, 2006 (%)



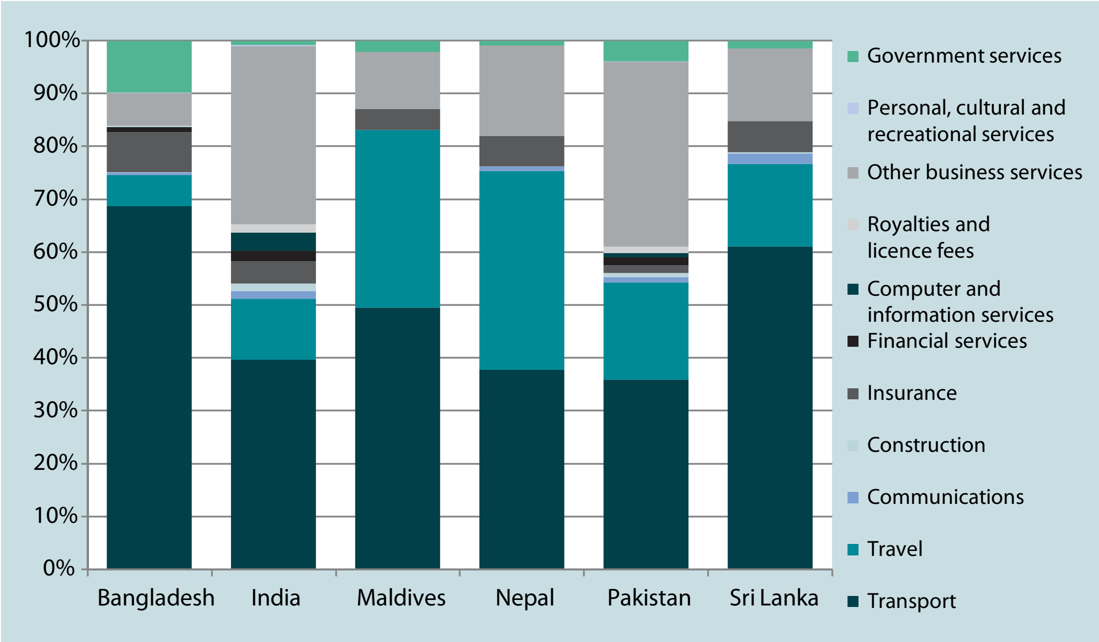
Source: Same as figure 2.4.

Figure 2.14: Composition of services exports from South Asian countries, 1995 (%)



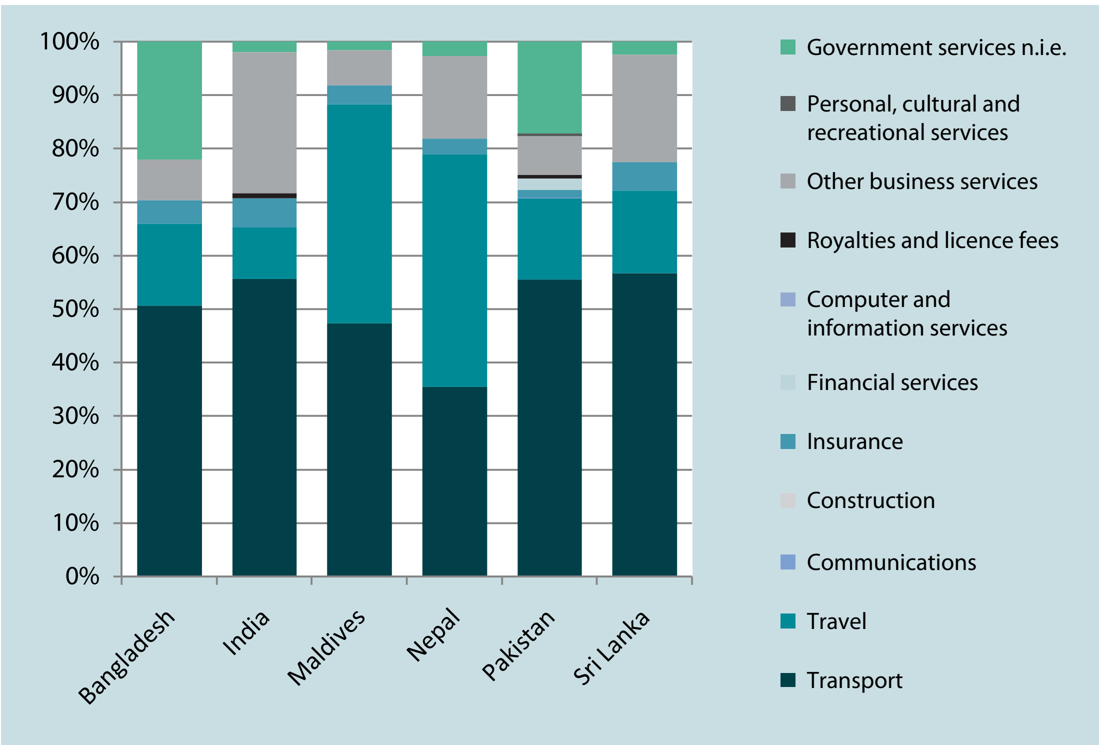
Source: Same as figure 2.4.
Note: n.i.e. = not included elsewhere.

Figure 2.15: Share of major services in the imports of South Asian countries, 2006 (%)



Source: Same as figure 2.4.

Figure 2.16: Composition of services imports in South Asian countries, 1995 (%)



Source: Same as figure 2.4.

There are various ways of analysing the data on the composition of services exports and imports to assess the extent of complementarities and unexploited potential of the trade in services within South Asia. Looking at the composition of services exports for each of the countries in 1995 and 2006, it is evident that they have succeeded in diversifying somewhat, particularly India. In 2006, India's services exports consisted of traditional segments, such as transport and travel, as well as new areas such as computer and information services and other business services, the former having declined in importance over the 1995–2006 period.[13] In contrast, the services exports of Maldives consisted mainly of travel services, those of Nepal entailed mainly travel and government services, Pakistan's were dominated by transport and government services, Sri Lanka's by transport and travel services and Bangladesh's by government services and to a lesser extent other business services. India's orientation has shifted towards professional and business services, while most of the other countries are still more dependent on certain traditional, commercial services, such as tourism and transport, though they have diversified into more activities since 1995. Thus the export pattern reveals some complementarities, particularly between India and the other countries in the region.

Second, a comparison of the composition of services imports in 1995 and 2006 shows that although travel and transport services remain the most important imports, business, financial, insurance and communication services have increased in importance. This indicates some diversification of services imports, most likely reflecting the outcome of liberalization and reforms of the services sector.

Third, juxtaposing the trends in the composition of service exports and imports, some complementarities emerge. Given the importance of travel and transport services in exports as well as imports, tourism services is clearly one area in which all the countries have a common interest, which implies that they offer scope for greater intraregional trade and related cooperation. Likewise, business services constitute an important export segment for India and an increasingly important import segment for some of the other countries, indicating potential for exports of business and professional services from India to the other countries in the region. Related to these categories is the potential for greater cooperation in air and land transport services and facilitation of business and leisure travel.

A fourth important feature highlighted by the trends is the significance of government services (non-commercial services) in some of the countries. This may have implications for the kinds of areas that are covered by a future regional services agreement and the form of such integration. Although it is difficult to interpret the results any further, owing to the lack of subclassification under government services, it may be argued that, given the significant role of public services in South Asia's trade basket, any regional services agreement could potentially explore possibilities for collaboration, capacity-building and

13 UNCTAD defines 'other business services' as including merchant and other trade-related services; operational leasing services; and miscellaneous business, professional and technical services.

regulatory cooperation. Potentially important areas to consider in regional discussions would be health care, energy, education and the environment.

A subsector analysis of the RCA indices for each of the countries also reveals potential complementarities. For most of the subsectors, the RCA indices are 1 or less. However, in several of the countries, there are specific subsectors that show a very high RCA, such as travel in the case of Maldives and computer and information services in the case of India. The latter shows a particularly high RCA index of 8.5 in India, reflecting this segment's tremendous growth over the past decade and its very high export orientation. Likewise, the high RCA value of travel services in Maldives reflects that economy's strong dependence on tourism.[14]

The commonalities and complementarities in the trading pattern highlighted previously are vis-à-vis the world and thus do not necessarily mean that countries in South Asia would want to trade with one another in some of the identified service segments; they may be more interested in other markets than in those within the region. Thus the preceding analysis of trade prospects and potential in services is valid only to the extent that the countries in South Asia see each other's markets as important enough to target. Moreover, the relatively small size of some of the South Asian economies is a likely impediment to growth in intraregional trade in services (as discussed in the section on the health sector, for instance).

2.4 Important modes of trade in services in South Asia[15]

The sector-wise profile of trade interests and opportunities within the region is also indicative of the modes of services trade that are likely to be important in South Asia. For instance, the commonality of interests and high RCAs in tourism services for some of the countries would suggest that mode 2, or consumption abroad, as classified in the General Agreement on Trade in Services (GATS), would be an important form of services trade in the region. Related to this would be the significance of air transport and other transport services across the countries (mode 1). Likewise, the growing share of computer and information services or business services in the trade baskets of some of the countries suggests that mode 1 in the context of outsourcing and mode 4 in the context of movement of professionals and business travelers across the countries could play an important role in intraregional trade in services. Related investments (or mode 3) in these and some of the other services highlighted previously,

14 Based on *UNCTAD Handbook of Statistics 2008* database, at: http://stats.unctad.org/handbook/ReportFolders/ReportFolders.aspx (accessed on 24 October 2008).

15 GATS classifies services trade under four modes of supply. These are: mode 1 or cross-border supply, which refers to services in the form of data and information flows or carriers actually flowing across borders; mode 2 or consumption abroad, which occurs when a consumer goes abroad to consume a service, as in the case of tourism services; mode 3 or commercial presence, which refers to the setting up of a commercial establishment through a subsidiary, a joint venture, a branch office, etc.; and mode 4 or movement of natural persons, which refers to the temporary cross-border movement of service suppliers (not for permanent residence or citizenship in the host country) to provide a service in another market.

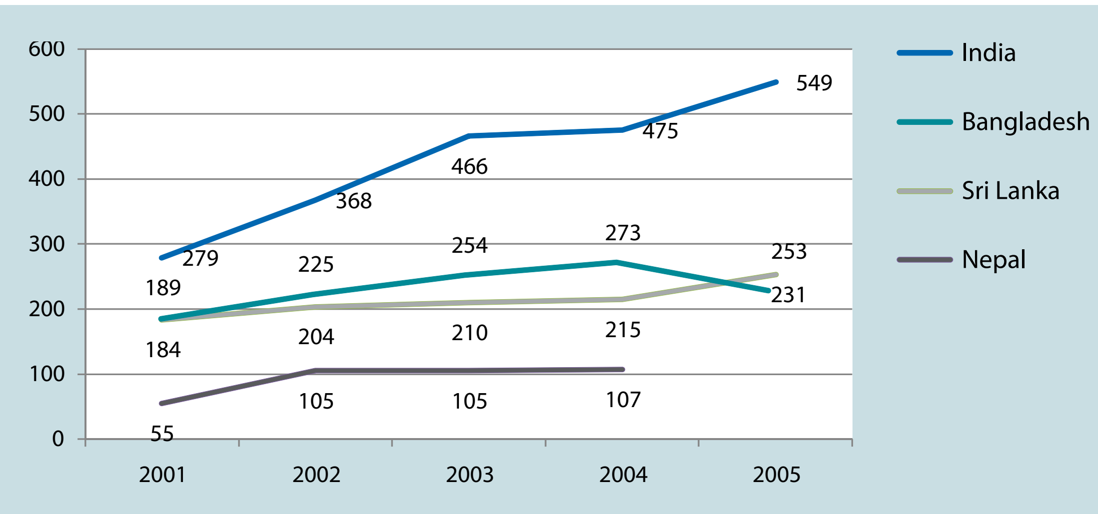
such as in financial, communication and transport services, would also be important for most of the countries in this region. Thus, all four modes of services delivery appear to be important for promoting intraregional services integration in South Asia.

The following discussion focuses specifically on modes 3 and 4. It outlines the nature of the temporary movement of service providers (or mode 4) from South Asia and trends in remittances to the South Asian countries to illustrate the importance of mode 4 exports for South Asia. It also outlines the nature of investments (mode 3) in the services sector to explain the scope for regional integration through investment flows. For both modes 3 and 4, to the extent permitted by the availability of data, the extent of intraregional flows is also indicated.

2.4.1 Examining mode 4 trade in South Asia

According to the International Organization for Migration (IOM, 2008), Bangladesh, India, Nepal and Sri Lanka are major source countries of migrant workers, both permanent and temporary (mode 4) and at various skill levels, for both industrialized and developing countries. Although it is difficult to distinguish temporary and permanent movement of labour from the existing migration data to separately identify the significance of mode 4 exports, some broad trends and patterns are evident for South Asia's labour flows. India is the main source country in South Asia and its emigration levels increased more than those of its neighbours over the period 2001–2005 (figure 2.17). Moreover, India's share in total labour inflows into several major OECD countries also increased during that period compared with the 1990–2004 period (rising from 5 percent to 8 percent in Australia, from 7 percent to 11 percent in Canada and from 5 percent to 8 percent in the United States) (IOM, 2008: 442).

Figure 2.17: Labour migration from South Asia, 2001–2005 (thousands)



Source: Reproduced from IOM, *World Migration Report 2008:* 442, figure 3.

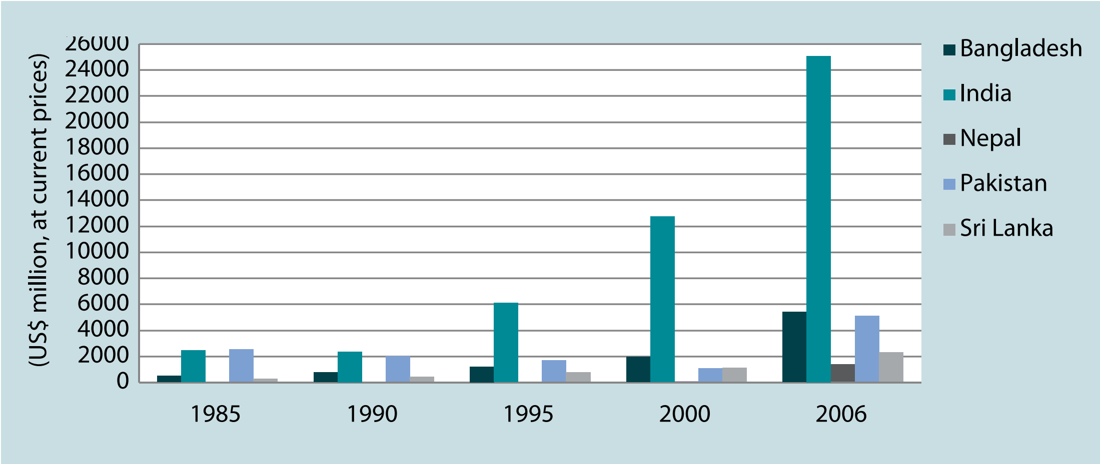
The main destination markets for South Asia's migrants are the Gulf countries, South-East Asia and the English-speaking OECD countries, namely Australia, Canada, New Zealand, the United Kingdom and the United States. Although the migrants are now going to more diverse destination countries, the countries of West Asia remain the most important destinations. An estimated 8.7 million temporary contractual workers from different South Asian countries lived and worked in that region as of 2008. (ibid.: 443)

The skills profile of South Asia's migrants varies by destination. By and large, the bulk of unskilled migrant labour, mainly from Bangladesh, India and Pakistan, goes to the oil-rich Gulf States to work primarily on infrastructure projects. Around 90 percent of Pakistani temporary contractual workers to these countries are engaged in semi- and low-skilled jobs (ibid.: 443). Sri Lanka and Bangladesh are important source countries for domestic workers to West Asia (and also to South-East Asia), which has also resulted in the feminization of migration from South Asia.

Although the main destination markets for South Asian workers are outside their region, intraregional labour flows are also significant for some South Asian countries (though much of it is often irregular and undocumented). India is the main destination country in this region, with an estimated 5.7 million international migrants, primarily from within the region, although they account for only 0.5 percent of the total population (ibid.: 441). A large number of these are migrant workers of Bangladeshi origin, followed by Nepalese workers. For some of the smaller countries in the region, labour inflows from other South Asian countries contribute significantly to the labour force. For instance, in Maldives, the largest number of expatriate workers are Bangladeshis (36,380), followed by Indians (23,985) and Sri Lankans (9,754), who are largely employed in the construction and tourism sectors. Maldives features among the top 10 destinations for Sri Lankan workers and accounted for around 1 percent of the country's migrant outflows in 2005 (Sri Lanka Bureau of Foreign Employment, 2006). This is indicative of the scope for intraregional movement of workers, with some of the smaller countries relying on migrant inflows from the relatively more populous countries in South Asia to serve their needs in specific segments.

The importance of mode 4 exports for the South Asian region is reflected in the absolute size of remittances as well as their share in the South Asian economies. All the South Asian countries recorded a consistent increase in remittances over the period 1985–2006, with remittances more than doubling, from US$12 billion to over US$24 billion in India (figure 2.18).

Figure 2.18: Trends in workers' remittances in South Asian countries, 1985–2006 (US$ million, at current prices)



Source: Same as figure 2.4.

Bangladesh, India, Pakistan and Sri Lanka also feature among the top 10 recipients of remittances in the world. Indeed, India receives the largest amount of remittances in the world. However, although it ranks first in terms of the absolute value of remittances, receipts from overseas workers constitute a significant share of GDP for some of the other countries of the region: over 7 percent for Bangladesh, Nepal and Sri Lanka (table 2.9).

Table 2.9: Receipts from workers' remittances as a percentage of South Asian countries' GDP

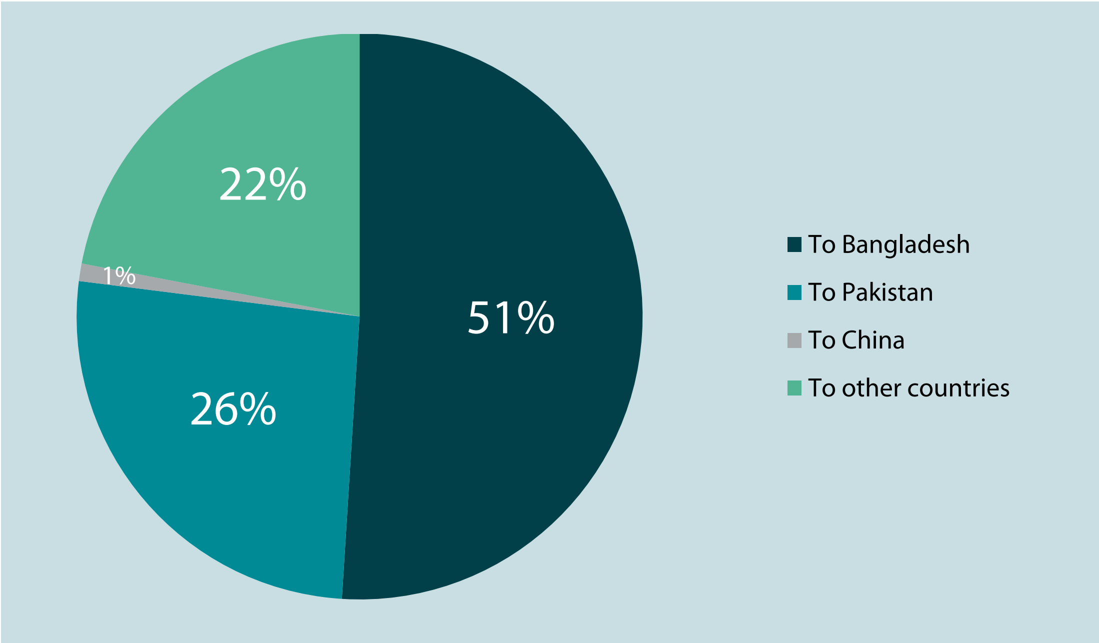
Country	1985	1990	1995	2000	2006
Bangladesh	2.29	2.45	2.91	4.03	7.94
India	1.09	0.72	1.66	2.72	2.78
Nepal	..	..	1.35	2.09	16.99
Pakistan	6.46	3.51	2.10	1.37	3.48
Sri Lanka	4.86	4.88	5.91	6.83	8.50

Source: Same as figure 2.4.

Data on remittance outflows from India by destination market indicate that much of the migrant stock in India is from within the region, and this is also likely to be the case for the other South Asian countries as well. Over 70 percent of the remittances flowing out of India go to two other South Asian countries, Bangladesh and Pakistan, with Bangladeshi workers accounting for over half of these remittance outflows. It is also likely that Nepal features in the set of 'other countries', which account for another 22 percent of remittances from India. The importance of India as a destination market for South Asian migrant workers is quite evident from the data: there were 3.45 million migrant workers from Bangladesh, 1.2 million from Pakistani and 169,000 from Sri Lanka in 2005 (Ratha and Shaw, 2007).[16]

16 Based on University of Sussex and World Bank, *Bilateral Estimates of Migrant Stocks* database, World Bank, Washington, DC.

Figure 2.19: Workers' remittances from India to selected neighbouring countries, 2006 (%)*



Source: Reproduced from IOM, *World Migration Report 2008:* 450, figure 16.
* Estimated in US$ million.

As with remittance receipts, although India is the most important destination market for labour from within the region due to its large economy and demand for labour, in relative terms remittance outflows constitute an insignificant proportion of its GDP. By contrast, in Maldives the share of remittance payments in GDP is comparatively high, which shows a very strong dependence on migrant labour (table 2.10).

Table 2.10: Share of remittance payments in GDP in South Asian countries, selected years (%)

Country	1991	1995	2000	2006
Bangladesh	–	–	0.01	0.00
India	–	–	0.02	0.08
Maldives	6.78	6.66	7.41	9.17
Nepal	–	0.21	0.31	0.85
Pakistan	–	0.01	0.00	0.00
Sri Lanka	–	–	–	0.94

Source: Same as figure 2.4.

Thus the migration trends and patterns indicate that not only is South Asia a significant source of workers for the rest of the world but there is also considerable intraregional movement of workers (documented or otherwise). These intraregional flows are driven by employment opportunities in some of the larger markets, such as India, and by demand-supply mismatch in selected sectors in some of the smaller markets, such as Maldives.

Intraregional labour flows thus reflect both the asymmetries in relative size and labour market depth and the dynamics arising from poverty and social and cultural networks within the region. Thus, mode 4-related issues would have to play an important role in any intraregional agreement that covers services, such as liberalizing visa and immigration-related regulations, given their bearing on trade and investment flows across a wide range of services. From a human development perspective, international evidence on the impact of remittances and migration on poverty reduction and contribution to human capital and health outcomes, asset accumulation and improved living standards also provides a strong argument for promoting intraregional migration flows in South Asia. Moreover, such migration could also provide some insulation against reduced remittances resulting from downturns in other markets.

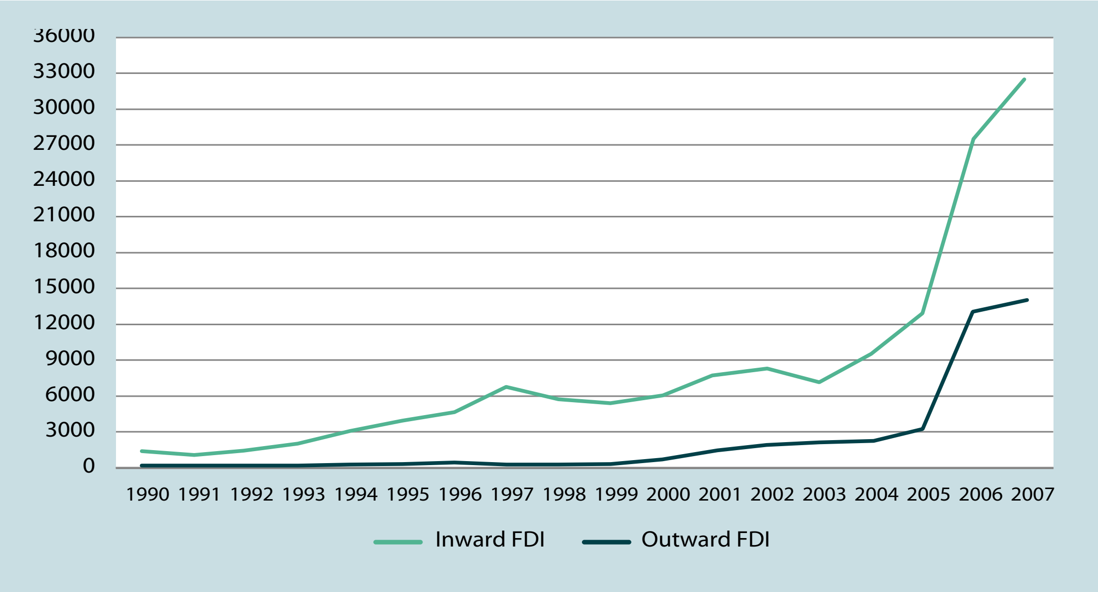
2.4.2 Investment flows to services in South Asia

As highlighted earlier, the growth witnessed in several services, such as communications, finance and IT, is a reflection of the reforms undertaken and policies adopted in these areas. One of the main elements of reform in this region has been the liberalization of FDI overall as well as in key services. Although data specifically for FDI in services are limited, the overall regional and country-level trends clearly indicate that there is a growing role for investments in this region across most of the countries, with some countries emerging as potential investors as well. Moreover, a large part of such investment is targeting the services sector, with potential ramifications for future intraregional investment flows and related trade in services.

FDI inflows into South Asia have grown sharply, from less than US$3 billion in 1991 to over US$33 billion on 2007 (UNCTAD, 2008 and figure 2.20). Their average annual rate of growth was 31.5 percent during the period 2000–2007. As a result, South Asia's share in global FDI inflows increased from 2.6 percent in 2000 to 4 percent in 2006, and the region's share of FDI in GDP rose from 4.7 percent in 2000 to 6.5 percent in 2006. However, this represents a much smaller share than those found in countries of East and South-East Asia where the shares were 25.1 percent and 39.5 percent, respectively (ADB, 2008b). FDI outflows remain much smaller but have also increased significantly in the post-2000 period, from almost 0 to nearly US$15 billion.

FDI flows between South Asia, East Asia and South-East Asia have risen in recent years and now constitute almost 50 percent of the Asian region's total FDI inflows (ADB, 2008b). FDI flows between East Asia and South-East Asia have been significant. Those between South Asia and East and South-East Asia are relatively small, and cross-border FDI within South Asia, in particular, is negligible.

Figure 2.20: FDI inflows into South Asia, 1990–2007 (US$ million at current prices)



Source: UNCTAD, *World Investment Report 2008: Transnational Corporations and the Infrastructure Challenge*.

Almost all the South Asian countries experienced a significant increase in FDI inflows over the 1990–2007 period, with India accounting for over 80 percent of all inflows into South Asia. Interestingly, there has also been an increase in FDI outflows from Bangladesh, India, Pakistan and Sri Lanka, with outflows from India trebling from about US$600 million to over US$13.5 billion during this period (table 2.11). India also accounted for over 90 percent of the region's FDI outflows in 2007 (UNCTAD, 2008). Thus India dominates not only as a destination but also as a source of regional FDI.

Table 2.11: Trends in FDI flows to and from South Asian countries, 1990–2007 (US$ million at current prices)

Country	Inward FDI				Outward FDI			
	1990	1995	2000	2007	1990	1995	2000	2007
Bangladesh	3.2	92.3	578.7	666.4	0.5	1.7	2.0	21.0
Bhutan	1.6	0.1	0	78.3	0	0	0	0
India	236.7	2,151	3,585	22,950	6.0	119.0	509.0	13,649.0
Maldives	5.6	7.2	13.0	15.0	0.0	0.0	0.0	0.0
Nepal	5.9	0.0	-0.5	5.7	0.0	0.0	0.0	0.0
Pakistan	278.3	492.1	309.0	5,333.0	2.0	0.0	11.0	98.0
Sri Sri Lanka	43.4	65.0	173.0	528.7	0.8	5.6	2.0	95.0

Source: UNCTAD, *World Investment Report 2008: Transnational Corporations and the Infrastructure Challenge*.

From a regional perspective, in addition to geographic and cultural proximity, a related factor that could facilitate intraregional investment flows would be a regional investment agreement, including the creation of a more business-friendly environment for regional investors. This would enable companies from countries in the region to potentially increase their presence in the other South Asian countries. Already, India is one of the most critical emerging markets for outward FDI (EIU, 2007), much of which goes to other developing countries. And overall FDI trends and patterns suggest that there is scope for India to take a greater role in investment flows in South Asia as that country becomes a more competitive source of FDI and the other countries become more open to FDI.

It is difficult to gauge the level of intraregional investments, especially in services in South Asia, owing to the limited information available in this regard. Available data on the composition of outward FDI from India indicate that services constitute around 40 percent of such outflows, the bulk of which consists of non-financial services, namely computer and information services (UNCTAD, 2004). Thus the pattern of FDI from India reflects its competitiveness in business and professional services, as highlighted earlier in the trade data. Indeed, India's trade and investment interests are the main driver of services growth in the region.

Intraregional FDI flows account for a very small share of total FDI inflows of countries in the region (table 2.12). Countries outside the region (i.e. Japan, Singapore, the United Kingdom and the United States) continue to be the main sources of South Asian countries' inward FDI. India is the only noteworthy South Asian country investing in the region to any appreciable extent, particularly in Nepal, and to a small extent in Sri Lanka. In essence, the pattern that emerges is that of the bigger countries being potential investors in the smaller countries. Hence, from the limited data available, there appears to be scope for India to increase its FDI flows to the rest of South Asia, and an investment agreement could potentially facilitate this process.

Table 2.12: Share of intraregional FDI flows in total regional flows in South Asia by size of contribution (%)

FDI source	FDI recipient				
	India	Pakistan	Sri Lanka	Bangladesh	Nepal
India	x	-	2.60	0.20	51.00
Pakistan	-	x	0.60	0.10	0.03
Sri Lanka		-	x	0.10	-
Bangladesh	0.01	0.08	0.18	x	-
Nepal	-	-	-	-	x
Share of South Asia	0.04	-	2.10	0.40	37.60

Source: ADB, *South Asia Economic Report 2008*.

Because service-specific data on a bilateral basis are not available, it is difficult to assess to what extent the services sector would be a recipient of any increase in intraregional investments. Available data suggest that the post-1995 period has seen a growing share of services in total inward FDI for countries in the region (table 2.13). Moreover, if overall data (not by source country) on the composition of FDI by different activities is any indicator, then the large share of services in total FDI, particularly in the likely recipient markets of Bangladesh, Nepal and Sri Lanka, would suggest that much of any increased intraregional FDI would go to the services sector.

Table 2.13: Share of services in total inward FDI for selected South Asian countries and selected periods (%)

Country	Share of services in total inward FDI (average %)		
	1990–1994	1995–1999	2000–2002
Bangladesh		28.5	45.7
India	10.5	28.3	20.97
Nepal	52.7	68.3	
Pakistan	64.6	69.1	56.6
Sri Lanka		75.4	48.1

Source: UNCTAD, *World Investment Report 2004*.

Note: Bhutan and Maldives are excluded from this table because comparable data were not available.

It is also possible to draw some inferences about the services that appear to be the most promising for intraregional FDI, based on disaggregated, inward services FDI data for some of the countries. The disaggregated data for Bangladesh, India and Pakistan reveal that the most important subsectors are communications, energy and financial services. Construction and certain business services are also important, but to a lesser extent.[17]

Although similar data could not be obtained for Nepal and Sri Lanka, recent reports indicate that the services sector has been the leading recipient of FDI in Sri Lanka, where it accounted for 55.6 percent of total FDI inflows compared with 41.7 percent for the manufacturing sector in 2000 (UNCTAD, 2004). The major subsectors that continue to attract large amounts of FDI in Sri Lanka are telecommunications and business process outsourcing, with telecommunications alone receiving about half of total services-related FDI (World Bank, 2007; and UNCTAD, 2004). In Nepal, although manufacturing accounts for a large share of FDI (around 49 percent in 2003), the shares of tourism and communication services are also significant, amounting to 24 percent and 21.4 percent of total FDI inflows, respectively (Pant and Sigdel, 2004). Similar data were not available for Bhutan and Maldives. Discussions suggest that the tourism sector attracts a large proportion of the services-related FDI in Maldives, while the tourism and energy segments are the main recipients of FDI in Bhutan.

Overall, there is clearly scope for increased intraregional FDI, due to some apparent complementarities in the services sector across investor and recipient countries and the continued deregulation of many services in South Asian countries (discussed in detail in subsequent chapters). As mentioned earlier, there can be substantial human development benefits of intraregional investment and, more specifically, investment in services. For

17 Based on documents from the Board of Investment for Bangladesh, Department of Industrial Policy and Promotion for India and the Ministry of Commerce and Industry for Pakistan and the State Bank of Pakistan.

example, such investment can help build much-needed basic infrastructure, improve human capital and health, provide connectivity and improve access to better technologies.

2.5 Trends in trade and investment in services: Implications for regional integration

The preceding discussion has highlighted several trends and features about the services sector in South Asia, which suggest that there is scope for increased intraregional trade and factor flows within the region. It is worth summarizing some of the most salient points and their implications for the likely nature of and scope for regional integration of services in South Asia and what a prospective regional services agreement would need to consider.

First and foremost, all the countries in South Asia have seen a shift in the structure of their economies away from agriculture and towards services. At the same time, there has been an increase in trade and investment in services in all the economies, and South Asia's participation in global trade in services has also increased over the past decade. The growing share of services in GDP and the high output as well as trade growth in several of its subsectors support the contention that this sector is a potential priority area for furthering regional integration (including investment, considering many services would not be tradable without FDI).

Second, there are considerable variations across the countries in terms of the size of their services, the output and export growth performance of the sector, the relative shares of individual economies in regional services trade and output, and their service-related RCA indices. Much of the improved performance in the region as a whole is attributable to India in terms of the growing diversification of its services export basket and the emergence of non-traditional service activities as well as India's increased penetration of the world market, particularly in computer and information services and business services. Given such asymmetries, the South Asian countries would probably have very divergent interests in each other's markets, and there is likely to be considerable asymmetry in their degree of participation in any regional services integration process. India would probably need to act as the main driver of that integration. Moreover, bilateral and/or plurilateral relations in certain areas of common interest and complementarity of endowments (i.e. natural resources and labour) would also be important factors to consider in regional discussions on services.

Third, there are potential complementarities regarding to capital and labour among the countries in the region. Some countries, such as India, which has more established service companies (some of which are also engaging in outward investments), could emerge as sources of FDI in subsectors such as energy, communications and tourism services, while other countries in the region could clearly benefit from FDI inflows into those subsectors. Likewise, with regard to labour movements within the region, India provides an attractive destination market for migrant workers from the smaller and poorer countries and Maldives provides employment opportunities in niche segments. There is also scope for movement of professionals and intra-company transfers in business services, particularly from India to the smaller countries, given India's growing competitiveness in business services and the general openness of this segment in most countries. The subsector trends in growth, trade and competitiveness suggest that there is potential commonality of interests within the region in areas such as communications, tourism and computer and information services. Given the factor intensity of some of these subsectors, factor flows in the form of investments and movement of service providers are likely to be important for furthering intraregional commerce.

Fourth, the significance of traditional and government services in the growth and trade patterns of some of the countries suggests that discussions on regional services integration would need to address issues of regulatory cooperation and capacity-building in this sector. Intergovernmental cooperation in the provision and delivery of services and collaboration among regulatory bodies, public sector institutions and associations would be an important element in supporting the regional integration of services.

Finally, an important issue highlighted by the development of the services sector in the South Asian economies is its relatively smaller contribution to employment compared with its contribution to trade and output. As roted earlier, this raises the issue of sustainability of the growth in services, which is imperative, particularly in view of the large and young labour force and the need for employment creation for poverty alleviation and for attaining the MDGs. Thus, any regional services agreement would need to address employment and sustainability-related concerns in the services sector by facilitating its contribution to employment and productivity growth and its link with other sectors. On the other hand, increased intraregional trade and investment flows could potentially increase the dependence of some smaller countries on selected services and also their dependence on the larger markets in the region as export destinations and as sources of investment. Thus regional integration in services could lead to less rather than more diversification of trade and investment in services, especially for the smaller, less-developed countries. This could have political and security-related ramifications.

Chapter 3

Telecommunication services are considered a critical element in the development of a country's infrastructure. Improved communication facilities can accelerate growth, facilitate access to markets, enhance trade and investment prospects and reduce poverty and inequality. Throughout the world, the telecommunications industry has experience rapid advancements in technology and the emergence of new segments and value-added services. It has also undergone considerable liberalization, including privatization of state-owned telecom providers and opening up to foreign investors. In the past decade or so, many developing countries, including South Asian countries, have implemented national telecommunications policies involving the restructuring and deregulation of their telecom services, with the ultimate objectives of lowering connectivity costs, improving the quality of those services and meeting universal service obligations (USOs). Independent regulatory bodies have also been established in many countries, though often this process has been a complex one, fraught with challenges.

Telecommunication services are a potential area for greater regional integration in South Asia. A combination of factors makes this sector particularly appealing and conducive to such integration. These include the high growth rates and rising contribution of telecom services to GDP, the opening up of the sector to foreign ownership in several of the South Asian countries, the potential pooling of resources for investment and regulatory capacity-building and the common goal of all the countries of augmenting investment in telecom infrastructure and establishing regulatory frameworks to improve efficiency, affordability and access. Such commonalities in policy trends and objectives, combined with large resource gaps and investment requirements, create ample scope for both collaborative and commercial relations in telecom services within the region.

This chapter starts by providing an overview of telecom services in South Asia. It examines their performance vis-à-vis the world in terms of key indicators and performance measures to highlight the overall infrastructure requirements and investment needs of this sector. This is followed by an overview of the trends in key indicators for telecom services in each of the South Asian countries to determine their growth trajectory and the differences and similarities. The chapter then highlights the trends observed in telecom policies and regulatory reforms in the South Asian countries over the past decade or so and relates these developments to the sector's performance. Next is an overview of the intraregional initiatives and projects that are in place or planned for this sector. These include initiatives on regulatory cooperation and frameworks and proposed or realized cross-border investments in telecom services between countries in the region. The discussion examines the progress of such intraregional efforts and commercial ventures. The subsequent section discusses multilateral and other commitments made by the South Asian countries in the telecom services sector in the context of the World Trade Organization and in various bilateral or extra-regional agreements to assess the extent to which these countries are prepared for liberalization and reforms. The concluding section draws on the analysis of trends, initiatives and commitments to emphasize the main opportunities for greater regional integration, the challenges that exist and the specific issues that would need to be addressed in regional negotiations.

3.1 Overview of telecommunication services in South Asia

Telecommunication services in the South Asian countries have grown rapidly over the past decade. The total number of subscribers in the region increased from a mere 41.8 million in 2000 to around 540 million in 2008, and the teledensity (number of total subscriptions per 100 persons) grew from a median of 2.52 to about 32.[18] There have been significant increases in the number of subscriptions as well as penetration across the various segments of the telecom sector, including fixed line, mobile and Internet services. Notwithstanding the growth of the telecom sector in South Asia, the region continues to lag behind some other developing countries and also compares poorly with global averages (tables 3.1 and 3.2).

Table 3.1: Fixed and mobile telephony use in South Asia, other selected countries and the world, 2008

Country	Total telephone subscriptions ('000s)	Total teledensity (subscribers per 100 persons)	Total fixed subscriptions ('000s)	Fixed teledensity (per 100)	Mobile subscriptions ('000s)	Mobile teledensity (subscribers per 100 persons)	Mobile as a % of total telephone subscriptions
World	5,201,839.2	76.91	1,269,856.6	18.77	4,018,807.3	59.34	75.6
South Asia							
Bangladesh	45,984.5	28.74	1,344.5	0.84	44,640.0	27.9	97.1
Bhutan	278.5	40.55	27.5	4	251	36.55	90.1
India	384,790.0	32.57	37,900	3.21	346,890	29.36	90.2
Maldives	482.6	158.2	46.9	15.38	435.6	142.82	90.3
Nepal	5,005.1	17.37	805.1	2.79	4,200	14.58	83.9
Pakistan	92,436.2	52.24	4,416.4	2.5	88,019.7	49.74	95.2
Sri Lanka	14,528.7	72.42	3,446.4	17.18	11,082.2	55.24	76.3
Others							
Brazil	191,782.8	99.9	41,141.4	21.43	150,641.4	78.47	78.5
China	912,943	68.69	365,637	27.51	63,4000	47.41	59.9
Malaysia	31,417	116.3	4,292	15.89	27,125	100.41	86.3
Singapore	8,232.6	178.39	1,857.1	40.24	6,375.5	138.15	77.4
South Africa	49,425	99.51	4,425	8.91	45,000	90.6	91
Thailand	69,024	102.43	7,024	10.42	62,000	92.01	89.8

Source: International Telecommunications Union, World Regulatory Policies Database, at: www.itu.int/ITU-D/ICTEYE/Regulators/ Regulators.aspx (accessed on 11 December 2008).

18 International Telecommunications Union, World Regulatory Policies Database, at: www.itu.int/ITU-D/ICTEYE/Regulators/Regulators.aspx (accessed on 11 December 2008).

Table 3.2: Internet and broadband use in South Asia, selected countries and the world, 2008

Country	No. of Internet subscriptions ('000s)	Internet subscribers per 100 persons	Internet users ('000s)	Internet users per 100 persons	Broadband subscribers ('000s)	Broadband subscribers per 100 persons
World	**529,541**	**8.35**	**10,599,610.7**	**156.92**	**412,357**	**6.15**
South Asia						
Bangladesh	150	0.1	556	0.35	43.7	0.03
Bhutan	6	0.87	40	5.82	2.1	0.3
India	12,850.0	1.09	81,000.0	6.95	5,280.0	0
Maldives	17.9	5.86	71.7	23.52	15.7	5.15
Nepal	79.5	0.28	499	1.73	9.9	0.04
Pakistan	3,700.0	2.09	18,500.0	10.45	168.1	0
Sri Lanka	246.2	1.23	1,148.3	5.72	100.2	0.5
Others						
Brazil	11,401.9	5.94	64,948.0	33.83	10,098.0	5.26
China	150,264.0	11.31	298,000.0	22.28	83,366.0	6.23
Malaysia	521.6	19.33	1,602.6	62.57	1,301.6	4.82
Singapore	1,103.4	23.91	370.0	73.02	1,003.1	21.74
South Africa	3,566.0	7.51	4,187.0	8.43	378	0.77
Thailand	–	–	12,130.0	18	913	1.36

Source: Same as table 3.1.

Although it is difficult to make a one-on-one comparison of the SAARC member countries with the other selected countries, given the wide variation in size and levels of development in South Asia, a few features regarding the state of development of their telecom sectors are quite evident. Overall teledensity as well as fixed and mobile teledensity are lower in all South Asian countries, except for Maldives and Sri Lanka, when compared to those in the selected developing countries. They are also lower than the global average, except in Maldives (which has very high teledensity ratios of over 100 percent). The South Asian countries compare more favourably in mobile teledensity than in fixed teledensity. They show a larger share of mobile subscriptions to total subscriptions than the world average, and the share is either comparable to or larger than the other selected countries, indicating much greater growth of their mobile telephony segment. The latter is also evident from the high CAGRs for mobile telephony, which are several times greater than those of the other selected countries and also greater than the global average. This difference in relative performance between fixed and mobile segments in the South Asian countries is not only an indication of the growth potential of the mobile segment but is also indicative of the constraints on the fixed-line segment more than the mobile segment, stemming from regulations, policies and infrastructure-related factors (discussed later in more detail).

It is evident from the data on Internet penetration and usage that all the South Asian countries lag far behind other developing countries and also the global average (table 3.2). This is indicative of the lack of an appropriate communications and electricity infrastructure and the low levels of literacy, per capita income and urbanization in the region, which adversely affect the ability to access and use Internet services. The latter is also captured by the very low levels of computer ownership in the region – 20 or less per 100 persons (ADB, 2008c).

Overall, telecom services in South Asia remain underdeveloped, despite their rapid growth in recent years, particularly the Internet and fixed-line segments. However, there is a large untapped subscriber base in the region and considerable opportunities for further growth and infrastructure development.

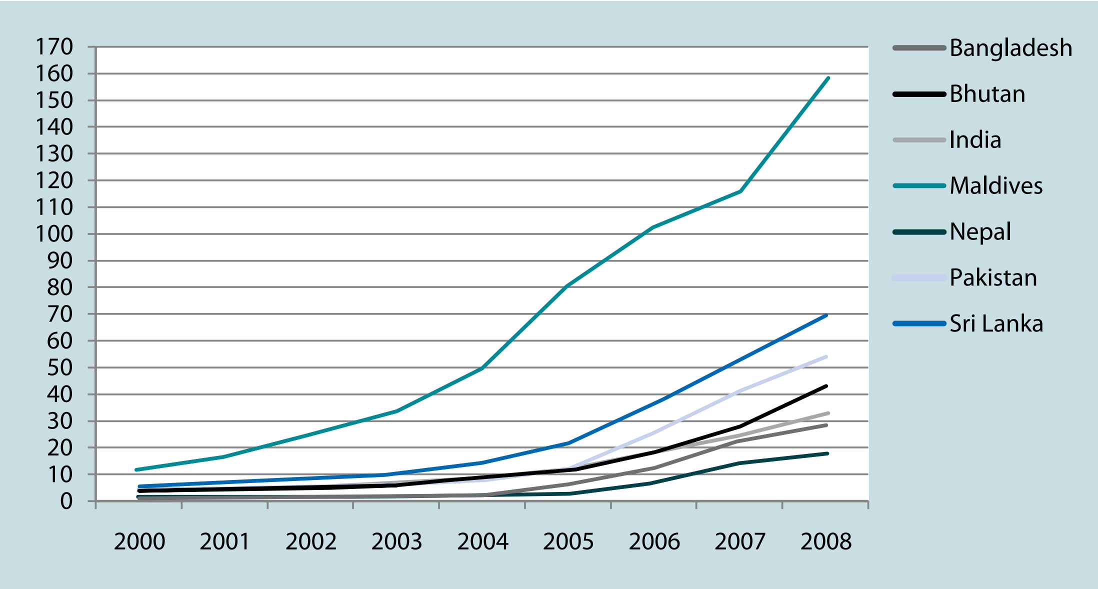
3.2 Trends in telecom service performance in South Asia

An examination of the trends in telecom services, as captured by the usual indicators of performance in this sector, reveals several common features. In the past decade, all the countries have experienced a 10- to 60-fold increase in their total subscription base for telecom services (fixed and mobile) and a 10- to 50- fold increase in their teledensities (although the region still lags far behind the world average and behind comparable developing countries). In all the South Asian countries, the main contributor to growth in subscriptions and teledensity has been the mobile segment.

There is also wide variation across the South Asian countries in the size and level of penetration of their telecom services and in their rate of expansion. For instance, total teledensity (number of subscriptions per 100 people) ranged from a low of 17.27 for Nepal to 158.2 for Maldives in 2008, with a median teledensity of 32.57. The magnitude of increase has also varied within the region, with Maldives experiencing a rapid increase in teledensity during the 2000–2008 period, followed by Sri Lanka (figure 3.1).

Mobile telephony has experienced particularly high growth. It now accounts for a growing and significant share of total subscriptions in all the countries. Internet penetration and subscribers have also grown considerably in all the South Asian countries, though in absolute terms the levels of usage still remain very low. Broadband penetration is particularly low, below 1 for all the countries (table 3.3).

Figure 3.1: Trends in total teledensity in South Asian countries, 2000–2008



Source: Same as table 3.1.

Table 3.3: Trends in subscriptions, teledensity and share of mobile subscriptions in South Asian countries, 1995, 2000 and 2008

Country	Indicator		1995	2000	2008
Bangladesh	Fixed telephone lines	No. of lines (thousands)	286.6	491.3	1,344.5
		Teledensity (%)	0.25	0.38	0.84
	Mobile subscribers	No. of subscribers (thousands)	2.5	279	44,640
		Mobile teledensity (%)	n.a.	0.22	27.9
		As a % of total telephone subscribers	n.a.	36.2	97.1
Bhutan	Fixed telephone lines	No. of lines (thousands)	5.2	14.1	27.5
		Teledensity (%)	0.3	0.73	4.0
	Mobile subscribers	No. of subscribers (thousands)	n.a.	n.a.	251
		Mobile teledensity (%)	n.a.	n.a.	36.55
		As a % of total telephone subscribers	n.a.	n.a.	90.1
India	Fixed telephone lines	No. of lines (thousands)	11,978	32,436.1	37,900
		Teledensity (%)	1.28	3.18	3.21
	Mobile subscribers	No. of subscribers (thousands)	76.7	3,577.1	346,890
		Mobile teledensity (%)	n.a.	0.35	29.36
		As a % of total telephone subscribers	n/a	9.9	90.2
Maldives	Fixed telephone lines	No. of lines (thousands)	13.9	24.4	46.9
		Teledensity (%)	5.51	8.42	15.38
	Mobile subscribers	No. of subscribers (thousands)	n.a.	7.6	435.6
		Mobile tele density (%)	n.a.	2.63	142.82
		As a % of total telephone subscribers	n.a.	23.8	90.3

Country	Indicator		1995	2000	2008
Nepal	Fixed telephone lines	No. of lines (thousands)	83.7	266.9	805.1
		Teledensity (%)	0.39	1.09	2.79
	Mobile subscribers	No. of subscribers (thousands)	n.a.	10.2	4,200
		Mobile teledensity (%)	n.a.	0.04	14.58
		As a % of total telephone subscribers	n.a.	3.7	83.9
Pakistan	Fixed telephone lines	No. of lines (thousands)	2,127.3	3,053.5	4,416.4
		Teledensity (%)	1,69	2.14	2.5
	Mobile subscribers	No. of subscribers (thousands)	41	306.5	88,019.7
		Mobile teledensity (%)	n.a.	0.21	49.74
		As a % of total telephone subscribers	n.a.	9.1	95.2
Sri Lanka	Fixed telephone lines	No. of lines (thousands)	204.4	767.4	3,446.4
		Teledensity (%)	1.08	3.87	17.8
	Mobile subscribers	No. of subscribers (000's)	51.3	430.2	11,082.2
		Mobile teledensity (%)	n.a.	2.17	55.24
		As a % of total telephone subscribers	n.a.	35.9	76.3

Source: Same as table 3.1.

Table 3.4 clearly highlights the extent to which the penetration of Internet services is lagging behind basic and mobile telephony.

Table 3.4: Trends in Internet and broadband subscription and penetration in South Asian countries, 2000 and 2008

Country	Indicator		2000	2008
Bangladesh	Internet penetration	No. of subscribers ('000s)	60	150
		Subscriptions per 100	0.4	0.1
	Broadband penetration	No. of subscribers ('000s)	n.a.	43.7
		Subscriptions per 100	n.a.	0.03
Bhutan	Internet penetration	No. of subscribers ('000s)	0.9	6
		Subscriptions per 100	0.13	0.87
	Broadband penetration	No. of subscribers ('000s)	n/a.	2.1
		Subscriptions per 100	n/a.	0.3
India	Internet penetration	No. of subscribers ('000s)	2,970	12,850
		Subscriptions per 100	0.28	1.09
	Broadband penetration	No. of subscribers ('000s)	n.a.	5,280
		Subscriptions per 100	n/a.	0
Maldives	Internet penetration	No. of subscribers ('000s)	1.1	17.9
		Subscriptions per 100	0.39	5.86
	Broadband penetration	No. of subscribers ('000s)	n.a.	15.7
		Subscriptions per 100	n.a.	5.15

Country	Indicator		2000	2008
Nepal	Internet penetration	No. of subscribers ('000s)	12	79.5
		Subscriptions per 100	0.05	0.28
	Broadband penetration	No of subscribers ('000s)	n.a.	9.9
		Subscription per 100	n.a.	0.04
Pakistan	Internet penetration	No. of subscribers ('000s)	133.9	3,700
		Subscriptions per 100	0.09	2.09
	Broadband penetration	No. of subscribers ('000s)	n.a.	168.1
		Subscriptions per 100	n.a.	0
Sri Lanka	Internet penetration	No. of subscribers ('000s)	40.5	246.2
		Subscriptions per 100	0.22	1.23
	Broadband penetration	No. of subscribers ('000s)	n.a.	100.2
		Subscriptions per 100	n.a.	0.5

Source: Same as table 3.1.

The expansion of scale and scope of services observed in telecom services in South Asia reflects the liberalization and deregulation undertaken in this sector, but the trends and performance indicators highlight the need for further investment in certain segments. Mobile telephony emerges as potentially the most attractive area for regional discussions because there is likely to be the greatest convergence of interests and objectives.

3.3 Policy trends and regulatory reforms

All the South Asian countries have liberalized their telecom services, though to varying degrees and at a varying pace. In almost all the countries, reforms began in the 1990s, starting with the restructuring and partial privatization of state-owned operators (thereby allowing private sector entry into the mobile telephony market and value-added services) the opening up to competition in the fixed-line segment, the adoption of national telecommunications policies and establishment of regulatory commissions. By and large, mobile telephony, value-added and Internet services have been opened to full competition in most of the countries, while local and long-distance landline services still remain monopolies in a few countries. The objectives have been common across all the countries, namely to develop their telecom infrastructure, provide universal access and improve the quality of the telecom services.

The countries of South Asia are at different stages of liberalization of their telecom services and their competition varies. The two largest countries, India and Pakistan, have liberalized the most, allowing full competition in most segments, while some of the smaller countries still have monopoly state operators, particularly in their fixed-line segments. India and Pakistan have the most competitive telecommunications markets in this region, with a competition index value of 2, which is above the regional average competition index of 1.38. Maldives is the least liberalized, with a competition level index of 0.7, although it has the highest teledensity and penetration ratios within the region, even higher than more liberalized India and Pakistan. Similarly, Sri Lanka is less competitive than the regional average (with an index value of 0.89), but it has higher penetration ratios and teledensity than some of the more liberalized countries in the region.[19] This would suggest that while the regulatory framework is important for promoting competition and increased services, other factors, such as income per capita, are also important in improving access to telecom services.

The extent of liberalization of FDI policies varies across the SAARC countries (see annex table A1.1 for a matrix of FDI policies in the South Asian countries). Some countries, such as Pakistan, have permitted up to 100 percent foreign ownership and also relaxed conditions on repatriation and licensing. Smaller countries, such as Bhutan and Maldives, have not yet opened up this sector to FDI. Yet others have permitted foreign investment up to specified ceilings and subject to various approvals. The variation in the extent of liberalization is indicative of the countries being at different stages of development and thus not embarking on telecom reforms at the same time.

As a result of these reforms and liberalization of FDI in telecom services, there has been a rise in teledensity and in the subscriber base in all the South Asian countries, as mentioned earlier, although other factors have also played a role. The reforms have spurred competition and resulted in lower prices and a wider range of telecom services. According to the World Bank, South Asia is comparable with other developing regions in terms of the value of private sector investment committed in recent years,[20] particularly since 2000. Such investment rose from a negligible amount in 2000 to nearly US$20 billion in 2007. This growth was largely driven by investment in the mobile telephony segment. In line with the earlier estimates for market competitiveness, India and Pakistan have the largest number of operators.

The growth of investment reflects the entry of both domestic and foreign operators. In Pakistan, which has gone the furthest in opening up this sector to FDI, there has been a huge increase in FDI inflows into telecom services, including acquisitions of important domestic companies by foreign operators. FDI inflows into Pakistan's telecoms rose from US$6.1 million in 2001-2002 to US$1.9 billion in 2005–2006, and in May 2007, China Mobile acquired 100 percent ownership of Paktel. The telecom sector's contribution to total FDI in Pakistan increased from a mere 1.26 percent in 2001–2002 to 54.1 percent in 2005–2006 (Wilson, 2008: 11). Thus, increased competition in telecom services, particularly in the two largest markets of South Asia, has been the result of growing domestic and foreign private

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19 Source: See ITU, *World Regulatory Policies Database*, at: www.itu.int/ITU-D/ICTEYE/Regulators/Regulators.aspx (accessed on 11 December 2008) for competition-level indices. The level of competition is determined by according a value of 0 for monopoly, 1 for partial competition and 2 for full competition and then dividing the total sum by the number of applicable segments. Thus the higher the index value, the more competitive the sector.

20 Based on data on investment commitments in telecom projects with private participation in developing countries by region for the period 1990–2007 (Source: World Bank and Private Participation in Infrastructure database at: http://ppi.worldbank.org/ (accessed on 10 February 2009).

sector participation as well as greenfield investments and acquisitions. It is also worth noting that the objective of universal service obligation has been a significant feature of all the national telecommunications policies in the region, which regard the development of the telecom sector as integral to overall development and equity goals.

3.3.1 Regulatory and other challenges

Despite the growth and improved performance of the telecom sector in all the countries of South Asia, certain challenges remain. Recent surveys on the telecom regulatory framework in South Asia suggest that market entry is no longer a major barrier; rather, it is mainly institutional and regulatory practices, such as lack of institutional transparency, anti-competitive practices, a tendency to prefer incumbents, lack of independence of telecom regulatory authorities, political interference and lobbying by incumbents, regulatory uncertainties, policy gaps arising from differences between policies on paper and their implementation, continued monopoly in certain segments, problems of infrastructure and in particular, spectrum allocation and high surcharges and levies on telecom operators due to a heavy dependence on this sector for revenues in some countries.

A 2008 Telecom Regulatory Environment Survey in India, Maldives, Pakistan and Sri Lanka by LIRNEasia (see: www.lirneasia.net), conducted among a wide range of stakeholders, assessed issues of market entry, access to scarce resources, tariff regulation, universal service obligations, regulation of anti-competitive practices and quality of services. The survey results showed relatively good performance in terms of market entry, interconnection and tariff-related measures, especially in the mobile segment. Maldives rated relatively better than the other countries on access to resources, reflecting its higher teledensity and penetration ratios, and the other countries performed much worse for fixed and broadband services. Thus provision of access to telecom infrastructure remains a challenge. Sri Lanka, interestingly, performed poorly on all the parameters, despite having opened up most of its telecom services to partial competition. This is attributed to lapses in governance and problems with regulation (Knight-John, 2008).

Overall, the South Asian countries perform poorly on anti-competitive practices. This is mainly due to the lack of independent regulation and protection of incumbent operators, which undermine the reforms undertaken in this sector. It also possibly reflects a certain protectionist policy orientation that still prevails, which could undermine prospects for regional integration of telecom services.

3.4 Intraregional initiatives

SAARC member countries have explicitly acknowledged the need for greater intraregional cooperation and initiatives relating to telecom services to address common objectives and interests. As a result, there have been considerable discussions in intergovernmental and industry forums within the region.

3.4.1 Intergovernmental initiatives

Information and communications technology is designated as one of the priority sectors for cooperation under the South Asia Subregional Economic Cooperation (SASEC) project of the ADB, which covers Bangladesh, Bhutan, India and Nepal. Lack of connections between the countries involved and poor infrastructure and human resource capacity in this sector are seen as major barriers to regional penetration of telecom services in South Asia. To address these constraints, a working group on telecom and ICT was set up after the 12th SAARC Summit in January 2004, which identified five focus areas: enhancing regional connectivity; promoting information-sharing and human resource development; establishing community information centres; strengthening and harmonizing regulations and standards; and developing common software tools to enhance content availability on the Internet. Multilateral support has been provided by the ADB for this working group. A major achievement of the SASEC programme on telecommunications is that it has secured agreement on a SASEC Information Highway Project to optimize interconnection costs and extend the reach of ICT services in this region.

An important intergovernmental initiative is the establishment of the South Asian Telecommunications Regulators' Council (SATRC) in 1998, following discussions between the ITU, the Asia Pacific Telecommunity (APT) and the respective governments of the region.[21] SATRC is a permanent body that functions under the auspices of the APT with Afghanistan, Bangladesh, Bhutan, India, the Islamic Republic of Iran, Maldives, Nepal, Pakistan and Sri Lanka as members. It is responsible for discussions and coordination of all issues and concerns relating to regulations in the telecommunications sector that are of common interest to the telecom regulators. SATRC also aims to identify and promote areas of potential cooperation in tele-communications among its members and serves as a forum for mutual learning, sharing of experiences and harmonization of regulations. It facilitates the exchange of information through regional seminars, workshops and training courses.

In 2004, SATRC drew up an action plan that reflected the common issues and concerns of the member countries. The key issues discussed include licensing, service quality, universal service and access obligations, tariff rebalan-cing, interconnection, numbering plans (according numbers to mobile phones), number portability, equal ease of access, intelligent network services and broadband technology (APT, 2004). The plan aims to lower telecom tariffs among the SATRC members to the lowest levels possible; introduce special rates for transiting regional traffic; promote inter-country direct services, calling cards, cellular roaming and liberalized leased lines; promote use of either direct links, hubbing or transit facilities to facilitate intraregional communications; and encourage regulatory cooperation to improve performance. The common priority objectives under this plan are achieving

21 The Asia Pacific Telecommunity was set up in 1979 as an intergovernmental regional telecommunications organization based in Bangkok. Its goal is to facilitate the development of telecommunication services and information infrastructure in the Asia-Pacific region. It specifically focuses on the expansion of this sector in the less developed parts of this region.

universal access, development of rural services, optimal sharing of available resources, enhanced cooperation in technology transfer and standardization.

In the context of universal service obligations, the SATRC countries have adopted various schemes, the main one being that of cross-subsidization supplemented by revenues from telecom operators. With regard to number-ing plans, SATRC has decided to review the issues of harmonizing of emergency telephone numbers, a mobile service access code and satellite-based and terrestrial mobile telephony. The current mismatch of numbering schemes affects subscribers when they travel within the region. New numbering formats have been proposed among the members. On the issue of tariff rebalancing (i.e. modifying telecom service rates to bring them closer to their associated costs), there has been some discussion and analysis of incumbent operators within the region to examine various parameters, such as licensing fees, benchmarking, return on capital, market competitiveness, and transparency, neutrality and independence of regulators. The working group has also conducted analyses for the determination of national and international tariffs, collection charges, and interconnection charges though no recommendations have been made so far.

There has been some discussion on performance indicators, quality of services, licensing issues, enforcement mechanisms to ensure adherence to network and service benchmarks, and identification of challenges in meeting the established quality benchmarks. Some of the constraints identified by the SATRC include shortage of spectrum, and the lack of sufficient interconnection capacity between operators and technology. The SATRC has also noted emerging challenges, such as the need for convergence of services, and has discussed the classification and types of licences, dispute resolution and policies and regulations for broadband development in South Asia.

Working groups formed under SATRC have submitted their reports on a number of the aforementioned issues and several resolutions have since been adopted. Workshops have been held on regulatory capacity-building, licensing for convergence, mutual recognition agreements, interconnection and convergence. Judging from these activities, the significance of telecom services within the region is well recognized, both in terms of its implications for furthering national goals and for addressing regional opportunities in other areas such as tourism, business, IT and related applications. However, there has been more talk than action and progress has been limited. Most of the discussions remain at the proposal or vision stage.

3.4.2 Industry-level initiatives

A SAARC industry forum – the SAARC CEO Conclave – launched for the telecom sector and hosted by the Confe-deration of Indian Industries aims to focus on network expansion and mobile security. A conclave of chief executive officers (CEOs) consisting of SAARC industry leaders in telecoms meets annually. Its seven meetings so far have covered a range of major issues, including lowering of tariffs, roaming facilities, high-speed services, sharing of regulatory best practices, building knowledge and capacity on latest technologies and standardization of telecom monitoring methods. The 6th Voice and Data CEO Conclave in December 2007 hosted the first Summit of the SAARC Telecom Advisory Council, in which a road map was drawn up for telecommunications in the region for 2008 and beyond.

Discussions at the CEO Conclave meetings have highlighted the need for cross-border availability of services and for cooperation among operators in the provision of both voice and data services. Possibilities for regional operators, such as Bharat Sanchar Nigam Limited (BSNL), to service the regional market and the need for discus-sions among the major operators in the region to finalize roaming agreements have also been considered. It is recognized that regional operators could provide the economies of scale that individual markets in this region do not offer. The superior performance of the smaller countries in the region in terms of teledensity, the possibility of the larger operators learning from their smaller counterparts in the region and the potential gains for the smaller players from associating with the larger operators have also been acknowledged. For instance, an association of Maldivian companies with Sri Lankan operators and with Reliance Communications (India) is seen as a way for small players to operate at the regional level. Industry participants have also highlighted the need for standardization of products and services to facilitate outsourcing and disaster recovery by IT firms and the potential spillover of opportunities in the IT sector from India to the other countries in the region.

Overall, industry leaders in the telecom sector view regional cooperation in telecoms as closely linked to the objectives of poverty alleviation and enhancing quality of life through the use of latest technologies in the SAARC region. The CEO Conclave has proposed an industry association at the SAARC level that would include telecom operators, various national industry associations and regulators.

3.4.3 Private sector initiatives

Investments in telecom services have been on the rise. Indeed, mobile services are expected to account for major capital expenditures in South Asia, and prospects for technological advancements like 3G, broadband and value-added services are promising (Frost and Sullivan, 2009). The Indian market, owing to its size, is expected to dominate telecom spending in the region and act as a regional source of investment in the other SAARC member countries. Several large Indian telecom companies have either entered the markets of other South Asian countries or have announced plans to do so. For example, the Indian telecom giant, Bharti Airtel, has set up a Sri Lankan subsidiary, Bharti Airtel Lanka Pvt. Ltd., with a proposed investment of US$200 million. Within a few months of its entry, its customer base in Sri Lanka exceeded one million. So far, it has invested US$100 million and will be investing further over the next three years. The Sri Lankan subsidiary has entered into a three-year managed network deal with China's Huawei Technologies to offer 2G and 3G services in Sri Lanka. Bharti Airtel has also announced plans to expand its cable network to Bhutan to help develop that country's ICT infrastructure in partnership with the Government of Bhutan. The company is looking to expand its operations in other SAARC countries as well. Reliance Infocomm and Bharti Airtel have shown interest in bidding for a licence for GSM (global system for mobile communications) 2D cellular services in Bhutan. In 2004, Airtel signed the first-ever roaming agreement with Pakistan's Mobilink to provide mobile roaming facilities for its pre-paid and post-paid customers. There have also been attempts to lower tariff rates within the region. In November 2008, BSNL cut its international call rates to SAARC countries by 15–35 percent so as to enable customers, both mobile and landline, to make calls to Bangladesh, Bhutan, Maldives and Pakistan at cheaper rates.[22]

Two major Indian telecom firms, Bharti Airtel and Reliance Communications, have submitted a joint proposal to the Bangladesh Telecommunications Regulatory Commission to establish a telecom corridor through Bangladesh to reach the north-eastern part of India. They have expressed an interest in linking up with any Bangladeshi fibre optics operator to provide telecom services to the north-eastern Indian states. In return, they have offered a stand-by submarine cable to Bangladesh. This initiative could be mutually beneficial to both countries: the north-eastern states of India would benefit from lower rates (currently very high owing to their telecom services being provided through VSAT),[23] and Bangladesh would benefit from an alternative to its current dependence on a submarine cable from South-East Asia, which would enable it to avoid the disruptions it encounters from that undersea cable. The Indian companies have already brought Bhutan, Nepal and Pakistan into their submarine cable network, and this initiative would benefit Bangladesh by connecting it to the rest of the region. Internet service providers in Bangladesh have endorsed this proposal, but the Bangladesh Government is still undecided.

However, these ventures have not been without occasional problems. The first is due to anti-competition practices by incumbent operators, as experienced by the Bharti Airtel venture in Sri Lanka. The company complained that the incumbent mobile telecom operators in Sri Lanka had not provided them with adequate points of interconnection, causing call congestion.

A second challenge is that of security, as demonstrated by the case of Telenor Pakistan, which is interested in entering India. The Indian Foreign Investment Promotion Bureau is expected to approve the entry of Telenor into India and to grant the necessary security clearance for the firm to increase its stake in Unitech Wireless to the maximum limit of 74 percent. However, due to security concerns in India about possible spying and subversion, no employees from Telenor in Pakistan will be allowed to work for the Indian company, thereby keeping the human resources of the Indian and Pakistani arms of the company separate. Telenor, which is also a majority shareholder in Bangladesh's Grameenphone, was not seen as posing any major security risk when it entered Bangladesh.

A third issue concerns high roaming tariffs and termination charges for SAARC-originating international traffic (Samarajiva, 2008). The SAARC region has one of the highest intraregional

22 See: www.cellbharat.com/blog/2008/11/01/bsnl-cuts-international-call-rates-to-saarc-countries/ (accessed on 11 December 2008).

23 Currently, those rates are very high owing to their telecom services being provided through VSAT (very small aperture terminal), which is more expensive owing to limited capacity and congestion.

mobile tariff rates in the world. The cheapest intra-SAARC rate from Pakistan is four times that of the cheapest extra-SAARC rate from that country, and the cheapest rates from Sri Lanka to neighbouring SAARC countries are 40–50 percent higher than to the United States. In almost all the countries, the lowest rates charged to SAARC countries are higher than those charged to countries outside the region, including those to Europe, South-East Asia and the United States. High roaming tariffs are a deterrent to regional investment in the mobile telephony segment. The Telecom Regulatory Authority of India (TRAI) has raised this issue with the APT, wanting to find ways of reducing the global roaming rates within the region along the lines of the EU model. Reduced rates would enable Indian companies, such as Bharti Airtel, which are interested in penetrating other markets in the region, to offer attractive tariff packages to their subscribers in India when they are travelling to other SAARC countries. It has been proposed to reduce the termination charges for international calls originating in SAARC countries either by lowering them to the lowest charges on offer or by eliminating surcharges and levies currently applied to such calls.

Lower rates from SAARC countries to other parts of the world are due to the lower termination rates charged by the foreign operators who receive the calls. Lower call rates to the Asia-Pacific region and the United States are made possible because their telecom services are much more competitive and their governments do not maintain artificially high termination charges. India, Pakistan and Sri Lanka have reformed their telecoms the most, resulting in lower rates. Given that foreign operators are not likely to be charging higher prices for the remaining SAARC countries, the higher rates prevailing in these other countries could mean that their operators are not passing on the lower costs to their customers due to the lack of competition in those markets. The differing call rates also indicate that there is greater competition in the mobile telephone segment than in the fixed-line segment. The inability to lower call rates, despite discussions in SATRC, evidently shows a lack of political will.

3.5 Multilateral and other commitments in telecommunication services

All SAARC countries that are members of the WTO (except Maldives) have committed to liberalize their telecom services, with initial and revised offers under GATS (see annex 2, table A2.1). This highlights their willingness to negotiate telecom services and to bind in the liberalization policies discussed earlier.

Their commitments and offers reflect the general orientation of the SAARC countries towards multilateral liberalization of telecom services. The annex table shows that mode 3 has tended to be the most sensitive of all the modes with mostly partial commitments, but with a few exceptions. These conditions typically include limits on foreign equity participation, on the number of licences and on the type of foreign presence that is permitted. Fixed-line services tend to be more cautiously committed than value-added services, such as the Internet and data processing. Mobile communications tend to be more liberally scheduled than landline services. Countries have taken most-favoured-nation exemptions to apply different accounting rates to selected foreign operators or countries with which they have entered into international telecommunication service agreements. This includes telecommunications agreements entered into with other countries, which provide for preferential rates to be given to operators within the region.

There are differences in the scope and extent of liberalization undertaken by SAARC countries that are members of the WTO. Pakistan has scheduled the most segments within its telecom services and has also made very liberal commitments, with no restrictions in modes 1 and 2, and relatively liberal commitments even in mode 3 (allowing 100 percent participation in some segments). This is in line with the greater degree of unilateral liberalization undertaken in that country, as mentioned earlier. Nepal has, for the most part, made unrestricted commitments in all the segments it has scheduled, with mode 3 subject to a very liberal ceiling of 80 percent foreign equity participation. Its deeper commitments compared to those made by other countries in the region are on account of its recent accession to the WTO. Commitments by Bangladesh and Sri Lanka reflect a tendency to protect both government monopoly operators and incumbents, again in line with their unilateral policy stance. Bangladesh's commitments are particularly restrictive, with even mode 1 being subject to limitations. India's Uruguay Round commitments are narrow in scope and exclude long-distance and international voice services. The mode 3 commitments are quite restrictive, with foreign equity ceilings capped at 25 percent or 51 percent. Several of the modes remain unbound. However, India's revised offers are significantly more liberal, with a relaxation of the foreign equity ceiling and removal of conditions on foreign operators. This is unlike Pakistan and Sri Lanka whose initial offers remain unchanged for the most part.

A comparison of the commitments and offers with the unilateral liberalization and regulatory reforms undertaken by the SAARC countries suggests that they have not bound their existing policies and reforms in the WTO. For instance, although India permits FDI participation of up to 74 percent in basic and cellular services, in the WTO it offers participation of up to 49 percent. There are two possible explanations for this: SAARC countries may wish to retain their policy space to roll back their unilateral liberalization, if necessary, without violating their multilateral obligations; or they may wish to sequence their liberalization by first opening up unilaterally before committing multilaterally, after they have understood the consequences of liberalization and feel prepared to do so with appropriate conditions. None of the South Asian countries have not accepted the WTO's Telecom Reference Paper on regulatory principles in its entirety, although many of its pro-competition provisions have been accepted in their national telecommunications policies. This shows that the countries have not been prepared to lock in their regulatory reforms.

Telecom services do not feature prominently in most of the agreements that the SAARC countries have concluded with countries outside the region. However, whenever telecom services have been negotiated in those other agreements, such as in the Pakistan-China FTA, the Pakistan-Malaysia FTA or the India-Singapore Comprehensive Economic Cooperation Agreement (CECA), the commitments are more liberal than under GATS. For example, shareholding restrictions have been relaxed compared to the GATS offers, and additional subsectors have been scheduled in the bilateral agreements. This suggests that the South Asian countries may be willing to commit more liberally in the context of SAFTA than under GATS.

3.6 Looking ahead

In view of the preceding discussion on policy trends and outcomes and the status of intraregional cooperation in telecoms, what are the likely prospects for integration of telecom services within South Asia, and what are the main issues and challenges that would need to be addressed for this purpose? The evidence presents a mixed picture of both the opportunities and practical difficulties.

It is evident that, given the demographic and economic trends in South Asia, there remains considerable untapped potential in the telecom sector, and therefore promising prospects for its growth. All the countries in the region are interested in this sector from a development perspective. Improved telecom services could help them overcome the challenges of geography, reach out to remote areas, improve government efficiency through e-governance-related initiatives, improve delivery of services such as health care and education, and create opportunities in other sectors such as IT. Greater regional cooperation in this sector and better services could also help overcome the problem of poor land and air connectivity (as discussed at length later). Joint efforts for cross-border call tracking could also enhance security in the region.

There are several large operators, particularly in India, that have a strategic interest in investing in the other countries of South Asia in view of the expanding subscriber base, particularly in the mobile telephony segment. Many of those operators are also keen to enter into infrastructure-sharing arrangements with other South Asian countries to overcome geographic constraints. The opening up of telecom services to FDI creates opportunities for such intraregional investments and partnerships. There are also areas of common concern, such as roaming tariffs and harmonization of certain services within the region. The fact that the commitment schedules under GATS already make room for preferential accounting rates for operators within the region indicates that such initiatives may be feasible under a regional agreement.

Why then has there been such little progress in regional telecom initiatives? Apart from the general problems of lack of political will, strained relations between some of the larger member countries and limited intraregional trade that limits their interest in regional cooperation, there are certain other challenges, as pointed out in the preceding discussion. Although all the countries in the region have liberalized this sector to some extent, they still adopt an anti-competition policy stance that deters investors in certain markets. This is highlighted by the example of Bharti Airtel in Sri Lanka and the results of the survey on the telecom regulatory and policy environment for the various countries in the region. There are also issues relating to institutional transparency, regulatory independence, the investment climate and governance that need to be resolved to attract greater regional investment in this sector. The lack of a pro-competition policy orientation is reflected in the nature of the countries' GATS commitments and the fact that they have not adopted all the GATS Reference Paper principles. Regional investment in telecoms is also constrained by the fact that some segments still remain closed to private participation. Security concerns also hamper cross-border investments, the associated movement of persons and the sharing of telecom infrastructure among some of the member countries. In light of these challenges, it may be optimistic to expect rapid progress in regional integration of telecom services. Actions at both the regional and national levels in three main areas could spur progress, as discussed below.

First and foremost it would be important to accelerate the pace of discussions on regulatory cooperation and to deliver concrete results from initiatives on the harmonizing of numbers for identified services. Second, the countries need to focus on lowering intraregional call rates, given the wider benefits this could bring to many other sectors, including tourism, business travel, investment and potential outsourcing and ICT services within the region. However, it would require a more pro-competition policy stance within the countries to lower termination charges for calls originating in other SAARC countries and to pass on the benefits to consumers in these countries. The third issue to address is not specific to telecoms; it pertains to improving the investment climate and the institutional streamlining of investment approvals and clearances within the region. For several investment projects, even where the benefits are evident, there have been delays in approvals, resulting in uncertainties for investors and changes in their investment plans. In general, the South Asian region does not perform well in investment-related areas, such as setting up of businesses or governance structures. Because increased intraregional penetration and collaboration in telecom services will largely depend on investment opportunities, improving the investment climate operationally, and not just adopting a policy, is imperative.

Chapter 4

The importance of an efficient and well-regulated energy services sector is recognized. Access to secure, sustainable and reliable energy sources is critical for enabling developing countries to realize their long-term growth, equity and development objectives. Accordingly, many countries have undertaken significant reforms of their energy sectors to improve competitiveness and efficiency in energy supply and delivery. These reforms have ranged from allowing the entry of private participants – domestic and foreign, the unbundling of different services, restructuring of state utilities and the establishment of regulatory bodies. However, the reform process has been a complex one in many countries due to implications for a wide range of potentially conflicting commercial, social regulatory, infrastructural, geopolitical, national security and strategic objectives. In recent years, an important issue that has emerged regarding energy services concerns the scope and need for cross-country cooperation and regional integration with the objective of pooling energy resources and exploiting opportunities in energy trade. Various regional energy organizations and regional and subregional initiatives have been established to exploit complementarities in resource endowments and integrating power production and supply systems across countries.

In South Asia, growing demand for energy has consistently outpaced growth in energy production, making energy security and improved competitiveness and efficiency in the energy sector a priority for all governments. The region's demand for energy has been growing at a rate of 9 percent per annum, and the deficit in energy production has doubled in the past decade; costly, frequent and widespread power outages are a common phenomenon.[24] This hampers the region's growth prospects and makes most economies in South Asia highly dependent on energy imports and vulnerable to external shocks in energy prices. In the past decade or more, almost all the South Asian countries have embarked on power sector reforms, involving liberalization and promotion of private sector participation, promotion of foreign investment in energy infrastructure development, renewable energy and energy efficient technologies, expansion in the use of indigenous resources, diversification of energy supply sources and establishment of regulatory frameworks. There has also been considerable discussion about the need for regional cooperation in the energy sector, both under the auspices of SAARC and through bilateral and subregional initiatives. Many studies have highlighted the potential for energy trade in South Asia, given the geographical proximity and complementary energy resource endowments of the member countries. Governments in this region have become increasingly aware of the win-win possibilities of energy trade within South Asia. However, numerous political and institutional challenges have constrained this process, and cooperation and commercial efforts have remained confined to bilateral initiatives between certain SAARC member countries.

24 *South Asian Journal,* 'Energy Cooperation in South Asia', July–September 2005, at: www.southasianmedia.net/Magazine/Journal/ 9_energy_cooperation.htm (accessed on 30 October 2009).

This chapter assesses the scope for regional energy cooperation in South Asia and the opportunities and challenges. The first section examines the energy status of the region compared with other regions. The energy status of individual countries is also discussed to stress the importance of energy services for the region and to identify the region's energy needs. Section 2 outlines the regulatory reforms and liberalization undertaken in the energy sector and the related outcomes. It also discusses the status of multilateral and other energy-related commitments made by the South Asian countries and how these affect their readiness to negotiate commercial opportunities in energy services with other countries. Section 3 describes existing and proposed intraregional cooperation initiatives and regional projects at the governmental, multilateral and firm levels and in the SAARC context and the progress made. Section 4 outlines the main challenges to SAARC regional energy cooperation and commercialization. The final section outlines some policy measures and specific steps that could be taken to translate the countries' understanding of the value and possibilities for regional energy cooperation into reality.

Two important points need noting at the outset: the first concerns the meaning of the term 'energy services' as it is used here; the second pertains to regional resource availability and demand and what role trade can play. The term energy services as used in this chapter covers primary energy, renewable, non-renewable (from raw/fossil fuels such as coal, oil and natural gas) and secondary energy, which is the usable form into which primary energy may be converted, such as electricity. However, owing to difficulties in distinguishing between energy goods and services (rather than energy per se) with regard to energy trade, the chapter focuses mainly on activities such as energy exploration, production, transmission and distribution relating to electricity. While there is also discussion of trade in energy products, such as natural gas, which fall under the purview of trade in goods rather than services, even here the focus is mainly on the related services for transport, distribution, engineering and consulting, which form part of the energy value-added chain. Thus the term energy services is used rather broadly as per the GATS classification, in which such activities constitute energy-related services. Because many parts of South Asia are not yet connected to the electricity grid, the chapter focuses on how regional cooperation could be a means to alleviating this problem, such as through the larger players in the region investing in the smaller countries by providing foreign exchange earnings for the less-developed countries' electricity exports and through regulatory cooperation.

With regard to regional endowments and demand, although this chapter focuses on regional trade in energy services as a means of alleviating supply constraints, it is well recognized that regional resources and their pooling are not sufficient to meet the growing energy requirements. With an installed power generation capacity of about 152 gigawatts and an annual generation of around 740 terawatt hours, and with demand projected to grow at 6.6–11.5 percent per annum over the next two decades, regional trade in energy services will clearly not meet the gap (Ghani and Ahmed: 2009: 347). The chapter highlights how tapping complementarities within the region, with energy/electricity exports from surplus to deficit countries, in addition to various national policy actions, could help reduce the demand-supply gap of some of the larger countries while also providing export earnings to the smaller countries.

4.1 Status of the energy sector and its performance in South Asia

The South Asian countries rely on a mix of commercial energy sources, which include natural gas, oil, hydropower and coal. They are also highly dependent on energy imports, mainly in the form of oil imports. With electricity production unable to keep pace with growing demand, combined with high transmission and distribution losses and high energy intensity (the share of energy use per unit of output), energy security has become a major area of concern for all the governments in this region.

The SAARC region has the lowest energy consumption per capita among all geographic regions. Its per capita energy consumption (at 318 kg) of oil equivalent) is half that of ASEAN, around 60 percent that of Africa and roughly one fourth of the world average of 1,226 kg. of oil equivalent. This low consumption per capita in South Asia reflects the low levels of income in the region, the poor state of its energy infrastructure and lack of basic access to energy facilities for a significant proportion of the population. However, the region's average annual growth rate of per capita energy consumption of 1.4 percent in the 2000–2006 period was broadly comparable to that of other regions and exceeded the world average of 1.1 percent. Moreover, it has been showing an upward trend in recent years. The region has recorded one of the largest declines in energy intensity, greater than the average decline for the world, reflecting efficiency improvements in energy utilization over time. While all the SAARC countries have been exhibiting improvements in energy efficiency, India has recorded the greatest improvements during the past decade (UNESCAP, 2008).

Thus the picture that emerges is of a region that is confronted with infrastructural and accessibility problems in the energy sector, combined with growing energy requirements due to economic growth and rising incomes. There is a trend towards lower energy intensity in some countries as a result of their efforts to improve efficiency in energy use.

The SAARC region's dependence on energy imports has been increasing in recent years. Energy imports as a share of total energy supply increased from around 12 percent in 1990 to close to 30 percent in 2006, while comparable figures for the world indicate a decline over this same period, from 11 percent to around 9 percent, and likewise in other regions. This suggests that the growth in energy consumption in the South Asian region has not been matched by commensurate increases in energy supply, thereby increasing the region's overall dependence on energy imports. This dependence also reflects the lack of diversification and lack of indigenization of energy supply sources in the SAARC countries, with a continued dominance of coal and oil in their commercial energy mix. Yet at the same time, interestingly, intraregional energy exports among SAARC countries rose between 1990 and 2006, which indicates the potential for leveraging supply and demand complementarities and for further energy trade within the region (ibid.: 204).

4.1.1 Energy sector trends in individual countries

South Asia accounts for about 5.9 percent of the world's total commercial energy consumption. The countries in this region are endowed with a mix of energy resources, including hydropower, coal, natural gas and oil. Bangladesh and Pakistan have abundant natural gas reserves, India has coal reserves, and Bhutan and Nepal have considerable hydropower resources. None of the countries have significant oil reserves. This mix of energy resources largely determines the pattern of commercial energy consumption in the region and the countries' overall dependence on energy imports.

There are two noteworthy features of the resource endowments and energy production patterns in South Asia. First is the large, unexploited potential in most forms of energy resources, in particular, natural gas and hydropower resources. Less than 5 percent of the hydropower potential in Nepal and Bhutan has been exploited, and only a mere fraction of Bangladesh's natural gas reserves have been tapped thus far (table 4.1). The latter clearly reflects the need for huge investments in this sector if these countries are to become more self-reliant on indigenous resources. A second important feature is the complementarity of resource endowments among the countries, which indicates the scope for regional cooperation and trade to pool and harness each other's resources.

Table 4.1: Energy resource endowments and production in South Asian countries, 2003–2005

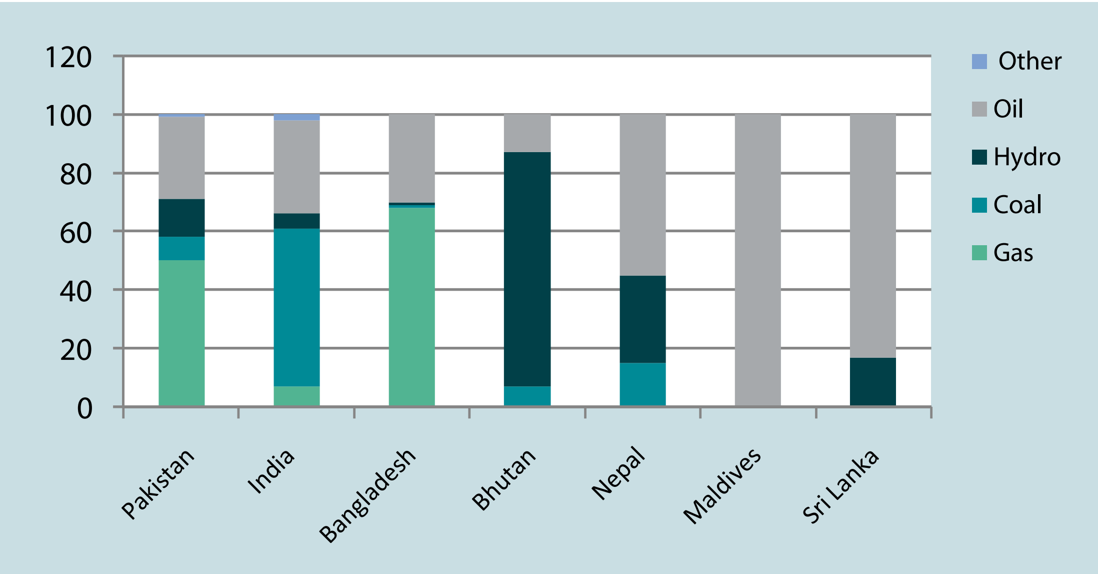
Resource		Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka
Oil	Oil reserves (Mt)	7.8	0	786	n.a.	0	105	14-18
	Oil production (Mt/year)	0.34	0	33.000	n.a.	0	3.100	0
Gas	Proven gas reserves (bcm)	580/ 810	n.a.	948	n.a.	0	1,300/ 5,700	0
	Gas production (bcm/day)	13.8	n.a.	32.680	n.a.	0	28.000	0
Coal	Coal reserves (Gt)	2.2	0	25/285	n.a.	Modest	185	0
	Coal production (Mt/year)	n.a.	0	409.000	n.a.	0	3.300	0
Hydro-power	Hydropower potential (MW)	755	23,760/ 30,000	84,000/ 150,000	n.a.	43,000/ 83,000	54,000	9,100
	Developed (MW)	230	468	32,300	n.a.	600	6,500	1,250
	Percentage harnessed (%)	30.5	1.9/1.6	38.5/21.5	n.a.	1.4/0.72	12.0	13.7

Source: Based on Malla, 2008: 5, table 5.

Note: Mt= million tons, Gt =gigatonnes, MW= megawatts, bcf = billion cubic feet, bb= billion barrels, bcm = billion cubic metres.
n.a. = not available.

The mix of energy usage also varies among the countries, in line with the varied endowment mix. For instance, India's energy basket is dominated by coal, which it has in large supply, while Bhutan's main source of energy is hydropower, as is Nepal's, though to a lesser extent, and Bangladesh relies heavily on its abundant supplies of natural gas (figure 4.1). The countries of South Asia lack diversity of energy resources, with all the countries relying on a single source for half or more of their energy requirements. Alternative and renewable energy sources account for only a negligible proportion of the energy basket and are evident only in India.

Figure 4.1: Commercial energy mix in South Asian countries (% shares)



Source: United States Agency for International Development (USAID), South Asia Regional Initiative/Energy (SARI/Energy) Program, 2006: 2–3, figure 2-1.

An examination of the data on electricity production and sources of electricity over the 1990–2004 period indicates that there has been some shift in the pattern of resource use in the larger countries. Bangladesh, India and Pakistan have increased their reliance on natural gas for electricity production and reduced their dependence on hydropower resources, while in Sri Lanka there is increased dependence on oil (table 4.2). South Asia as a whole is broadly comparable with the rest of the world in its use of gas, oil and hydropower as sources of electricity, but the region is more dependent on coal-based electricity production than the rest of the world and lags behind the world in nuclear-based electricity production. Thus, the countries are largely dependent on traditional sources of energy for electricity production, though natural gas has gradually been gaining in importance over the years. There is scope for regional cooperation and for trade and related investments in natural gas.

As noted earlier, the South Asian countries are dependent on energy imports to meet their commercial energy requirements. In 2004, energy imports constituted between 9 percent and 59 percent of their total (commercial and non-commercial) energy requirements, with an average import dependence of around 25 percent (figure 4.2). Excluding non-commercial energy sources, such as wood, animal waste and biomass, which constitute around half of the region's total energy consumption, the reliance on energy imports for meeting commercial energy requirements was very high, averaging around 53 percent, and ranging from 18 percent in Pakistan to 100 percent in Maldives.

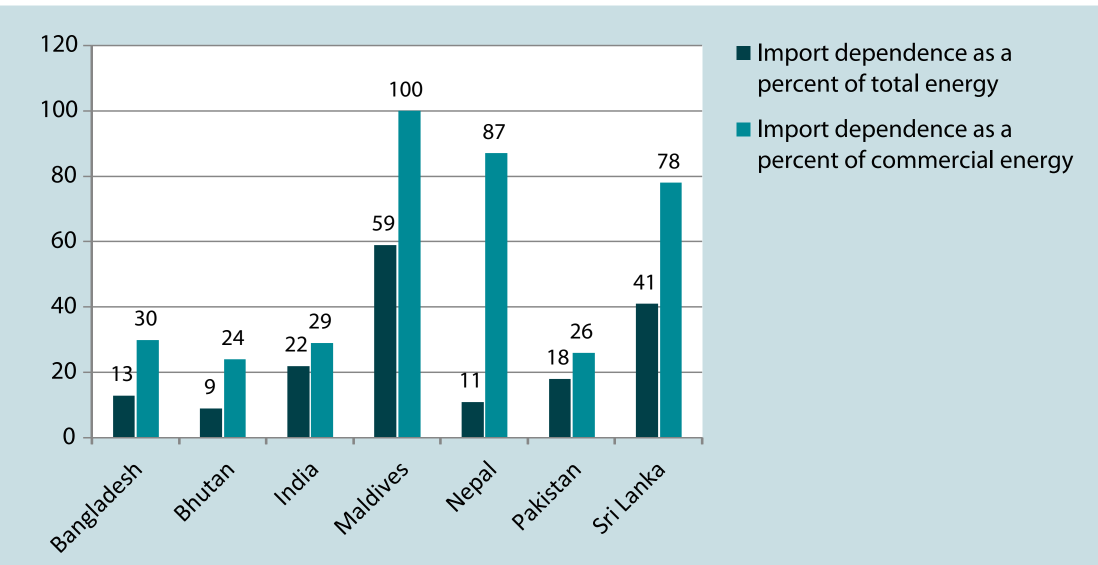
Table 4.2: Electricity production and sources in South Asia and the world, 1990 and 2004

Country/ region	Electricity production (billions of kWh)		Per capita electricity production (kWh)		Shares of various sources in total electricity production (%)									
					Coal		Gas		Oil		Hydropower		Nuclear	
	1990	2004	1990	2004	1990	2004	1990	2004	1990	2004	1990	2004	1990	2004
Bangladesh	7.7	21.5	–	149.3	–	–	84.3	87.5	4.3	6.7	11.4	5.7	–	–
Bhutan	–	–	–	–	–	–	–	–	–	–	–	–	–	–
India	289.4	667.8	–	618.9	65.5	69.1	3.4	9.5	4.3	5.4	24.8	12.7	2.1	2.5
Maldives	0.9	2.3	–	86.1	–	–	–	–	0.1	0.2	99.9	99.8	–	–
Nepal	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Pakistan	37.7	85.7	–	563.4	0.1	0.2	33.6	50.7	20.6	15.9	44.9	30	0.8	3.3
Sri Lanka	3.2	8	–	412.3	–	–	–	–	0.2	63.2	99.8	36.8	–	–
South Asia	338.9	785.3	–	549.7	55.8	58.7	8.6	16	6.1	7.1	27.6	14.9	1.9	2.5
World	11,787.7	17,372.6	–	28,250	38.1	39.8	13.8	19.7	10.3	6.4	18.1	16	17.1	15.8
Share of South Asia in world production (%)	2.8	4.5	–	19.4	–	–	–	–	–	–	–	–	–	–

Source: Reproduced from Malla, 2008: 10, table 5.

Note: kWh= kilowatt-hour.

Figure 4.2: Dependence of South Asian countries on energy imports, 2004 (%)



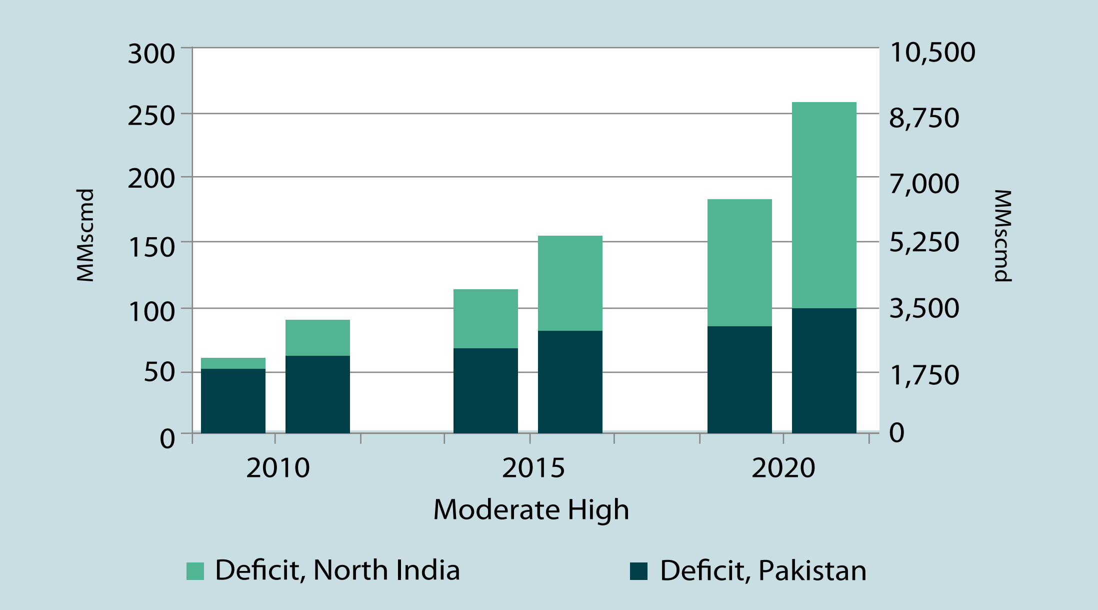
Source: Based on USAID, 2006: 2–5, tables 2–4.

Regarding import dependence over time, the data reveal that the share of imports in total energy supply has increased for the SAARC region as a whole and also for each of the countries over the 1990–2006 period. In particular, in India the share of imports in its total energy supply grew from 10 percent in 1990 to nearly 30 percent in 2006 (although this rise is broadly comparable to that witnessed in other high-growth economies in South-East Asia), and its energy imports increased 70 percent (in volume terms) over this period.

According to the United States Agency for International Development (USAID) (2006: 2-5), India and Pakistan can be characterized as energy-crisis countries, owing to their high energy intensity, their heavy dependence on energy imports as well as the large share of these imports as inputs in their exports. The latter is a reflection of the proportion of export earnings absorbed by energy imports and it also reflects their growing consumption of all major forms of energy supply, which has not been matched with commensurate growth in indigenous sources of energy supply or diversification to other forms of energy, as noted earlier.

Data on growth trends in energy consumption for oil, coal and natural gas indicate the predominance of certain energy sources in each country as well as some shifts in consumption patterns. In Bangladesh and India, consumption of natural gas has increased compared with that of other sources, as reflected in the growing share of natural gas in their energy baskets. In India, the greatest increase in imports over the 1990–2004 period has been in petroleum and coal, though there is a perceptible shift towards natural gas imports, as noted earlier in the context of electricity production (USAID, 2006). Projections for both India and Pakistan indicate increasing deficits in natural gas over the period 2010–2020 (figure 4.3). Thus, clearly, access to natural gas resources and exploitation of domestic deposits will be important for both these countries in the medium and long terms. At the same time, the growing demand and projected deficits of these two countries and Bangladesh's sizeable natural gas endowments points to considerable potential for trade in natural gas within the region (and also with countries outside the region).

Figure 4.3: Projected deficits in natural gas in India and Pakistan, 2010, 2015, 2020 (million metric standard cubic metres per day)



Source: Reproduced from World Bank, 2008: 42, figure 5.3.

Trends in electricity production and consumption indicate prospects of growing power shortages, particularly in the larger countries. This points to the potential for electricity trade through integration of power systems. Production of electricity has grown more slowly than its consumption in all the countries in South Asia. Data for Bhutan and India reflect bilateral trade in electricity (and associated cross-border investment flows) between these two countries and are indicative of the subregional potential for electricity trade in South Asia.

Table 4.3: Average growth of electricity production and consumption (%) and net electricity imports of South Asian countries (billion kWh)

Country	Consumption		Production*		Net electricity imports	
	1996–2000	2001–2006	1996–2000	2001–2006	2000	2005
Bangladesh	7.8	9.39	7.5	7.44	0	0
Bhutan	28.33	22.22	1.3	6.58	-1.44	-1.542
India	3.37	5.5	5.97	4.86	1.345	1.554
Maldives	0	16.67	0	16.67	0	0
Nepal	8.45	9.19	7.82	8.05	0.101	0.108
Pakistan	4.05	6.59	4.18	6.18	0	0
Sri Lanka	6.63	4.64	6.6	4.55	0	0

Source: United States Energy Information Administration, at: http://tonto.eia.doe.gov/countries/ (accessed 30 October 2009).

Note: *Electricity production refers to power generation from conventional thermal electricity, hydroelectric power, nuclear electric power, geothermal solar, wind, wood and waste.

Medium- and long-term projections estimate very high growth rates in demand for electricity from various energy sources in all the South Asian countries. Juxtaposing these projections and patterns of demand against the growing import dependence, relatively high energy intensity, capacity shortages and the nature of energy resource endowments of this region, it is evident that energy security is a critical issue for South Asian countries. Their main challenges, particularly for India and Pakistan, are securing increased access to diverse sources of energy as well as improving energy efficiency. For the smaller countries as well as Bangladesh, the most critical issue is improving their ability to exploit domestic energy resources and leveraging those resources to enhance their regional export opportunities.

4.2 Policy and regulatory reforms

The energy sector faces various infrastructural, institutional, operational and financial challenges in South Asia. Rapidly growing demand combined with supply shortages has been a major constraint on growth in the region. Energy utilities in South Asia are commercially unviable, with poor quality of service delivery. Only a minority of the population in the region has access to energy sources. Electricity transmission and distribution losses are very high due to leakage, weak networks and poor monitoring. In addition, energy-related environmental threats plague the region, which necessitates consideration of alternative and renewable energy sources and improvement in energy efficiency. Hence, there is a clear need for power sector reforms and associated institutional restructuring and privatization, as acknowledged in all the countries. However, reforms in the power sector are at varying stages of implementation in the different countries.

The main feature of these reforms has been the increased role of the private sector and liberalization of FDI in several important segments. Private participation in power generation is now allowed in all the countries, which in turn has attracted domestic and international investments in energy exploration and generation in many of them. The main form of private participation has been by independent power producers (IPPs) under long-term power purchase agreements, with the buyer typically the incumbent power company or the state electricity board. Bangladesh, India and Sri Lanka have encouraged private companies to participate in the exploration and production of oil and gas. In their drive for energy security, some of the countries have encouraged the acquisition of overseas energy assets by both their public and private sector companies.[25] Liberalization has led to the emergence of corporate players, especially in India, who are interested in investing in other markets in the region.

There have also been complementary structural reforms, including disinvestment, restructuring and corporati-zation of public sector companies, and moves towards more reasonable and competitive tariffs. The existing state-owned utilities have been unbundled

25 ONGC Videsh, which is a wholly owned subsidiary of India's largest oil and gas producer, has acquired oil and gas fields overseas. India's overseas investments in oil fields are expected to amount to US$3 billion in the near future.

into separate functional companies to improve their financial position and operational efficiency. Regulatory agencies have also been established. The structural reforms have been driven by explicit policies to improve access to electricity in all the countries of this region. India has liberalized the most, having opened up most of its energy segments.

As pointed out in many studies, reforms in South Asia need to go further. Although private contributions to the national generating capacity have increased to 20–30 percent, the public sector continues to dominate. The high tariffs charged by IPPs, due to perceived risks and the high cost of debt finance, have caused financial distress to the state electricity boards. They are faced with costly power purchase agreements while earning low revenues from retail electricity due to commercially unviable tariffs. Political interference continues to affect electricity pricing. Moreover, reforms have not been undertaken in the distribution sector. Commercial distribution at viable tariff rates is required to attract private investment in generation. Overall, the power industry continues to be plagued by poor governance, inefficiencies, lack of transparency and accountability, anti-competitive cross-subsidization policies, reversals of tariff increases and populist resistance to pro-competitive and commercially justified measures.

4.3 Multilateral and other commitments in energy services

None of the WTO member countries of South Asia have scheduled energy services under the WTO. This obviously reflects their unwillingness and unpreparedness to enter into negotiations on this sector multilaterally, despite having undertaken reforms to encourage private participation, both domestic and foreign. This conservative stance at the multilateral level is due to the sensitive nature of energy services, stemming from its geopolitical and strategic importance. It is also because the sector still remains largely state-dominated despite the entry of private players. Energy exploration is the main segment that has been opened up to private participation. Other segments, such as transmission, distribution and pricing, are still under the control of electricity boards and state-owned power utilities for various social and infrastructural reasons. Thus the regulatory environment is still not conducive to private investment and the playing field is still not level for public and private players, despite sectoral reforms in most countries of the region. Consequently, it is a sector where unilateral liberalization has proceeded more rapidly than multilateral liberalization, indicating that countries prefer to retain the possibility of reversing policies, if so required, and to learn from their unilateral liberalization before committing multilaterally.

The energy sector does figure in some of the bilateral and extraregional agreements signed by the SAARC member countries. For instance, the Pakistan-China FTA includes energy among the five major sectors identified for cooperation between the two countries. Likewise, the proposed Pakistan-Afghanistan Economic Cooperation Agreement includes energy and the specific issue of gas pipelines as an item for discussion. The India-Singapore CECA covers services incidental to electricity distribution. The proposed Bangladesh-United States Trade and Investment Framework Agreement and the proposed Bangladesh-Russia

FTA both cover the power sector. The energy sector is one area of focus of the BIMSTEC subregional agreement, to which several of the SAARC countries are signatories. Its stated objectives include establishing power exchange and grid connections among member countries, creating a common regulatory framework, installing a trans-BIMSTEC gas pipeline, promoting hydropower projects and the use of non-conventional sources of energy, and technical cooperation. Because many member countries of SAARC are also members of BIMSTEC, it is not surprising that many of the areas identified for cooperation are quite similar across the two regional blocs.

Overall, there has been significant reform and change in the operating and regulatory structure of energy services in most of the South Asian countries. The focus of deregulation has been to facilitate investments in infrastructure and in discovery of energy resources and to improve efficiency in energy utilization. However, the basic structure of state-owned utilities remains unchanged, though there are private players in selected segments, and non-commercial considerations still dominate the functioning of this sector.

4.4 Intraregional cooperation and initiatives

Member governments, both in the context of SAARC discussions as well as in bilateral discussions, have generally agreed that energy cooperation and trade in South Asia are important to address their energy security interests. Many studies have noted the scope for mutual benefit from exports of power generation surpluses from Bangladesh, Bhutan and Nepal to meet the huge power deficits in India. They have also pointed to the need to structure this generation mix in a way that will meet the region's demand patterns and enable the lowering of electricity prices for all the countries concerned. For instance, effective development of the huge hydropower potential of Bhutan and Nepal could serve regional electricity needs while also addressing those countries' trade deficits with partner countries like India. Tables 4.4 and 4.5 depict the potential for cross-border energy trade in the eastern, northern and western regions of SAARC, based on earlier studies.

Table 4.4: Overview of energy trade prospects in the eastern and northern SAARC regions

Exporting countries	Importing countries				
	Bangladesh	Bhutan	India	Nepal	Sri Lanka
Bangladesh		Small amounts of thermal power and gas connection possible via India	Natural gas and power exports possible	Small amounts of thermal power and gas connection possible via India	Not likely, due to distance
Bhutan	Some hydropower potential via India		Large quantities of hydropower exports possible	Unlikely, due to similar resources and seasonal shortages	Not likely, due to distance

Exporting countries	Importing countries				
	Bangladesh	Bhutan	India	Nepal	Sri Lanka
India	Sharing reserves, electricity swaps	Dry season support		Dry season and thermal power support	Dry season and thermal power support
Nepal	Some hydropower potential via India	Unlikely, due to similar resources and seasonal shortages	Large quantities of hydropower exports possible		Not likely, due to distance
Sri Lanka	No scope	No scope	Could provide peak power support	No scope	

Source: Based on World Bank, 2008a: xxvi, table ES2.

Note: Blue denotes that trade prospects are significant and are being exploited, or could be exploited, in the short to medium term. Dark blue denotes trade prospects could materialize in the medium term. Light blue denotes prospects may be limited and may materialize only in the medium to long terms. Very light blue denotes that prospects are weak or unlikely.

Table 4.5: Overview of energy trade prospects in the western SAARC region

Exporting countries inside and outside SAARC	Importing countries in SAARC	
	India	Pakistan
Afghanistan	Possibility of transit of gas	Possibility of transit of gas
India		Short-term trading in power and mutual support possible
Iran, Islamic Rep. of	Significant potential for gas exports and transit via Pakistan	Significant potential for gas exports, cross-border electricity trade could grow
Pakistan	Short-term trading in power and mutual support possible	

Source: Based on World Bank, 2008: xxiii, table ES1.

Note: Very light blue denotes trade prospects are significant. Light blue denotes possibilities in the medium to long terms. Blue denotes prospects related to developments in other countries.

There could be considerable direct benefits from energy cooperation in the region associated with investments in energy supply and demand technologies as well as environment-related outcomes. According to one source, the benefits could be as large as US$359 billion for the 2010–2030 period, or 0.98 percent of the region's GDP (Shukla et al., 2003: 114). The projected indirect benefits from such regional cooperation include the development of water markets, infrastructure development and increased agricultural productivity as a result of better irrigation. Hence, the cost of not cooperating in the energy sector would be quite high.

4.4.1 Bilateral and subregional cooperation: Successes and failures

Energy cooperation within SAARC has progressed mainly at the bilateral level, between India and Nepal and India and Bhutan. It has taken the form of energy exchanges and is largely confined to hydroelectric power, though there have also been some discussions regarding natural gas and renewable energy. In addition, there are some subregional initiatives, but these remain only at the conceptual stage so far.

The few instances of bilateral cooperation highlight the potential that exists in the region. The most successful case is that of electricity trade between Bhutan and India. Once an importer of electricity from India, today Bhutan exports about 75 percent of its electric power to India while importing all its petrol requirements from India. Its electricity exports are the single largest source of export earnings for Bhutan. The history of Indo-Bhutanese cooperation in the energy sector dates back to the 1960s, to the signing of the first bilateral agreement between the two countries. That agreement enabled the construction of a barrage in Bhutan and a power plant in West Bengal at an agreed rate of royalty payments by India to Bhutan and agreement on the supply of free power and on the export of power to parts of Bhutan from India.[26] The Bhutanese Government has received technical and financial assistance from the Indian Government for the development of its hydropower resources, including grant assistance for Bhutan's first hydroelectric plant at Joshina. Today, there are several hydropower projects from which Bhutan exports energy to India. For example, 84 percent of the energy generated from the Chukha plant (which was developed as a joint venture between the two countries' governments) is exported to India. The Power Trading Corporation (PTC) is responsible for this trade. During the 1992–2000 period, India purchased an average of 1,000 gigawatt-hours (GWh) of power per year. Another such joint project is the 60 MW Kurichhu Hydroelectric Power Project in eastern Bhutan, primarily for domestic consumption, but the surplus is sold by the PTC to India's Damodar Valley Corporation and West Bengal Electricity Board, and the generating units have been connected to the Indian grid. Another successful example is the 1,020 MW Tala Hydropower Project, which exports most of its output to northern India. This was also the first successful public-private partnership of its kind.

In 2006, the two governments signed a framework agreement on hydropower development and trade involving public and private participation. The agreement also covers issues of renewable energy and accelerated hydropower development. There are plans to jointly develop three more projects in Bhutan, in addition to upgrading the existing transmission link to enable 5,000 MW of electricity imports into India by 2020. Apart from the revenue and benefits related to energy supply, energy cooperation between Bhutan and India has yielded the wider benefits of increased merchandise trade, employment opportunities, construction and socio-economic development. The revenue inflows from the Tala project are being used by the Bhutanese Government to expand its social services network. The successful bilateral relationship between Bhutan and India has been made possible by political will, favourable terms of bilateral financing, political stability and good relations between the two countries.

26 Under the Jaldhaka Hydroelectric project, India supplies electricity to border towns in Bhutan.

Indo-Nepalese cooperation in energy has not been as successful due to political and infrastructural challenges. Nonetheless, some cases are worth highlighting, The cooperation has mainly involved Indian financial and technical assistance to four hydroelectric schemes in Nepal. The Power Trade Agreement signed between India and Nepal in 1996 allows contracting parties (both governmental and private) to enter into separate agreements for deciding terms and conditions regarding power supply and tariffs, thus creating opportunities for domestic and foreign private investors to invest in hydropower development in Nepal for the sale of power in India. India's Power Trading Corporation is in charge of issues pertaining to power exchange with Nepal and of finalizing commercial and technical arrangements with the Nepal Electricity Authority (NEA). The PTC and NEA are responsible for the sale of surplus power between the countries. There are 22 interconnection points between the two countries for power exchange. In 2004, Nepal supplied 110.7 GWh of electricity to India, which generated revenues of 573 million Nepalese rupees for the country. In turn, Nepal has received energy from India under the Koshi and Tanakpur treaties.

In view of India's growing energy demand and Nepal's large, untapped hydropower potential, there is an understanding between the two governments to increase the exchange of electricity by extending transmission lines at selected border points. Studies show that projects of about 42,000 MW are economically feasible in Nepal, while the country's current installed capacity is only 600 MW. For increased transfer of power, transmission facilities need to be expanded. Developing the transmission network could potentially enable Nepal to export power to India during the wet season and import power from India during the dry season. Towards this end, several other projects have been identified for cooperation, including the Pancheswar Multipurpose Project, the Sapta Kosi High Dam Multipurpose Project and the West Seti, Karnali and Burhi Gandaki projects. Some of these projects have the potential to generate huge amounts of peaking power and huge revenues for Nepal. Joint technical expert groups have been formed to prepare feasibility studies for some of the projects.

Tables 4.6 and 4.7 show the revenues generated from electricity sales by Bhutan and Nepal to India and indicate the importance of the Indian market for their energy resources. The benefits accruing to these countries from power trade with India are evident. Energy exports can clearly serve as a means of redressing the trade imbalance between these two countries and India. Indeed, the ADB projects that Bhutan's current-account deficit with India could move into surplus as a result of its hydropower exports (ADB, 2006).

Table 4.6: Power sales from Bhutan to India (in millions ngultrum)

Year	Exports of power to India	Total exports of principal commodities	Share of power exports in total exports (%)
2000	2,189.5	3,174.2	68.98
2001	2,072.0	3,271.5	63.33
2002	2,344.2	3,307.9	70.87
2003	2,603.5	3,629.8	71.73

Source: Reproduced from Srivastava and Mishra, 2007: 3363, table 2.

Table 4.7: Revenue from Nepal's electricity sales to India, 2000–2005

Year	Bulk supply to India (GWh)	Revenue (in millions Nepalese rupees)
2000	95.00	327.80
2001	126.00	396.06
2002	133.86	514.12
2003	192.2	809.0
2004	141.2	673.7
2005*	110.7	573.4

Source: Reproduced from Srivastava and Mishra, 2007: 3363, table 3.

The Indian Government's power import policy seeks to assist hydropower development in Nepal and Bhutan to facilitate electricity inflows into India and also provides for a greater role of private sector firms in this process. It aims to enhance India's energy security by gaining access to hydropower resources in these two neighbouring countries, particularly during peak periods of shortages in India. The key issues in taking forward these initiatives relate to the fixing of tariffs and mechanisms for tariff review, the extent of free power to be offered to the host country, the nature of the financial and technical assistance to be given by the Indian Government and the terms and conditions for developers and lenders.

India and Sri Lanka are in discussions about laying a transmission line between the two countries. This line would connect Madurai and New Anuradhapura substations and would be 385 km long, including a 30 km submarine cable. This cable would carry power from India to Sri Lanka but could potentially carry power in the reverse direction too, depending on seasonal variations and load profiles. The line would have an initial capacity of 500 MW and another 500 MW later.

Although much of the bilateral cooperation efforts in the energy sector in South Asia are driven by intergovern-mental agreements and initiatives, increasingly, bilateral energy cooperation is facilitated by the liberalization of the energy market, particularly in India. This has not only led to growing private sector participation and the presence of multinational energy companies in a range of activities in the region, including generation, transmission and distribution (excluding nuclear power); there has also been growing interest among private players to penetrate other markets. The opening up of the energy sector to international competitive bidding has made possible such cross-border private participation. Indian companies have submitted proposals for investments in other SAARC countries. The Government of Nepal awarded the 200-MW Upper Karnali hydroelectric project to the GMR group of companies in India.[27] Two Indian firms, the GMR Group and the state-owned Satluj Jai Vidyut Nigam, are setting up hydroelectric stations in Nepal. India's National Thermal Power Corporation has an agreement with Sri Lanka's Ceylon Electricity Board to develop a

27 This is a joint venture between GMR, as a majority partner and lead developer, and an Italian-Thai company. According to the memorandum of understanding between the parties and the Government of Nepal, the developers will provide 12 percent free energy to the Government of Nepal and 27 percent free equity to the NEA, and the project is on a build, operate, own and transfer (BOOT) basis.

coal-based power plant in that country. Indian Oil is one of the largest retailers of petroleum products in Sri Lanka.

The Tata Group recently submitted a proposal to develop an integrated steel and power facility in Bangladesh, which would use local gas and coal resources for generating electricity intended for export to India (although this proposal has since been withdrawn). Several Indian civil engineering firms, such as NCC Limited and Continental Construction Ltd., are in the running for contracts for hydroelectric power projects in Nepal. A wholly-owned subsidiary of the Tata Power Company Ltd. (TPC), TPTCL, is part owner of the transmission line between the Tala project in Bhutan and Delhi. It is entering into joint projects with SN Power, the largest IPP in Nepal, for the development of hydropower resources in Nepal, Bhutan and the border between India and Nepal. The Indian Government is increasingly looking at ways to help its private sector companies secure projects in Bhutan and Nepal, marking a shift from its traditional approach of using state-owned companies for energy diplomacy in the region.

Foreign investment is also playing a role in furthering regional cooperation in energy. As noted earlier, the opening up of this sector to FDI and its unbundling has created opportunities for cross-border investments by companies both within the region and outside. Multinational energy companies present in India and other countries in South Asia are showing interest in doing business in other countries in the region. The Government of Bhutan is considering allowing 100 percent foreign equity investment by Indian companies in several sectors, including hydropower.

In contrast to India-Nepal and India-Bhutan bilateral cooperation, cooperation between India and Pakistan and India and Bangladesh have been fraught with challenges and neither has materialized. For instance, there have been discussions about a pipeline for transporting natural gas from northeastern Bangladesh to West Bengal and north India. Firms such as Petrobangla in Bangladesh have shown interest in such export possibilities, but plans have stalled due to concerns about domestic availability and growing demand within Bangladesh.

Extraregional issues extending beyond SAARC to Myanmar to the east and to the Islamic Republic of Iran to the west have also complicated India's bilateral dynamic with Bangladesh and Pakistan. India has been keen to import gas from certain gas fields in Myanmar. The Oil and Natural Gas Corporation and the Gas Authority of India have 20 percent and 10 percent shares, respectively, in one of Myanmar's gas fields and have been interested in exporting via a gas pipeline that links the Myanmar gas field to India via Bangladesh. This was seen as a win-win project proposal: Bangladesh would have received investments of US$350 million and would have earned US$100 million in transmission fees, US$100 million as one-off, right-of-way charges and US$25 million each year for sharing management expertise, while India would have been able to import gas for its north-eastern state of Tripura and through Bangladesh to West Bengal. However, this proposal failed to materialize due to counter-demands by Bangladesh that India was not ready to meet for reasons of internal security and strategic interests. In return for transit rights, Bangladesh had insisted on a reduction of non-tariff barriers by India to reduce its trade imbalance with India, a corridor via India for Nepalese goods to reach Bangladeshi ports and access to Nepal and Bhutan through India for imports of hydroelectricity from those countries. The shelving of this pipeline project forced India to consider a longer route for transporting the gas from Myanmar that bypasses Bangladesh, thus also raising costs by an estimated US$3 billion. In turn, Bangladesh also lost a good opportunity to earn revenues and develop its energy infrastructure.

Likewise, India's plans to access natural gas reserves in the Islamic Republic of Iran through a gas pipeline from the latter's South Pars natural gas field via Afghanistan and Pakistan have not materialized. Pakistan was close to signing a pricing formula with India and the Islamic Republic of Iran for building this much-delayed US$7 billion pipeline. But the project was stillborn due in part to the failure of India and Pakistan to reach an agreement on account of security concerns and political differences as well as other geopolitical issues involving the Russian Federation and the United States. Again, this has meant that potential benefits to Pakistan in the form of infrastructure development, energy security and transit fees and to India in the form of increased energy security have been foregone.

Regional interconnection of transmission systems of these four countries has also been an area of focus under the USAID SARI/Energy programme. The Four Borders Region project under this programme aims at exploiting regional power transfer opportunities in order to improve power system reliability, diversify sources of energy supply, increase energy security, improve efficiency and lower costs to consumers. However, to date, this project has not been able to achieve power exchange between Bangladesh and the other countries.

Overall, the energy sector in South Asia remains much less integrated than in many other regions. Only the most minimal form of bilateral cooperation has been achieved and that too involves only a handful of countries within the region. Bilateral prospects between other sets of countries and subregional prospects across a wider group of countries still remain to be exploited. Most of the discussions have either not gone beyond the conceptual level or at most have made it only to the drawing board.

4.4.2 Regional forums and initiatives

There are some regional and subregional forums in which cross-border trade, investment and cooperation in the energy sector and possible synergies have been discussed. At the SAARC level, there have been efforts to facilitate dialogue on regional cooperation in the sector and to promote capacity-building and information dissemination. The real push came at the 12th SAARC Summit in 2004, where it was decided to undertake a study on South Asian Energy Cooperation, including the concept of an "energy ring" (i.e. a regional transmission link in the region, which would consist of transnational lines for trade in electricity, gas and oil).[28] The

28 In 2002, a SAARC technical committee on energy and power recommended a power grid that would run through Bangladesh, Nepal, India and Bhutan, which would provide 100,000 MW of power for use by all four countries (World Bank, 2008).

joint statement by SAARC energy ministers clearly recognizes the importance of regional cooperation for promoting trade and investment in the energy sector and its bearing on accelerated social, economic, industrial and technological development in the region.

The SAARC Working Group on Energy has also identified a number of areas for regional cooperation. The SAARC Energy Centre (SEC) was established in March 2006 in Islamabad. So far, the work under SAARC, and specifically the SEC, has focused on matters such as renewable energy projects in South Asia, developing a regional energy database, training workshops for sharing experiences and best practices, interdependence of policies in the energy sector and in other sectors, and exchanges of experts and officials of energy research institutes in the region. An agreement has been signed between the SAARC Secretariat and the ADB for technical assistance to SAARC on energy sector dialogue and the SEC's capacity development project, which mainly consists of a SAARC regional energy trade study. A regional committee prepared a survey report on the demand for surplus power and electricity as well as a load forecast over the medium term, which is to form the basis for discussing energy trade in the region. However, most of the discussions under SAARC remain simply proposals and vision statements, with no concrete outcomes.

Various multilateral and other funding agencies have also shown considerable interest in promoting regional energy cooperation in South Asia. One of these is the aforementioned SARI/Energy programme of USAID, which aims to promote energy security through three activities: cross-border energy trade, creation of energy markets and partnerships to facilitate access to clean energy. This should enable more efficient regional energy resource utilization, increase the region access to energy sources and mitigate the environmental impacts of energy production. In the context of cross-border trade, the main focus of this regional initiative is to identify potential energy projects and to provide technical assistance for the development of projects. Some of those efforts include pre-feasibility studies of projects (such as the Nepal-India petroleum pipeline); a power exchange tracker, which would provide a profile of the cross-border exchange of electricity, investment infrastructure and potential for additional cross-border exchange among SARI/Energy participating countries; and a regional clean coal partnership. With regard to promoting regional energy markets, SARI's activities have focused on information dissemination and capacity-building. On clean energy access, there have been some activities to support private sector financial institutions to set up equity and venture funds for investments in clean energy projects and to engage the private sector in the region in various clean energy projects, such as in hydropower and energy efficiency programmes. But as with SAARC, the bulk of the work has been related to capacity-building, best practices sharing and identification of possibilities rather than actual implementation of concrete projects.

Other multilateral agencies such as the World Bank and the ADB have also been involved in country-level as well as cross-country projects at a bilateral level, mainly in the form of technical and financial assistance. Clearly, this sector has attracted considerable attention from various funding agencies in the context of infrastructure financing, investment, public-private partnerships, electricity reforms and technical assistance-related issues of importance to this sector.

4.5 Obstacles to the creation of a regional energy market

Although there has been some progress with energy cooperation and trade at the bilateral level, these remain confined to isolated projects. There has been only a limited attempt to systematically tap the region's energy potential. For instance, there is still no transmission grid with sufficient capacity to carry hydropower from Nepal and Bhutan to India, and no regional transmission grid. Subregional cooperation has failed and energy cooperation between some partner countries has not taken off at all. South Asia thus remains one of the least integrated regions for energy.

This situation is due to a variety of political, institutional, infrastructural and geographic factors. Perhaps the greatest challenge is the political and security situation in the region. Political instability in Bangladesh, Nepal and Sri Lanka has deterred investments in the energy sector in these countries, thus inhibiting the scope for energy trade. Poor political relations and misgivings between several countries in SAARC have been a major deterrent. Implementation of important treaties has been held up due to political tensions between governments, such as India and Nepal. The possible export of surplus power to India by IPPs in Pakistan failed due to strained relations and uncertainties about possible supply disruptions. Likewise, political misgivings led to the failure of a proposal for gas and power export from Bangladesh to India by Indian and international investors. The absence of good political relations and trust between key players in the region and the lack of political stability in several of the countries has made the climate unattractive for bilateral and intraregional cooperation in the energy sector.

A related constraint is the prevailing ideology of self-sufficiency that underlies moves towards energy security. Energy exports are seen as cutting into the domestic supply of energy resources and creating future uncertainties, rather than as a means to achieving greater energy security and improved efficiency, with wider implications for economic growth. Such a mindset, which perceives trade in energy as nothing more than trade and does not recognize its longer-term benefits, is a major deterrent to regional energy cooperation.

Another constraining factor is the lack of institutional arrangements and lead institutions responsible for energy cooperation arrangements. Moreover, the institutional capacity for power development, planning and implementation in the region is inadequate. Joint development and utilization of power is impeded by the absence of a regional network of institutions and the lack of identified focal institutions in each country to work out power purchase agreements and the procedural and legal issues involved. There is also an absence of regional power trading frameworks to establish basic principles of power trading and the rights and obligations of participants, which would define the procedures for full-cost recovery and outline the elements for equitable sharing of benefits. One of the problems in this regard has been a lack of clarity on how to integrate and expand the electricity grids in the region. Without such frameworks, intergovernmental agreements in the energy sector cannot be drafted. Despite inadequate technical and planning capabilities in several South Asian countries, they have been reluctant to cooperate with countries, such as India, which have this technical capacity.[29]

There are also infrastructural and resource-specific challenges. Cross-border electricity trading is constrained by the absence of a transmission grid with enough capacity to carry hydropower from Nepal and Bhutan to India, as well as the absence of generation plants, causing most of the potential in hydropower to remain untapped. According to some studies, given the dynamics of energy demand in India, the unpredictability of river flows and high costs of hydropower development, regional transmission lines may be difficult to build and there is unlikely to be any large-scale development to serve regional demand in the foreseeable future. Some experts have noted that given the infrastructural requirements and resource dynamics of this region, the likely scenario would be isolated projects with dedicated plants to load centres in India rather than a regional transmission grid.

The ownership and financing structure in the energy sector of the South Asian countries is also problematic: It is not mature enough to support regional cooperation. Although reforms have made possible a greater role for the private sector, created multiple buyers and sellers and led to the establishment of regulatory bodies, public players still predominate and the role of private players is still limited. The poor operational and financial performance of electricity utilities in the South Asian countries constrains energy trade and investment in the region. The utilities suffer from problems of low quality and unreliable power systems, large losses due to uneconomic pricing and misuse of power and huge supply constraints, which result in load shedding and power shortages during peak hours. For instance, the total financial losses of all SEBs in India amounted to US$4.9 billion, or 1.2 percent of GDP, in 2005, while Nepal's loss was as high as 25 percent in 2005 and that of the Bangladesh Power Development Board exceeded US$100 million in 2006. Financial constraints in turn pose a serious problem for energy development. Thus it is extremely difficult for the region's power utilities to fulfil contractual obligations with IPPs and to engage in power trade arrangements.

Another major problem is the lack of commercial considerations in the pricing of power and the lack of trans-parency and accountability in the region's power systems. Without economic rationalization of power tariffs and harmonization of pricing policies among the South Asian countries, public undertakings have a problem paying IPPs their asking price for power while at the same time having to charge low rates to customers. Regional electricity trade would require that the power generated be made available at competitive prices for export to neighbouring countries, which in turn would require regulatory cooperation among the countries.

29 This is also why there has not been a wider integration of energy, environment and transport systems in the region.

In sum, the unstable political environment, lack of infrastructure, inadequate institutional and legal frameworks, lack of political commitment and economic barriers are obstacles to regional energy cooperation. Such factors have made it difficult to harmonize regulations, agree on common policies and standards and develop trading mechanisms.

4.6 Steps needed to deepen energy integration

It is evident from the preceding discussion that opportunities for intraregional trade in energy remain largely untapped in South Asia. This is despite complementarities of energy resource endowments and energy consumption needs, which could be used to contribute to the larger objective of energy security. However, governments in this region are increasingly becoming aware of the win-win opportunities offered by such trade, particularly in electricity and natural gas. They are also looking to extend commercial relations beyond the South Asian region to countries such as the Islamic Republic of Iran, Myanmar and Turkmenistan.

As outlined in several studies by the World Bank, USAID, ADB and SAARC, energy integration in the region would require political will and agreement on some basic principles and on mutually beneficial sustainable solutions. Agreement would need to be based on an evaluation of existing studies on energy cooperation in the region, an understanding of the implications of the current regulatory and policy environment for regional energy cooperation, an evaluation of the trade-offs between trade versus self-sufficiency in energy, assessment of the technical and economic feasibility of an integrated electricity network in the region and an examination of contractual obligations and terms of agreement for trade in energy. Without agreement and understanding of these issues, it would not be possible to undertake any sustainable initiative. Moreover, given the complexities of cooperation in the energy sector, it would also be best to take a gradual approach, selecting pilot projects and building up confidence to move from small to larger initiatives.

To reach such agreement on principles and mutually sustainable solutions, regional cooperation initiatives will be needed at the institutional, infrastructural, informational and regulatory levels. First and foremost there is need for institutional cooperation. One possibility is to set up an apex regional body consisting of state-owned and leading private sector companies that are engaged in energy exploration, production and sales in the region. So far, institutional cooperation has taken place mainly among government officials at various SAARC summits and under the aegis of the SAARC Energy Centre. There is need for dialogue among energy companies, both public and private, that are operating in the region, as regional cooperation in energy will involve joint ventures, BOOT arrangements and public-private partnership arrangements. Given the growing role of private players in the energy sector, it would be important to create an association or forum that brings together key private companies, such as ONGC, Petrobangla, Gas Authority of India Ltd., Sui Gas of Pakistan and Ceylon Petroleum Corporation of Sri Lanka. They could jointly undertake assessments of material and other resources pertinent to the energy sector in this region, R&D, collective action on renewable energy sources and improving energy efficiency, sharing of information and experiences to evaluate the benefits of cooperation and capacity-building through seminars and training programmes. Such joint initiatives would also help develop a common understanding of the issues involved in regional energy cooperation, bring together technical knowledge and expertise available in the region and complement the work of other regional bodies, such as the SAARC Energy Centre.

Dialogue is also required through a broad-based regional forum encompassing a range of stakeholders in this sector, including private and public institutions, industry, regulatory authorities, civil society, experts, government officials, industry associations, academics and multilateral agencies. Such wide participation will be needed because of the cross-cutting nature of issues associated with energy development and trade. Discussions could cover subjects such as the establishment of a SAARC grid, social and environmental impacts resulting from the exploitation of energy resources, financing of energy projects, technical specifications and standards, contractual arrangements and alternative energy sources. Such discussions, as well as multi-stakeholder dialogue in the region, would need to be complemented by information gathering and dissemination about this sector. An information databank covering aspects such as renewable energy, trends in energy supply and demand, the regulatory and policy environment, not only in energy services but also in related areas such as energy products and equipment, investment opportunities, energy conservation and efficiency efforts and R&D activities, could provide a boost to regional cooperation. Sharing of information and technology on electric power and gas, in particular, would be useful because they are the main basis for establishing a regional electricity grid and promoting trade in natural gas.

The energy ring concept needs further discussion before it can be implemented. There are already grid interconnections between India and Nepal and between India and Bhutan, and technical studies have been done to assess the feasibility of similar transmission links from India with Sri Lanka and Bangladesh. This will need agreement to move beyond bilateral arrangements to a plurilateral approach, which in the past has been resisted by some member countries.[30] The way forward could be through a step-by-step approach to interconnection, building on existing bilateral treaties on power exports to the eventual creation of a SAARC grid. First of all, cooperation could be promoted by interconnecting national networks, enabling power exchange and sharing among countries in times of need and making better use of existing generation. This would also lead to coordination of their generation systems, which would be required as a first step in establishing a power grid. This could be followed by short- and long-term power exchanges using these interconnections, based on an evaluation of the supply and demand characteristics of the various networks. Such exchanges would move the participating countries closer to a coordinated approach by increasing the interdependence of their operations. The next step could be joint

30 For example, in 1998, SARI had proposed the creation of an 80,000 MW power reserve to supply electricity to Bangladesh, Bhutan, India and Nepal. However, it could not be implemented because India preferred bilateral agreements with the respective countries.

planning, design, funding, construction and operation of transmission lines and, finally, joint construction of power stations with associated power trade on a plurilateral basis.

It has been suggested that some of these joint projects could start with promising subregional electric power and natural gas projects to be undertaken on a priority basis. Success in these projects could be used to build mutual trust and confidence, leading to the development of larger regional projects. The possibility of lagged cooperation has also been proposed, whereby country A would provide the energy resource to country B for a defined period, while country B would be required to provide country A with the contracted amount of energy in the future. Such an arrangement would address concerns over future shortages and uncertainties about future demand in exporting countries, while taking into account the possibilities of future resource discoveries in the importing countries. But studies are required to assess the costs and benefits of such lagged cooperation arrangements.

Another area of focus could be trade in natural gas in a subregional context, involving India, the Islamic Republic of Iran and Pakistan and Bangladesh, India and Myanmar, and associated issues of transit, security and geopolitics. This can only be addressed through political dialogue between governments, complemented by initiatives of private sector entities interested in such trade. Some concerns could be allayed through such discussions (though there are additional complexities concerning the western energy grid, which involves Afghanistan, India, the Islamic Republic of Iran and Pakistan, due to well-known sensitivities on the part of the United States). With regard to the India-Pakistan natural gas transit, the main concern has been the possibility of disruptions in supply and threats of stoppage at times of heightened political tensions. Regular discussions could overcome this obstacle by reassurances that, as a transit and consumer country and given private sector investment by Pakistani companies in the pipeline, it would not be in Pakistan's interest to disrupt supply for political purposes. Regular discussions could help provide an understanding of the costs of not cooperating. The ultimate requirement, of course, is political will, which unfortunately seems unlikely in the near term due to the current political climate and instability in Pakistan, which have soured relations with India. Prospects for trade in natural gas between Bangladesh and India seem more promising under the new government in Bangladesh. However, companies such as Petrobangla and Gas Authority of India Limited (GAIL), which have a stake in such trade, will need to push their governments in these efforts.

It is also important to recognize that, owing to the geopolitical complexities involved in trade in natural gas, it may not be advisable to link up third-country and plurilateral issues, as this would only delay progress. Other forums could be used in parallel to discuss other issues, such as those relating to non-tariff barriers affecting Bangladesh's exports to India and access to Nepal and Bhutan via India, which have been raised by Bangladesh in the past. These other issues should not be made a precondition for energy trade, as this would only make energy cooperation discussions more complicated and delay agreement and implementation.

Cross-border investment in the region will continue to be hampered by inefficient public sector utilities and electricity boards. Sale of power by IPPs under power purchase agreements to unreformed SEBs will not lead to increased private investment for reasons outlined earlier. The power that is generated needs to be available at prices that are competitive for export to neighbouring countries. Hence, further reforms of the SEBs, in the form of more competitive retail pricing of electricity, greater commercial discipline and less political interference in the their functioning, would be required to make regional investments and cross-border sales of electricity viable. Such reforms would also help make the investment climate more conducive to attracting and retaining private investors, both foreign and domestic. This would be essential for helping to overcome the financial resource constraints facing governments in developing this sector.

Clean and alternative energy is another area that offers scope for regional cooperation, given the growing energy requirements in the region and environmental concerns arising from a heavy dependence on fossil fuels. Owing to the growing focus on the development of renewable energy resources, this is an area of common interest, and there are possibilities for initiating joint projects. For instance, the potential for wind energy in South Asia remains unexplored. Modern and cost-effective indigenous wind power technologies are available in India, but because Pakistan does not permit the payment of technology fees to India, it imports higher-cost technologies from the West. Thus there is scope for launching a bilateral wind energy technology-sharing project. Likewise, joint biofuel projects could be initiated in the region, particularly as some of the countries, such as Sri Lanka and India, are increasingly interested in promoting bio diesel production. Joint feasibility studies, joint development projects and analyses of the environmental and socio-economic consequences of alternative and renewable energy sources could be carried out within the region.

Because energy trade requires costly infrastructure, if regional cooperation in energy is to succeed there is need for a legally binding instrument, such as a charter or treatyalong the lines of the Energy Charter Treaty. This multilateral treaty to promote East-West cooperation in the energy sector provides a useful model for promoting regional cooperation in South Asia. It covers issues of investment, trade, transit, safeguards for investors and dispute resolution. It is important that SAARC countries sign up to this or a similar treaty because it would provide a framework of rules and would help create a level playing field among the member countries, thus reducing the risks associated with energy-related trade and investment. Underlying this agreement on a regional charter on energy would be cooperation on the legal and regulatory framework and harmonization of energy policies. Given the varying stages of reform in this sector among the South Asian countries, it would be necessary to review the existing legal and regulatory frameworks in the region, the approaches to private investment in the different countries, their tariff-setting principles and issues relating to standards and specifications.

Institutional frameworks for energy trade would also need to be developed. Past arrangements have been ad hoc, mostly driven by bilateral negotiations and goodwill. But extending such trade, including substantial trade in power, to a subregional or regional level, will require detailed frameworks for contractual arrangements and operating procedures. In this regard, the idea of a SAARC Regional Power Trading Corporation has been proposed to provide a market mechanism for energy trade. This institution would maintain and provide information on plant structures, production costs, sales prices, utilization rates, profitability, market conditions, consumer demand and investments. Accordingly, it would have to gather and analyse information on generation, demand, transmission, payment and market operations. Such a mechanism could help in the development of a bidding system for power generation projects in the region.

In sum, a combination of political, institutional, technical and commercial efforts will be needed to accelerate the process of energy integration in South Asia. The various elements of cooperation and the approaches suggested are not new; they have been proposed in numerous studies, which have also stressed the importance of political will, improved political relations and a better political climate in the region. However, it may be worth considering the reverse, namely that economic integration in a sector such as energy, where there are substantial benefits to be derived, could help build mutual trust and confidence, which in turn could help improve political and economic relations in the region. The potential development benefits in terms of improved and diversified sources of energy and improved regional infrastructure could be significant.

The preceding discussion has focused on regional cooperation as a means to promoting regional and national energy security in order to sustain economic growth and development in South Asia. As is evident, the prospects for such cooperation depend on the reliability of energy supply in the individual countries, their existing infrastructure for its supply and the extent of the domestic demand-supply gap, in addition to issues of geopolitical uncertainties and transit difficulties involved in energy cooperation. But another very important dimension, that of energy security, also needs to be assessed in the context of regional integration. South Asia is characterized by widespread energy poverty, reflected in low access to electricity and modern fuels: More than 600 million people have no access to electricity and depend heavily on traditional biomass fuels as the primary source of energy. To what extent could regional cooperation in services enhance the availability of adequate, affordable, safe and reliable "modern" energy to all segments of the population, especially the poor and disadvantaged? This would depend on the priority given to implementation of regional energy projects and construction of transmission links. In addition, discussions and initiatives are needed to address a variety of issues that go beyond power generation, including minimizing carbon emissions, integrated river basin management and water-sharing agreements, climate change and its impact on the supply of natural resources and regional optimization of primary energy resources. Cooperation on clean and alternative energy sources could promote the diversification of countries' energy baskets and energy security for all. And regional efforts to enhance national energy security are likely to have positive spillover effects on energy security as well.

Chapter 5

Tourism is the world's largest and fastest-growing service industry. Within the South Asia region too, the sector has grown considerably in recent years and presents significant opportunities for further development. It is usually one of the easiest sectors to negotiate in bilateral and regional talks, owing to its non-controversial and largely commercial nature. It is therefore not surprising that negotiations and cooperation on tourism issues have progressed much more than in other sectors, not only subregionally within SASEC and BIMSTEC but also regionally within SAARC. The South Asian countries recognize tourism as an area with considerable potential for intraregional growth, and they therefore see the need to deepen integration of this sector. To date, little has been achieved in concrete terms, despite many discussions and joint declarations about this sector.

This chapter examines the status of cooperation and trade in tourism in South Asia, the associated constraints, and how its regional integration could be promoted. Section 1 outlines recent growth, employment and investment trends in tourism services in South Asia and compares these with other regions. Section 2 summarizes the regulatory and policy environment and recent developments with regard to FDI, domestic private sector participation and other institutional aspects. Section 3 discusses the extent and nature of intraregional tourism trade and cooperation in South Asia at the intergovernmental, private sector, subregional and multilateral levels. It also highlights industry initiatives with regard to cross-border investments in the tourism industry. Section 4 outlines the main constraints affecting intraregional cooperation in tourism services, focusing in particular on issues of connectivity, mobility of persons and investment. Section 5 presents the status of multilateral and other commitments by the South Asian countries in tourism services to highlight their preparedness to negotiate and liberalize under a regional agreement. Section 6 discusses the way forward.

5.1 Tourism trends in South Asia

Tourism in South Asia compares quite poorly with the rest of the world, accounting for a negligible share of international tourist arrivals and receipts. According to the United Nations World Tourism Organization (UNWTO), in 2007 this region accounted for only 1.2 percent of world tourist arrivals compared with destinations such as Europe, North America and emerging destinations in East Asia, which account for 52.9 percent, 10.6 percent and 11.3 percent, respectively.[31] Nevertheless, it is encouraging to note that South Asia has recorded a robust average annual growth rate of 7.1 percent over the past decade, although this growth is mainly due to increased tourist arrivals into India. The only other regions with higher growth rates are West Asia, Central America and North-East Asia. This points to the

31 UNWTO website at: www.unwto.org/facts/eng/indicators.htm (accessed 12 December 2009).

growing popularity of the region among international travelers, and consequently to the potential for further development of tourism in the region.

In terms of tourism receipts, South Asia received US$13.4 billion in 2007, which represents only 1.6 percent of total world receipts from tourism (table 5.1). While this is a negligible share, it is noteworthy that the region's market share in world tourism receipts is higher than its market share in world tourist arrivals, implying relatively higher spending per capita by tourists in this region than in some other parts of the world. In 2007, South Asia recorded the highest tourist receipts per arrival, of US$1,367.35, far higher than the world average of US$947.95 (table 5.1). The reasons for this higher spending per capita and the proportion of those receipts that remain in the region are unclear, but it is indicative of the potential capacity of this region to attract high-spending tourists resulting in greater economic gains.

Table 5.1: Trends in international tourist arrivals and tourism receipts, by region/subregion

	International tourist arrivals					International tourism receipts		Receipts per arrival in 2007* (US$)
	Numbers (in millions)			Market share (%)	Average annual growth rate of arrivals (%)	Receipts (US$ billion)	Market share (%)	
	1990	2000	2008	2008	2000-2007	2007	2007	
World	436	683	924	100	4.1	856	100	947.95
Europe	262.6	393.5	488.5	52.9	3.0	433.4	50.6	894.72
North America	71.7	91.5	98.4	10.6	0.6	125.1	14.6	1,312.70
Caribbean	11.4	17.1	19.7	2.1	1.9	22.6	2.6	1,158.97
Central America	1.9	4.3	8.4	0.9	8.6	6.3	0.7	818.18
Africa	15.2	27.9	46.9	5.1	6.9	28.3	3.3	637.39
Middle East	9.6	24.4	52.9	5.7	10.0	34.2	4.0	718.49
North-East Asia	26.4	58.3	104.7	11.3	8.6	89.2	10.4	856.05
South-East Asia	21.1	35.6	61.8	6.7	7.6	54.0	6.3	906.04
South Asia	3.2	6.1	11.3	1.2	7.1	13.4	1.6	1,367.35

Source: United Nations World Tourism Organization database, at: www.unwto.org/facts/eng/indicators.htm (accessed 12 December 2009)

Note: *Calculated by dividing total receipts (after converting into US$ million) by total arrivals.

The tourism sector is an important contributor to GDP and employment in the South Asia region. It is expected to generate US$84 billion in the region, of which the direct impact would amount to US$34 billion and the remainder would be in the form of indirect and extended benefits to other sections of the economy (e.g. transportation).[32] The travel and tourism sector accounts for 5.5 percent of the region's GDP, 5.8 percent of its employment, 6.1 percent of its total exports and 7.7 percent of its capital investment. Over the past decade, South Asia has registered the highest average annual growth rate in tourism receipts, at 9 percent, which is far higher than that of other developing regions, such as West Asia or South-East Asia. While the latter two regions have recorded higher growth rates of tourist arrivals, South Asia has benefitted from higher receipts per arrival than these other regions.

There has also been significant growth in tourism-related employment, with a CAGR of 4 percent over the 2001–2008 period for the South Asian region as a whole, exceeded only by one other region, the Middle East. However, employment growth in tourism has not been commensurate with its GDP growth, which raises issues concerning the long-term development and sustainability of growth in this sector and the desirable pattern of its development.

Over the past decade, there has also been very high growth in capital investment and government expenditures in the tourism sector, with South Asia again registering higher growth rates than other developing regions. The average annual growth rate of capital investment was more than 12 percent and for government expenditure it was 6 percent (WTTC, 2009).[33] The growing government expenditures in tourism indicate that governments in this region are according greater attention to this sector due to its potential for generating employment and creating economy-wide gains.

Given such promising growth trends, international agencies like the UNWTO and the World Travel and Tourism Council (WTTC) have made very optimistic forecasts for tourism in South Asia. The WTTC projects that the tourism sector will register an average annual growth rate of 6.3 percent in output, 2.2 percent in employment and 8 percent in capital investment between 2009 and 2019, and that the region's tourism economy will reach US$224.9 billion in a decade.[34] The UNWTO (2007), in its *Tourism 2020 Vision* document, estimates that South Asia will record 19 million international arrivals by 2020, growing at an average annual rate of 6.2 percent over the period 1995–2020. Individual country-level forecasts predict that this growth will be led by arrivals into India, with an estimated 8.9 million arrivals by 2020, followed by Nepal, Sri Lanka and Maldives. Outbound tourism from the region is also projected to show impressive growth, reflecting rising affluence in the region, again led by India. A point worth noting, however, is that the increase in inbound tourism in the countries of this region will mainly result from an increase in international long-haul visitors rather than intraregional tourists, which is indicative of the untapped potential in intraregional tourism.

32 WTTC, *WTTC Economic Impact Analysis 2009 – South Asia*, at: www.wttc.org/bin/pdf/temp/southasia.html (accessed 12 December 2009).

33 WTTC, *WTTC Economic Impact Analysis 2009 – South Asia,* at: www.wttc.org/bin/pdf/temp/southasia.html (accessed 12 December 2009).

34 See: WTTC, *Tourism Impact Data Forecasting Tool*, at: www.wttc.org/eng/Tourism_Research/Economic_Research/(accessed 8 November 2009); and WTTC, *Economic Impact Analysis 2009 – South Asia*, at: www.wttc.org/bin/pdf/temp/southasia.html(accessed on 12 December 2009).

The global ranking of South Asia on competitiveness indicators in the tourism sector presents a mixed picture. According to the travel and tourism competitiveness indicators developed by the World Economic Forum, which provide rankings for a total of 132 countries based on a variety of parameters, the five South Asian countries included in this list perform well on intrinsic factors (e.g. landscape, cultural and historical heritage), but poorly on policy-related parameters (table 5.2).

The rankings indicate that the South Asian countries perform well in terms of their natural, cultural and historical resources and on price competitiveness, with India performing the best among these countries, followed by Sri Lanka. But they lag far behind others in terms of the policy and regulatory environment and availability of tourism infrastructure. There are, however, some differences across the countries. For instance, India and Sri Lanka perform reasonably well on indicators such as environmental sustainability compared with the other countries, and India performs better on air transport infrastructure. These differences for certain parameters reflect variations among the countries in terms of their degree of liberalization and the pro-competition policies they have introduced in related areas, such as civil aviation, as well as differences in their policy thrust and orientation within the tourism sector.

Overall, at the regional level, the tourism sector has shown impressive growth, especially since 2000. If these trends continue, the outlook is promising.[35] It is evident, however, that the governments in this region need to focus on tourism infrastructure development and on the regulatory and policy framework governing tourism.

5.1.1 Tourism trends in individual South Asian countries

While South Asia as a whole has experienced remarkable growth in tourism, there have been sharp variations among the various countries in the region. This is due to several factors, including the level of overall economic development of each country, its history and stage of tourism development, the forms of tourism that are promoted, cultural and ecological resources, and local attitudes towards tourism, to name a few. In addition, there are wide differences in emphasis given by the countries to tourism development, and their objectives in developing this sector also vary.

35 Although the discussion focuses only on international tourism, it should be pointed out that domestic tourism is also an important contributor to overall tourism in South Asia, particularly in the larger economies.

Table 5.2: Travel and tourism competitiveness indicators: Ranks and scores of South Asian countries, 2009*

Indicator (rank/score)	Bangladesh	India	Nepal	Pakistan	Sri Lanka
Overall travel and tourism competitiveness rank/score	129/3.0	62/4.1	118/3.3	113/3.3	78/3.8
Travel and tourism regulatory framework	130/3.2	107/3.9	119/3.7	124/3.6	86/4.3
Policy rules and regulations	117/3.5	108/3.7	127/3.1	81/3.6	86/4.3
Environmental sustainability	125/3.6	74/4.4	87/4.2	118/3.9	112/3.9
Safety and security	131/3.1	120/3.9	123/3.8	132/3.1	107/4.4
Hygiene and health	115/2.3	111/2.6	114/2.3	98/3.4	90/3.9
Prioritization of travel and tourism	117/3.3	42/4.8	39/4.9	113/3.5	47/4.7
Travel and tourism business environment and infrastructure	103/2.8	63/3.7	120/2.5	94/3.0	73/3.3
Air transport infrastructure	111/2.3	37/4.2	109/2.3	99/2.5	87/2.7
Ground transport infrastructure	60/3.7	49/4.1	123/2.3	73/3.3	32/4.5
Tourism infrastructure	132/1.0	73/3.1	130/1.1	102/1.8	92/2.0
ICT infrastructure	125/1.6	104/2.0	130/1.5	101/2.1	90/2.3
Price competitiveness in the travel and tourism industry	18/5.4	46/5.0	10/5.5	35/5.1	28/5.2
Human, cultural, natural resources	130/3.1	18/4.7	97/3.6	108/3.5	71/3.9
Human resources	110/4.3	90/4.8	118/4.0	115/4.1	49/5.2
Affinity for travel and tourism	126/4.1	96/4.5	61/4.8	129/4.0	65/4.8
Natural resources	102/2.6	14/4.9	37/4.1	83/2.9	59/3.4
Cultural resources	110/1.5	18/4.7	119/1.4	44/2.9	75/2.0

Source: World Economic Forum, *Travel and Tourism Competitiveness Report 2009*, at: www.weforum.org/en/initiatives/gcp/TravelandTourismReport/index.htm (accessed on 8 November 2009).

Note: * The indicators provide ranks for each country and scores from a high of 7 to a low of 0 for each of the parameters.

All the countries in this region experienced an increase in tourist arrivals in the 1990s and thereafter (except for Maldives and Nepal), though there have been wide variations in growth rates among the individual countries (table 5.3). India, Pakistan and Sri Lanka have seen higher growth rates for international tourist arrivals in recent years, with all three recording a CAGR of nearly 10 percent over the past decade. India has received the largest number of tourists. However, since 2000, there has been a decline in tourist arrivals in both Maldives and Nepal. Nepal, in particular, has witnessed a sharp decline, from over 6 percent in the 1990s to less than 1 percent in the current decade.

Table 5.3: Tourist arrivals into South Asian countries, 1990–2006 (thousands)

Country	1990	1995	2000	2006
Bangladesh	115	156	199	200
Bhutan	2	4.8	7.6	17.3
India	1,707	2,143	2,677	4,626
Maldives	195	315	467	602
Nepal	255	363	464	384
Pakistan	424	378	557	898
Sri Lanka	298	414	445	689
South Asia	2,996	3,773.8	4,816.6	7,416.3

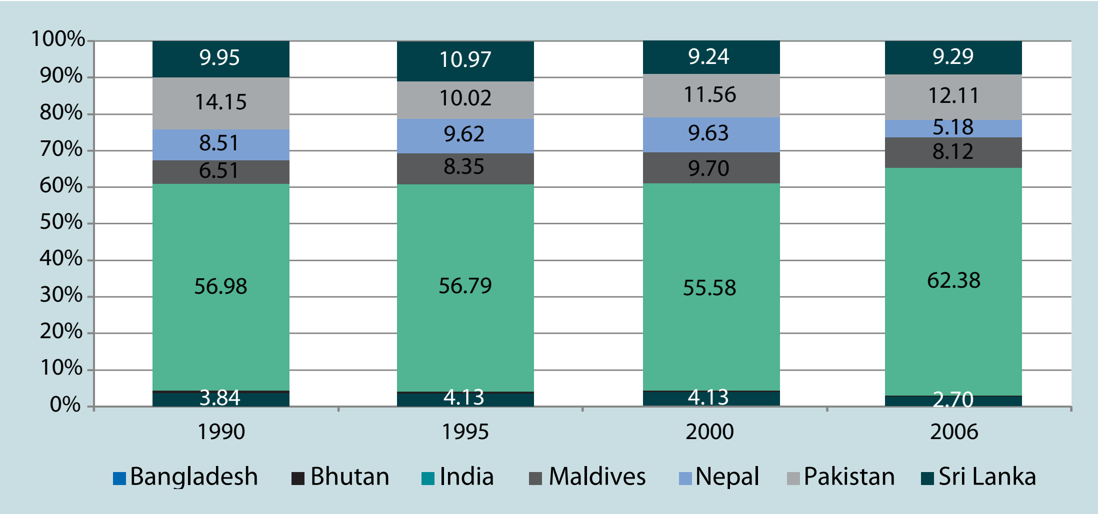
Source: UNCTAD, *Handbook of Statistics 2008*, at: http://stats.unctad.org/handbook/ReportFolders/ReportFolders.aspx (accessed on 1 December 2008).

There has also been considerable volatility in the rate of tourist arrivals on an annual basis. In part this reflects the base effect in some of the smaller countries, which receive small numbers of tourists, but it also reflects the impact of external factors and dependence on economic conditions in source markets for tourists – a common characteristic of the tourism sector. For instance, all countries in the region, except Bhutan and Pakistan, saw a significant drop in arrivals in 2005 on account of the Indian Ocean tsunami of December 2004. Similarly, all the countries experienced a decline in tourist arrivals during the period 2000–2001, corresponding to the global recession at that time.[36] To some extent, the large fluctuations could also reflect the region's failure to create a competitive and sustained high-growth tourism sector, which makes the sector vulnerable to external market conditions.

India dominates the region in terms of absolute number of arrivals. It accounted for 62 percent of all tourist arrivals into South Asia in 2006, up from 56 percent in 1990 (figure 5.1). While most other countries have maintained their shares within the region, Nepal has experienced a decline, which is also consistent with its poor performance in tourist arrivals and receipts in recent years.

36 Based on *UNCTAD Handbook of Statistics*, available at: http://stats.unctad.org/handbook/ReportFolders/ReportFolders.aspx (accessed on 1 December 2008).

Figure 5.1: Shares of individual countries in total international tourist arrivals in South Asia, 1990-2006 (%)



Source: United Nations World Tourism Organization, statistical database, at: www.unwto.org/facts/eng/indicators.htm (accessed on 12 December 2009).

Regional trends reveal South Asia's rising popularity as an international tourism destination, especially emerging economies like India and unique cultural and natural destinations like Bhutan. There is also a clear correlation between tourism performance and economic and political stability in the region, which is why emerging market economies such as India and politically stable markets such as Bhutan have been generally outperforming the other countries.

The main source countries for tourists in South Asia are mostly outside the region. A few developed countries, such as the United Kingdom and the United States, are the leading sources for tourists to the region, though India also features among the top five source markets for several of the South Asian countries (table 5.4).

Table 5.4: Top five tourist-generating markets for South Asian countries, and their share in total tourists to those countries (latest available year)

Country/ rank	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka
1	India (53%)	n.a.	USA (15.4%)	United Kingdom (18.5%)	India (18.2%)	United Kingdom (32.8%)	India (19.4%)
2	United Kingdom (15%)	n.a.	United Kingdom (14.6%)	Italy (17.3%)	Sri Lanka (7.6%)	USA (14.5%)	United Kingdom (18.5%)
3	USA (8%)	n.a.	Bangladesh (10%)	Germany (10.7%)	United Kingdom (6.7%)	Afghanistan (9.6%)	Germany (7.2%)

Country/ rank	**Bangladesh**	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka
4	China (4.3%)	n.a.	Sri Lanka (4.2%)	France (6.7%)	USA (6%)	India (5.7%)	Maldives (7%)
5	Japan (3.9%)	n.a.	Canada (4.1%)	Japan (6.1%)	Japan (4.7%)	Canada (4.3%)	Australia (4.5%)

Source: Compiled from national tourism statistics and annual reports of all the countries, latest year available.

Although the data reveal the dependence of the South Asian countries on a few source markets for tourists and thus the region's high degree of susceptibility to fluctuations in external demand, they also indicate the potential for intraregional trade in tourism. India accounts for over half of all tourist arrivals in Bangladesh and for 18–20 percent of all tourist arrivals in Nepal and Sri Lanka. Likewise, Sri Lanka features as an important source country for tourists in India and Nepal. The presence of such intraregional tourist flows, as well as the recent growth in outbound tourists from the region, and in particular from India (which, according to UNWTO (2007) estimates, is expected to reach 20 million by 2020 at an annual growth rate of 5.7 percent), clearly highlights the prospects for promoting intraregional trade in tourism within South Asia and for diversification of source markets. However, owing to the way tourism data are collected, it is difficult to determine to what extent such arrivals are for tourism purposes as opposed to other motives, such as visiting family or for business.

5.1.2 Contribution of tourism to growth and employment

Just as tourism has contributed significantly to GDP, export earnings and employment at the regional level, it has also played an important role in the individual economies of this region, as measured by the share of travel and tourism in national GDP. This share has grown considerably, especially since 2000.[37] For instance, the sector's contribution to India's GDP grew at an average annual rate of 17 percent in the 2001–2008 period compared with 3–4 percent in the 1990–2000 period.[38] In general, those countries with high growth in tourism arrivals and receipts have also benefitted from a greater contribution of the travel and tourism sector to their economies.

However, growth of employment in tourism has not been commensurate with the sector's increasing contribution to output, a feature also highlighted earlier at the regional level, and which contrasts with the experience of the tourism sector in other developing regions. It mirrors the overall discrepancy discussed earlier between growth and employment trends in services in South Asia. Growth in tourism-related employment has remained largely stagnant. In India, for example, employment in the sector has remained at around 5 percent, while in Maldives it has actually declined in recent years. Because employment is one of the main indicators of the extent of socio-economic benefits derived by local communities from

37 This refers to the combination of direct and indirect effects of tourism activities across all sectors of the economy.

38 WTTC, Tourism Economic Impact and Data Analysis Tool, www.wttc.org/bin/pdf/temp/southasia.html (accessed 8 November 2009)

tourism, the weaker performance of the tourism sector in this regard is a matter of concern and certainly an issue that would need to be kept in mind when exploring intraregional trade prospects in this sector.

5.2 Policy and regulatory environment for tourism in South Asia

Governments in South Asian countries have been paying increasing attention to their tourism sectors. All of them have enacted tourism policies that broadly focus on ways to increase tourist arrivals, overcome infrastructure and transport-related bottlenecks and, to varying degrees, ensure environmental protection and cultural promotion through tourism. There are also differences in approach and objectives across the countries and in the models of tourism development being pursued.

In Bhutan, where tourism is relatively new, the industry "is founded on the principle of sustainability, meaning that tourism must be environmentally and ecologically friendly, socially and culturally acceptable and economically viable",[39] whereas in Nepal, the national goal of tourism development is "to improve the living standards of the people through tourism activities with a substantial contribution towards national income".[40] For Maldives, the objective of tourism is to "improve the quality of life of the Maldivian people by optimizing and balancing the economic, environmental and socio-cultural benefits of tourism",[41] and in India the main objectives of the 2002 national tourism policy are to "position tourism as a national priority"[42] and to work towards improving competitiveness and infrastructure. Different models of tourism have been adopted by the countries, from the "low volume-high value" model in Bhutan, which imposes restrictions on the number of tourists, to the investor-driven model in Sri Lanka and Maldives and the community-based tourism model in Nepal. The countries also focus on different niches within tourism. Nepal has focused on promoting and marketing mountain trekking as a specialized tourist activity, while India has launched the "Incredible India" promotional campaign, and Sri Lanka and Maldives have targeted ecotourism and aesthetically appealing tourism products and destinations that cater to the international tourist.

Tourism is among the most liberalized services in South Asia. Private participation by foreign and domestic investors is permitted in all the countries, though the extent of entry and associated conditions differ. Indeed, the relatively high growth of capital investment in tourism in most of the South Asian countries in recent years largely reflects greater private sector participation. There are large differences in the amount of capital investment across the countries, with India registering investments of over US$20 billion in 1990, up from US$5 billion in 1990. However, countries that have been affected by political and economic instability, such as Nepal and Sri Lanka, have seen a sharp decline in capital expenditures

39 Tourism Authority of Bhutan, at: www.tourism.gov.bt/about-tcb.

40 Nepal Tourism Board, at: www.welcomenepal.com/corporate/473182689482-574861922369.

41 Maldives Ministry of Tourism and Civil Aviation, at: www.tourism.gov.mv/article.php?ald=3.

42 Government of India, National Tourism Policy 2002, at: www.tourism.gov.in/.

in this sector since 2000, indicating problems with investor confidence and with the general investment climate in those countries in recent years.[43] As the data do not provide a breakdown between foreign versus domestic investment, or for that matter investment sourced from within the region, it is difficult to gauge the extent of dependence of these countries on external versus internal resources and the potential role of intraregional investments in developing their tourism sector.

An examination of the policy and regulatory environment affecting the two main segments of the tourism sector, namely hotels and travel tour operators, reveals several similarities as well as differences in objectives and concerns. In all the countries, the foreign investment regime is very liberal for hotels. Up to 100 percent FDI is permitted in the hotels segment in all the countries except Bhutan, where foreign equity participation is capped at 70 percent. Barring Nepal and Bhutan, which require foreign investors to be approved by investment authorities and the relevant departments, all the other countries permit foreign investment automatically. There are, however, several conditions imposed on foreign investment in hotels across all the countries. These include minimum capital requirements, requirements to form joint ventures with local investors and various licensing and registration requirements. An examination of these conditions indicates that one of the primary objectives in attracting foreign investment is to encourage technology transfer, learning and transfer of management and other practices in the sector, ensuring at least some degree of involvement and contribution by foreign investors to the economy and accountability of foreign investors with regard to social and environmental norms and specifications as set by authorities. This relatively liberal policy environment has resulted in growing private sector participation in South Asia's tourism industry. Several well-known corporate players, who are investing globally and in the region, have emerged.

Investment regulations for hotels in some of the countries reflect concern for environmental sustainability. In Bhutan, for instance, there are specific policies concerning construction of hotels and restrictions on the number of tourist arrivals into the country in order to ensure that tourism there is environmentally sustainable and eco-friendly. In Maldives, private investment is governed by zoning and other regulations aimed at preserving the marine ecology and minimizing environmental damage. In general, norms apply uniformly to both foreign and domestic investors, though in some countries domestic investors are granted special infrastructure-related incentives that may not be available to foreign investors. Overall, the policy framework reflects an emphasis on infrastructure development, along with an attempt to balance commercial considerations against social and environmental concerns.

The policy environment in tourism services is characterized by a multiplicity of taxes, including value-added taxes, luxury taxes, expenditure taxes, hotel taxes, service taxes and taxes on capital goods as well as high import duties on liquor. The tax rates are quite high

43 Based on WTTC, Tourism Economic Impact and Data Analysis Tool at: www.wttc.org/bin/pdf/temp/southasia.html (accessed on 8 November 2009).

in some of the countries. In countries such as India, they are applicable at both the central and state government levels. In Bangladesh, the taxes are multi-layered and complex, with their applicability depending on turnover and varying with the scale of operations. Thus the overall incidence as well as structure of taxation is burdensome in this sector, a point also highlighted in earlier studies as a constraint on infrastructure development and growth of tourism in South Asia.

Policies affecting the other important segment of the tourism industry, the travel and tour operators segment, tend to be more restrictive than those for hotels. Although foreign operators are allowed in some of the countries, their activities are restricted by conditions pertaining to training at specified agencies/institutes in the countries, authorization and licensing by specified agencies, minimum capital requirements and local commercial presence requirements. In some countries like Nepal, certain kinds of activities are not open to foreign travel operators and tour guides. The restrictions reflect employment- and quality-related considerations, which result in a more conservative policy stance in this segment than in the hotel segment.

5.3 Intraregional cooperation and initiatives

In light of the region's focus on infrastructure development and on attracting investment in the tourism sector, coupled with the relatively liberal policy environment and the similarities among the countries in terms of language, culture, history, religion and geography, tourism is perhaps one of the most promising areas for regional integration in South Asia. Indeed, it has been identified as a priority sector under SAARC for promoting intergovernmental cooperation and deepening regional integration. The following section describes the current status of intra-SAARC travel and outlines the cooperation efforts undertaken in this industry at various levels and through various forums as well as the challenges to such cooperation.

5.3.1 Intra-SAARC travel

The outlook for intraregional tourism is promising in view of the growth in outbound tourism from the SAARC region and the significance of some SAARC countries as source markets for tourists to other countries in the region. On average, intra-SAARC travel (for tourism and other reasons) has accounted for about 20 percent of all international arrivals in the SAARC countries in recent years, although there is considerable variation across countries. There is considerable variation in the degree of dependence on other SAARC countries for international tourist arrivals. While intra-SAARC travel accounted for close to 50 percent of all international arrivals in Bangladesh in 2005, it was less than 5 percent in Maldives (table 5.5). The data suggest that intraregional travel is strongest among India, Nepal and Sri Lanka, where it constitutes 20 to 30 percent of total tourist arrivals in those countries. Pakistan and Maldives are exceptions, where intra-SAARC tourist arrivals account for a very small share of their total tourist arrivals. In Maldives, which is one of the more advanced tourism destinations in the region, South Asians account for less than 5 percent of all international arrivals; the majority of tourists originate outside the region (mainly Europe and the United States).[44]

Table 5.5: Share of South Asian tourists in total tourists in individual SAARC countries, 2000–2006

Share of tourists from South Asia as a % of all international arrivals	2000	2001	2002	2003	2004	2005		2006
						%	No.	
Bangladesh	46.69	45.27	46.90	41.75	36.64	47.68	99,010	n.a.
India	n.a.	25.98	25.70	23.45	21.79	20.40	799,253	19.35
Nepal	23.80	30.85	31.81	32.52	37.55	23.80	18,633	n.a.
Maldives	4.37	3.63	4.10	3.74	3.49	4.71	140,965	3.69
Pakistan	13.47	14.11	2.33	3.73	20.76	9.01	71,900	9.56
Sri Lanka	12.88	15.94	22.61	22.91	23.29	27.65	151,877	29.99

Source: Websites of official sources in all six countries (see under list of websites in references).

A few South Asian countries feature significantly in intra-SAARC travel, with India accounting for the bulk of such travel. For example, tourists from India represent 87 percent of all intra-SAARC tourists to Bangladesh and 76 percent and 68 percent of all intra-SAARC tourists to Sri Lanka and Nepal, respectively. Bangladesh is also an important source country for some SAARC countries, accounting for 54 percent of all South Asian visitors entering India.[45] Although country-wise arrival data are not available for Bhutan, it is likely that Indian tourists dominate.

However, these data do not distinguish between a "traveller" and a "tourist". Given the strong historical, social and cultural ties as well as the high degree of informal trade that occurs among some of the countries in this region, it is highly probable that a large proportion of the visitors from other South Asian countries travel to visit family or for business deals or are part of the formal/informal migration network. This probably explains the large share of Bangladeshis and Indians in each other's markets. Hence, even though intra-SAARC travel may account for a significant share of total inbound tourism, the data may be overstating the actual contribution of intraregional travel to these countries in terms of expenditures on accommodation, restaurants, shopping or recreation.

The data also indicate the presence of a subregional tourism circuit consisting of India, Sri Lanka and Nepal. The significance of these three countries for each other was also highlighted earlier when discussing the composition of source country markets for tourists in South Asia. The number of Sri Lankans travelling to Nepal has increased steadily in recent years, with that country's share rising from 11 percent to 13 percent in the past five years. Given that the two countries do not share borders, thereby reducing the possibility of travel for migration or trade purposes, it could be inferred that this increase represents an increase

44 National tourism ministry reports and official statistics.

45 National tourism ministry reports and official statistics.

in pure tourism between the two countries, possibly on account of the two countries' links to Buddhism and consequent pilgrim tourism. Overall, the data indicate that there is a significant and in some cases growing proportion of intraregional travel, especially between specific countries or groups of countries.

In addition to religious and cultural tourism, other segments of interest include sports and recreational tourism, adventure, ecotourism and medical tourism.[46] For instance in sports tourism, events such as Indian Premier League cricket or the Triangular series involving multiple countries in South Asia, or regional events, such as the South Asian Federation Games, bring many spectators from within the region. The 11th South Asian Federation Games in 2010 was a major sports event involving around 1,800 athletes from the eight SAARC member countries, competing in over 20 different sports. The South Asian Games, conducted once every two years, promote cultural exchanges between the member countries. There are also lesser-known events, such as the SAARC Countries Carom Championship or hockey and badminton meets. Such events, which draw a large number of regional spectators, officials and athletes, present a good opportunity to promote cultural and historical sightseeing visits in the host countries, with all their related positive externalities.

Beyond traditional sporting events, the South Asian countries offer promising prospects for recreational sports, such as mountaineering, trekking, mountain sports, white-water rafting and various beach and water sports. There are also recreational tourism opportunities, such as spas, resorts, wellness tourism resorts and cruises, and ample scope for coordinated holiday packages that combine locations across different countries in the region. Ecotourism based on nature and culture has been identified as one of the product-specific areas for promoting South Asia as a tourist destination.

5.3.2 Intergovernmental cooperation

Countries in SAARC have cooperated in tourism since the 1980s. In 1986, the Scheme for Promotion of Organized Tourism was initiated, whereby member States agreed to work together to promote tourism abroad and develop it at home. Members also agreed on a travel voucher system that would promote intra-SAARC tourism without incurring foreign exchange expenditures. A Technical Committee on Tourism was organized in 1991 within the framework of SAARC. The most significant institutional development since then has been the formation of the SAARC Working Group on Tourism, which was established by the Council of Ministers during its Twenty-fourth Session in Islamabad in January 2004.

To date, the SAARC Working Group on Tourism has met four times but has made little concrete progress. The first and second meetings that were held in Colombo, Sri Lanka in 2004 and 2005 merely re-emphasized the need to promote tourism within the region, bring in the private sector as a participant in the process and observe 2006 as the South Asia Tourism Year. Regional tourism plans were more like vision statements rather than concrete

46 Medical tourism is discussed in chapter 6 on health services.

action plans. It was only in 1996, with the SAARC Cox's Bazaar Action Plan on Tourism, that concrete suggestions were made for the first time on how to promote tourism within the region. Key suggestions to enhance intra-SAARC travel in that plan were:

- promoting direct air links among member States;
- expeditious development of road and rail links among member States;
- separate counters for SAARC nationals at international airports in the region;
- possible recognition of a national driving licence by SAARC member States on a reciprocal basis;
- rationalization or reduction of entrance fees for SAARC nationals for entry into archaeological sites and other tourist attractions; and
- further simplification of visa formalities for SAARC citizens.

However, SAARC has made no progress in implementing these recommendations. Although the action plan accurately identified some of the constraints on intraregional travel and tourism, it did not detail how these constraints would be overcome, and to date they have not been addressed in a comprehensive manner by SAARC authorities. Instead, the thrust of SAARC discussions has been on promoting the region as a "single destination" and thereby promoting "South Asianess", with recommendations such as observing the South Asia Tourism Year, publishing joint promotional materials and using SAARC as a platform for greater visibility and marketing support to the countries within the region. But no joint projects and initiatives have been identified for this purpose, and the focus of policies in each of the countries has remained on promoting tourism at the country level rather than regionally, with no coordination of national tourism policies and plans of action.

Tourism has also been a priority area in other regional forums, such as the South Asia Subregional Economic Cooperation (SASEC), which was set up by the ADB and BIMSTEC.[47] There has been a little more progress in these forums than in the context of SAARC in terms of developing concrete plans for regional tourism. SASEC has identified tourism as a priority sector and has invited Sri Lanka to be a member of its Tourism Working Group because of its close links to some of the SASEC countries. The SASEC Tourism Development Plan (TDP) of 2004 identifies 23 cross-border tourism projects to be developed in seven key areas, largely covering ecotourism and the Buddhist circuit. A major emphasis of this plan is to facilitate intraregional travel, with proposed measures to improve highways (e.g. links to the Asian Highway project), develop new airports (e.g. making Bagdogra in north-eastern India a hub) and ease border restrictions. The ADB has provided financial support for the development plan in the form of a loan of US$950,000.

Although the SASEC TDP addresses several important issues that are critical to any regional tourism efforts, it has been subject to considerable debate. Several aspects of the plan have been criticized, such as the absence of genuine community participation in the planning process, the potential impact of the planned ecotourism projects on the region's ecology

47 SASEC was set up under the auspices of the South Asia Growth Quadrangle initiative with financial assistance and support from the ADB.

and socio-cultural milieu, and the plan's failure to include sustainability parameters. Moreover, there are doubts as to whether the planned projects will bring tangible benefits to the local communities. The extent of implementation of the TDP is unclear, and there is little evidence to suggest that the SASEC TDP and SAARC's tourism plans are coordinated, despite claims that there is broad convergence.

Another subregional grouping, BIMSTEC, has adopted a similar approach as that of SAARC. India has taken the lead in this grouping. At the second Roundtable and Workshop of BIMSTEC Tourism Ministers in August 2006, the Kathmandu Declaration on Tourism Cooperation and a Plan of Action were adopted. The main features of this plan of action are quite similar to those outlined by the SAARC Working Council, such as joint promotion of heritage, cultural, adventure and MICE (meetings, incentives, conferences and exhibitions) tourism, and development of joint packages, setting up of an information centre in India to disseminate tourism information about BIMSTEC member countries, establishing a Tourism Fund, meeting on an annual basis and exploring synergies with SASEC. There have also been discussions on related issues of transport infrastructure and improving rail, land, water and air transport connectivity. However, there has been little progress in meeting these objectives. At best, BIMSTEC's tourism efforts constitute no more than political agreement to cooperate on regional tourism, similar to other regional intergovernmental efforts in promoting intra-SAARC tourism.

There are also bilateral agreements among the SAARC governments to promote hospitality and tourism. For example, India and Maldives aim to build on the recent growth in tourism between these two countries by addressing issues such as increasing the frequency of flights between the two countries, cross-border cooperation between travel agents and joint development of hospitality projects in each other's countries.

5.3.3 Private sector initiatives in the region

Several well-known companies in the region have established a presence in the tourism sector, particularly in the hotels segment. There are a variety of source and destination countries for private investments in the tourism sector, which suggests considerable scope for mutual benefit in developing tourism services in the region. A few examples of hospitality groups highlight this potential.

Among the most widely present private sector companies in the region is India's Taj Hotels and Resorts Group, which has hotels in Colombo and Bentota in Sri Lanka, in Thimphu in Bhutan (developed by one of the large industrial houses in Bhutan) and two hotels in Maldives. The Taj Group also owns the Druk Group of hotels in Bhutan. In Nepal, the Taj Group own 33 percent shares in Hotel Annapurna in Kathmandu and has also invested 300 million rupees (or roughly US$6.7 million) to upgrade this property. It has also entered into new business segments in tourism, such as ecotourism and wilderness travel, in response to growing international demand for these activities. It has entered into a tripartite joint venture along with Conservation Corporation Africa and the Chaudhury Group of Nepal to develop its business in these areas.

Another Indian hospitality company, the Leela Group, has formed an overseas alliance with Kempinski to jointly manage luxury projects in Maldives (and Mauritius). Having been offered land by the Maldives Government, it decided to enter into project development in that market. The Oberoi Group of Hotels, an Indian luxury hotel chain, has plans to build two luxury hotels in Bhutan in a joint-venture arrangement with local partner Chhundu Travels, at a cost of around US$25 million. Construction of both hotels began in 2008 and was expected to be completed by early 2011. These resorts are primarily aimed at the high-end market, in keeping with Bhutan's low-volume, high-value model of tourism. The local partner will hold 30 percent shares and the Oberoi Group 50 percent, with the remaining 20 percent of shares floated to the public. The group will hire mainly local employees, and managerial staff will be trained at its school of management in Delhi.

Two of Sri Lanka's top conglomerates, Aitken Spence Hotel Holdings and John Keells Hotels, have resorts in Maldives. Both companies have significant hotel portfolios in that country as part of their diversification strategy that seeks to reduce their dependence on earnings from Sri Lankan hotels, which were adversely affected by the political turmoil in that country. Both companies are looking to further diversify their hotel business by investing in India and elsewhere in South Asia. There are also companies from some of the smaller countries, such as Maldives, which have established themselves in the tourism sector and plan to invest in the larger markets in the region. For example, many Maldivian hotel companies, such as the Villa Hotels Group, are interested in investing in hotel projects in India, and the Government of Maldives supports such private sector expansion plans.

5.4 Challenges to tourism development in South Asia

As mentioned earlier, there has been much talk about prioritizing tourism as a sector for regional cooperation, and various action plans and discussion forums have focused on this sector, but these have not led to any significant concrete action. One of the main reasons is the failure to address some of the major obstacles, especially practical issues, such as improving air connectivity, streamlining visa formalities and identifying specific joint tourism promotion projects and programmes.

5.4.1 Transport and connectivity

Lack of an integrated transport infrastructure in South Asia has been one of the main obstacles to promoting regional cooperation in various spheres, whether in tourism, trade in goods or investment flows and associated mobility of factors of production across a variety of sectors. Many experts and agencies have pointed out that integration of South Asia's transport network is critical to reducing the cost of travel and trade in the region. The existing transport networks and infrastructure are in disuse and badly need upgrading in many parts of mainland South Asia. The north-eastern region of India is connected to the rest of India by a narrow, congested land corridor between Bangladesh and Nepal, hindering not only transport of goods (which has been much discussed in the context of trade facilitation in South Asia) but also movement of people in the region. The absence of extensive cross-border road and rail links is a major constraint on subregional tourism in South Asia, although there is some discussion under SASEC to implement agreements in these areas.[48]

Air connectivity is one of the most important driving forces of leisure and business travel. An examination of the statistics on air connectivity reveals the logistical difficulties in promoting intraregional tourism in South Asia. Some countries in the region are not even directly connected between their capital cities or between capital and non-capital or between two non-capital cities. Weekly flight frequencies within the region are in the range of two to six for some of the countries. Bhutan has the lowest flight connectivity with the other countries, accounting for only 11 of the 562 weekly flights operating within the region, followed by Pakistan, which has only 17 flights per week, and Maldives, which has 37 flights. India is the best connected, accounting for around half of all weekly flights operating in the region, and almost all the countries, barring Pakistan, have a sizeable number of direct flights with the capital and/or with other cities in India.[49]

A few examples of poor air connectivity between certain countries highlight how this constrains growth in regional tourism. There is very poor connectivity from Pakistan, a potentially important source country for tourists to other markets in the region, such as Maldives. Also, there are no direct flights between Maldives and Bangladesh. Regional tourism to Maldives is further constrained by the low frequency of travel between larger source countries like Pakistan and potential transit markets such as Sri Lanka or India. Similarly, Bhutan, an important destination market within SAARC, is not directly connected to potential source countries, such as Pakistan and Sri Lanka. Again, use of transit routes through other SAARC countries, such as from Pakistan to Bhutan via India or via Nepal, is limited due to the poor connectivity between Pakistan and these other potential transit countries. Thus, both in terms of direct access to other markets within SAARC as well as indirect access through transit countries in SAARC, connectivity is poor, which limits the potential for transit tourism as well.

It is clear that faster, efficient and affordable air connectivity is indispensable for promoting intra-SAARC tourism. Statistics from all the countries in the region underline the fact that air is the preferred mode of transport used by the majority (more than 90 percent) of international tourists visiting the region. The current status of air connectivity, direct and indirect, is clearly inadequate for boosting either leisure or business travel within the region.

48 Some of the main transport infrastructure-related proposals under SASEC include development of a road corridor and a rail link between Agartala and other places in north-eastern India and Dhaka and Chittagong in Bangladesh, as well as modernizing cross-border transit agreements and crossings. Economic and technical feasibility analyses, environmental impact assessments and studies of social issues of displacement, land acquisition and developmental impacts will be undertaken as part of this initiative (ADB, 2007).

49 Based on websites of all the airlines in the South Asian region, websites of airlines of neighbouring countries flying in the region and other web sources.

5.4.2 Visa regimes

Visa requirements per se are not a constraint on intra-SAARC travel, except for certain countries. Visas on arrival and gratis visas with minimal conditions are available for tourists in some of the countries. However, visa requirements for business travel, employment and for other purposes, such as medical and educational purposes, are cumbersome. Some of the countries do not provide multiple entry visas and visas are typically given for a very short duration, only 15–30 days on a single entry basis. The documentation requirements between India and Pakistan are particularly onerous, in addition to which Indians and Pakistanis travelling to each other's countries are required to report to the local police station or registration authorities and notify them when moving to different parts of those countries for internal security reasons. Visa fees are also quite steep in some countries. Some of the countries do not have provision for transit visas, and there are no separate counters for SAARC travellers to facilitate intraregional movement, whether for business or leisure. These visa regimes are in sharp contrast to those of ASEAN member countries, which have facilitation counters for ASEAN travellers and grant gratis visas to travellers from partner countries on arrival. In addition, an ASEAN Air Pass offers a concessionary air fare to travellers to various ASEAN countries.

5.4.3 Domestic challenges

In addition to issues of air transport connectivity and cumbersome visa regimes, various national policies and market conditions hinder the promotion of intraregional tourism. Chief among these are inadequate domestic infrastructure, lack of integrated tourism policies and high transactions costs arising from multiple taxes and regulations, as noted earlier. There are also broader problems that go beyond the tourism sector, such as the investment climate, political instability and uncertainties regarding the economic and regulatory environment, which deter cross-border investments in the tourism sector. The latter is evident from the delays in implementing several private sector hotel projects despite receiving approvals from host-country authorities. Lack of adequately skilled human resources and hospitality training are other problems for some of the countries, which could affect regional tourism prospects. Constraints related to domestic infrastructure, inadequate resources, institutions and skilled human resources, which hamper the development of the tourism industry in the individual South Asian countries and consequently the sector's global competitiveness, also affect the region's ability to leverage the intra-SAARC market.

5.5 Multilateral and other commitments in tourism and travel services

In line with the prevailing liberal policy environment in tourism and travel services all the South Asian member countries of the WTO (except Maldives), have scheduled this sector under GATS. This is the one sector, other than telecommunication services, in which most of the countries have indicated their general willingness to negotiate multilaterally. The two main segments that have been scheduled are hotel and lodging services and travel agency and tour operator services. Modes 1 and 2 are largely unbound while mode 3 commitments are almost fully or partially open, though with some conditions in the form of approvals and local incorporation requirements (see annex table A2.2). As in the case of all segments within tourism services that have been entered in the WTO-GATS commitment schedules, mode 4 is unbound, though sensitivities concerning the potential impact on local, less-skilled labour are evident in some commitments.

By and large, countries have bound their unilateral policies in mode 3. However, some have been more conservative in their GATS commitments and offers, in comparison with their actual policies in this sector. India, for instance, has made investment in hotels subject to approval from the Foreign Investment Promotion Board (FIPB), although this is permitted automatically in practice. Many of the countries have left mode 2 unbound, although in practice there are no restrictions on outbound travel from these countries. There is little or no change in the offers, even in modes where no restrictions apply. Thus an examination of the commitments and offers in tourism services suggests that although the countries may be willing and prepared to negotiate multilaterally in this sector, they would still like to retain some policy flexibility. Nor has there been much signalling value attached to this sector in terms of improving their offers, perhaps because the regimes are already open and tourism is not a sensitive or high profile sector in multilateral negotiations.

Most of the bilateral FTAs and trade and investment agreements concluded between the South Asian countries and countries outside SAARC also include tourism services. Examples are the Pakistan-Malaysia and Pakistan-China FTAs, the India-ASEAN and India-Singapore CECA and the Pakistan-Mauritius PTA. Some of the agreements also cover rail and road links, services auxiliary to transport services, improving air connectivity through open skies agreements and general trade facilitation issues. BIMSTEC, as already discussed, has focused on tourism promotion in the subregion through increased cooperation in many areas. Thus, there is clearly a common recognition of the importance of tourism services for regional and subregional cooperation and the associated issues of transport infrastructure and connectivity that have a bearing on tourism prospects. However, none of these extraregional agreements deal with visa issues or mechanisms to facilitate the cross-border movement of travellers, indicating the sensitive nature of this issue, not only in SAARC but also more generally.

5.6 Steps needed to promote regional tourism in South Asia

The preceding discussion gives an idea of the unrealized potential for regional tourism in South Asia. It has also highlighted the need to focus on tourism services as a high priority sector for regional cooperation, given the many commonalities of interests across the countries and the existence of various forums to promote cooperation. This is a sector in which successful and mutually beneficial outcomes are possible and could be used to build confidence in the overall regional integration process in South Asia. Thus tourism could potentially serve as a pilot sector for services integration because it could have positive learning and demonstration effects for integration efforts in other services.

Some of the main issues that need to be addressed regionally and nationally include lowering travel costs between the countries; improving transport connectivity, especially air links; streamlining visa procedures along with introducing longer duration and more flexible visas for intraregional travel; streamlining the tax structure in the tourism industry; joint marketing and development of tourism projects around selected themes, such as religion, heritage, nature and geography; and sharing of best practices within the region. Both sector-specific and cross-cutting issues of investment, transport logistics, visa facilitation, environment and ecology need to be addressed.

Initial efforts could be made in three broad areas. The first is at the subregional level. In addition to certain pairs of countries, such as India-Nepal, India-Sri Lanka and India-Bangladesh where connectivity is good, there are subgroups of countries, such as India-Nepal-Sri Lanka or India-Sri Lanka-Maldives, where there is potential for developing subregional tourist circuits and for promoting transit tourism around those circuits. Some promising subregional tourism themes are nature and adventure tourism involving India, Nepal and Bhutan, and linking Bangladesh with the two Himalayan countries via India; beach and coastal resort tourism involving south India, Maldives and Sri Lanka; religious tourism involving India, Nepal and Sri Lanka for the Buddhist pilgrimage circuit, and India, Pakistan and Maldives for the Muslim circuit. Joint documentation and marketing campaigns at a regional level and better transport connections, special airfares and tour packages would promote travel within the circuit countries. India occupies a central position in developing regional tourism in South Asia, owing to its better connectivity with the other countries, and thus its potential as a source, destination and transit country. This subregional approach would of course need to be supported by efforts to improve transport links, visa facilitation and coordination among national ministries for developing local infrastructure in each of the countries.

The second area for cooperation concerns investments. As noted earlier, there is considerable interest among hospitality groups in various countries of the region to invest in other SAARC countries. The countries could provide preferential investment incentives to investors from within SAARC in terms of land acquisition or speedier clearances and approvals for projects. Streamlining of taxes would also be important, as the multiplicity of taxes imposed at various levels presents a burden for investors. Joint ventures with local private sector players or with the host-country government could be encouraged to ensure that local interests are kept in mind, as well as for technology and knowledge transfer to the host country. Cross-border investment facilitation and cooperation would not only help tourism infrastructure development and cross-country learning, but, if targeted properly, it could also complement efforts at developing subregional tourism circuits, as discussed earlier.

The third broad area that needs to be pursued is institutional collaboration. This would require not only intergovernmental cooperation across government ministries and concerned agencies but also discussions among hospitality groups, industry associations, hospitality management training institutions, tour agencies and even civil society organizations working on tourism, sustainable development and environmental issues in the region. Such broad-based multi-stakeholder forums as well as focus groups need to be formed so that considerations such as environmental sustainability and ecology, soft skills and training, human resources development, regulations, standards and local employment can be taken into account when initiating tourism projects. Institutional cooperation would also be essential for cross-country sharing of best practices and for learning about the success of different models of tourism adopted by countries. The potential human development benefits of regional integration of tourism services in terms of employment creation at various skill levels, helping the development of regional transport infrastructure and poverty alleviation could be considerable.

Chapter 6

Access to quality and affordable health care is a prerequisite for development and for attainment of some of the Millennium Development Goals. Health services constitute an integral part of a country's social infrastructure.. Social sectors such as health care in South Asia present a paradox: While the countries in this region are among the lowest-ranked for human development indicators, including health care indicators, some of them are host to world-class corporate hospitals and telemedicine establishments, competing even in overseas markets. They receive medical tourists from developing and industrialized countries, and attract investments in medical technology. Thus both the highest and lowest standards of health care delivery and services can be found in the region.

Health services are considered to be among the most promising sectors for regional cooperation in South Asia. The large regional market provides commercial and collaboration opportunities for companies from within the region and outside in various segments of health care, including pharmaceuticals, clinical trials, telemedicine, hospitals, diagnostics, education and training and medical devices. There are potentially large gains to be had from intraregional trade and investment in health services in terms of addressing basic health infrastructure requirements, improving the quality of health services and achieving the basic objectives of equity and access to health care. This chapter highlights these opportunities and some of the associated challenges.

Section 1 of this chapter provides an overview of the basic health indicators and status of health care in each of the countries of South Asia. It outlines the infrastructure and human resource requirements in this sector and thus the segments that offer potential opportunities for regional commercial and collaborative engagement. Section 2 examines the policy trends and regulations in this sector to indicate the extent to which health services have been opened up to private participation and foreign investment. Section 3 discusses the current status of intraregional trade, investment and collaboration in health services. Section 4 outlines some of the challenges to regional cooperation in health services in South Asia, thus providing an indication of what areas of regional cooperation in this sector might be feasible. Section 5 discusses the multilateral and other commitments made by the South Asian countries in health services to emphasize the importance of this sector in their trade with other countries as well as their preparedness for greater liberalization of the sector. The final section summarizes the prospects and challenges in health services in South Asia.

6.1 Status of health care in South Asia

The South Asian countries, for the most part, fare very poorly on human development indicators. They are among the lowest-ranked countries in terms of the availability of physical and social infrastructure in the health sector and also for basic health indicators, such as mortality rates. The number of doctors and nurses per capita is much lower than the global average in almost all the countries (table 6.1). It is particularly low in Bangladesh, Bhutan and Nepal and is comparable to the global average only in Maldives. There is also a huge gap in terms of hospitals per capita for all the countries except Maldives and Sri Lanka. None of the countries in South Asia meet the World Health Organization's recommended norms for these parameters. The huge deficit in physical and human resources in the health sector is well illustrated in a CII-McKinsey study (2002) on India's health sector. The study notes that there is an additional requirement of 750,000 beds in India to meet the growing demand for in-patient services by 2012 and to reach a hospital bed-to-population ratio of 1.9:1,000. An estimated investment of US$24–34 billion will be required to develop the appropriate level of infrastructure.

Table 6.1: Human resources in health care in South Asia and other selected countries, 2000–2007 (number as presented and density per 10,000 population)

	Health workforce										Hospital beds (per 10,000 persons)
	Physicians		Nursing and midwifery personnel		Dentistry personnel		Community health workers		Other health service providers		
	No. / Density		No. / Density		No. / Density		No. / Density		No. / Density		
Global average	8,404,351	13	17,651,585	28	1854512	3	–	–	14,631,863	24	25
Global median	5,201	11	12,746	29	900	2	548	2	2,767	5	25
South Asia											
Bangladesh	42,881	3	39,471	3	2,344	<1	21,000	2	24,035	2	3
Bhutan	52	<1	545	3	65	<1	195	1	926	4	16
India	645,825	6	1,372,059	13	61,424	1	50,393	1	1,752,027	16	7
Maldives	302	9	886	27	14	<1	515	16	827	25	23
Nepal	5,384	2	11,825	5	359	<1	16,206	6	5,631	2	2
Pakistan	126,350	8	47,380	5	15,790	1	65,999	4	37,034	2	10
Sri Lanka	10,479	6	33,431	17	1,245	1	–	–	5,405	3	29
Other countries											
Brazil	198,153	12	659,111	38	190,448	11	–	–	499,592	29	24
China	1,862,630	14	1,259,240	10	136,520	1	–	–	1,724,620	13	22
Malaysia	17,020	7	43,380	18	2,160	1	–	–	2,880	1	18
Singapore	6,380	15	18,710	44	1,190	3	–	–	1,280	3	32
South Africa	34,829	8	184,459	41	5,995	1	–	–	71,850	16	28
Thailand	22,435	4	172,477	28	10,459	2	–	–	71,528	12	22

Source: WHO, WHO Health Statistical Information System, at: www.who.int/whosis/en/ (accessed on 14 October 2009).

The health status of the population in most of the South Asian countries is very poor. The average life expectancy at birth (including Afghanistan) is 63 years, which is lower than the average of 70 years for East Asia. The health status indicator for mortality rates among different groups is also very poor for the South Asian countries, except Maldives and Sri Lanka. The mortality rates for all groups, especially women, are higher than the global averages and those for other developing countries. Most of the South Asian countries fall in the bottom half of countries for these social indicators, though there were improvements in all the countries during the 2000–2007 period.

The poor health indicators are in part a reflection of the low priority given to health care by most of the governments in the region. Health expenditures as a proportion of GDP are low – at around 3–5 percent of GDP – though this is comparable to those of other developing countries (table 6.2). However, the main difference between most of the countries in South Asia and other developing countries is the small share of government spending in total health care expenditures. This is particularly true of Bangladesh, India, Nepal and Pakistan, where government spending is a meagre 20–30 percent of total health care expenditures, compared with 40–50 percent in other developing countries. Private health care expenditure is not only significant but also grew during the 2000–2007 period in some of the larger South Asian countries, accounting for around three fourths of total expenditures in Bangladesh, India, Nepal and Pakistan in 2007.

The composition of health care spending in South Asia reflects the growth of private players in health care delivery and also the low priority and inadequate resources devoted to this sector by some of the governments. Only in Maldives and Bhutan has the share of government spending in health care been significant, reflecting their small size and the limited scope in these markets for private players. The relatively larger share of government in total health care expenditures in Sri Lanka reflects that country's more socially oriented policies and the priority given to health care, as is also reflected in that country's better performance on social indicators, such as mortality rates.

Table 6.2: Composition of health care expenditure in South Asian and other selected countries (%)

Country/ region	Public-private composition of health care expenditure						Out-of-pocket spending on private health care		Share of external resources in health expenditure		Share of health care expenditure in GDP	
	2000		2003		2006		2000	2006	2000	2006	2000	2006
	Public	Private	Public	Private	Public	Private						
South Asia												
Bangladesh	26.5	73.5	28.7	71.3	36.8	63.2	88.1	88.3	19.4	14.6	3.1	3.1
Bhutan	74.5	25.5	68.7	31.3	68.6	31.4	100	100	26.5	48.2	5.4	4.5
India	22.2	77.8	18.5	81.5	19.6	80.4	92.1	94	0.6	0.7	4.3	4.9
Maldives	75.8	24.2	79.3	20.7	84.1	15.9	100	100	2.8	0.3	6.8	10.1
Nepal	24.9	75.1	26.1	73.9	30.5	69.5	91.2	85.2	15.2	15.7	5.4	5.7

Country/ region	Public-private composition of health care expenditure						Out-of-pocket spending on private health care		Share of external resources in health expenditure		Share of health care expenditure in GDP	
	2000		2003		2006		2000	2006	2000	2006	2000	2006
	Public	Private	Public	Private	Public	Private						
Pakistan	20	80	16.6	83.4	16.4	83.6	98.2	97.9	0.9	3.2	2.5	2
Sri Lanka	47.9	52.1	41.3	58.7	49.2	50.8	83.3	85.8	0.3	1.2	3.7	4.2
Other countries												
Brazil	40	60	41.3	58.7	47.9	52.1	62.7	64	0.5	0.1	7.2	7.5
China	38.3	61.7	36.2	63.8	42	58	95.6	92.9	0.1	0.1	4.6	4.5
Malaysia	52.4	47.6	56.4	43.6	45.2	54.8	75.4	73.3	0.6	0	3.3	4.3
Singapore	36.8	63.2	34	66	33.6	66.4	97	94	0	0	3.4	3.4
South Africa	42.4	57.6	40.1	59.9	41.9	58.1	18.9	17.5	0.3	0.8	8.1	8.6
Thailand	56.1	43.9	66.6	33.4	64.4	35.6	76.9	76.6	0	0.3	3.4	3.5

Source: Same as table 6.1.

The bulk of private spending on health care in South Asia is out-of-pocket, which is indicative of the very low levels of both social and private health insurance coverage. This is broadly comparable to the situation in other developing countries, and it has not changed much over the past few years. In most of the countries in South Asia, access to health care is largely a function of ability to pay (i.e. income level). This dependence on private out-of-pocket spending, when viewed in the context of the poor performance of these countries in terms of social and physical infrastructure parameters, is also indicative of the inequitable distribution of health care and quality of services, with obvious implications for equity and human development outcomes.

Table 6.2 also highlights the significance of external resources (i.e. multilateral, bilateral and other donor funding) as a share of total health expenditures in some of the countries in this region, notably Bangladesh, Bhutan and Nepal. Thus, some of the governments in this region are dependent on external funding for capacity-building, health projects and initiatives and technical assistance.

Overall, the health status indicators suggest that there is growing private sector involvement in health services in South Asia, and therefore scope for private investment and trade opportunities within the region. The indicators also highlight the need for increased resources for health care, whether internal or external, to overcome infra-structural gaps (e.g. shortage of health care facilities and equipment) in this sector, implying potential opportunities for commercial interests and cooperation in health care in South Asia. They also highlight the commonality of interests within the region in terms of improving basic health indicators, increasing the availability of hospitals, doctors and nurses, and improving access to health care and equity in health care delivery. Again, this shows that it would be in the mutual interest of all the countries in the region to collaborate in this sector.

6.2 Health policy trends and reforms

It is difficult to obtain a comprehensive picture of the policy trends and reforms in the health sector in South Asia. This is not only due to the wide range of activities and services that constitute this sector but also because of the relatively low priority given to health care in national policies and the lack of an integrated approach to this sector. However, from the scattered information and various vision statements and proposals that are available on health policies and health systems profiles, it is clear that private participation (both domestic and foreign) in health care delivery is being encouraged.

Hospitals are considered the most important segment for private participation. Indeed, they have been opened to 100 percent FDI participation in most of the countries (see annex table A1.2). The operating terms and conditions are also very liberal, with full repatriation of profits and income, minimal licensing and registration requirements, and incentives in the form of tax holidays and import allowances in some countries. Also, most countries do not place conditions on the form of participation. Thus, governments in this region appear to be keen to create an environment that is conducive to FDI in this segment.

Policy-related information for other segments of the health sector is more difficult to obtain. From what can be gleaned from the literature and from official documents that is pertinent to a discussion on regional opportunities in health services, some of the segments considered important by governments are drugs and pharmaceuticals, medical devices and technology and health insurance. Although pharmaceuticals and medical devices pertain to health care products rather than services, the existing regimes in these segments suggest that there is scope for collaboration and cross-border investment opportunities in related services, such as R&D, clinical trials and testing. Health insurance is directly related to medical tourism, but it tends to be a closed segment. The policy orientation towards pharmaceuticals and medical devices is mixed, with the larger countries having open regimes to attract investments and develop contract manufacturing opportunities.[50]

The main problem confronting governments is the dual task of financing and providing services. The governments have increasingly abdicated responsibility for delivering services, handing this over to the private sector instead; indeed some governments actively encourage private participation. In recent years, public-private partnerships have been considered to increase the effectiveness of public expenditures on health. Experts and multilateral funding agencies have recommended that the South Asian governments unbundle curative and preventive services and contract out services to private health care providers through competitive processes to improve health outcomes (Bonu and Rani, 2008).

50 Based on official documents in each of the countries.

6.3 Intraregional trade and collaboration

Health care is one sector in which the potential for regional integration and cooperation has been well recognized and also touted from the very beginning. The SAARC Social Charter contains various provisions that pertain to health-related objectives. For instance, one of the general provisions calls for the "promotion of health as a regional objective", and for sharing information, capacity-building and a coordinated approach to health-related issues. The general provisions also recognize that the "health of the population of the countries of the region is closely interlinked and can be sustained only by putting in place coordinated surveillance mechanisms and prevention and management strategies" (SAARC Secretariat, 2009).

Article IV of the SAARC Social Charter, which specifically focuses on health issues, states that the member governments will "strive to protect and promote the health of the population", in particular "addressing the problems of primary health issues and communicable diseases". This article also calls for sharing of knowledge and expertise among countries with regard to disease prevention, management and treatment, sharing of capacity for the manufacture of drugs, taking a coordinated stand on issues pertaining to health in international forums and adoption of regional standards on drugs and pharmaceutical products. References in the social charter to inclusive growth, equity, social development, use of ICTs and improved public administration also have a bearing on the provision of health services and health outcomes. It is evident from these explicit and implicit references to health-related goals and outcomes that the member governments share common concerns in this sector and also see considerable scope for cooperation in various aspects of health care.

Over the past decade or so, regional initiatives and developments at the level of governments as well as the private sector have created opportunities for regional cooperation in some segments of the health sector, such as cross-border investment in hospitals. Several leading Indian hospitals have entered other markets in the region, mostly through joint ventures with a local partner but also through other arrangements, such as wholly owned subsidiaries and management contracts. A few examples point to the regional potential for cross-border investment.

Apollo Hospitals has several investments and management contracts with overseas hospitals, mainly to tap catchment areas from which it receives patients.[51] These overseas facilities provide specialized and high-end treatments, such as cardiac surgery, joint replacements and transplants. In the South Asian region, Bangladesh and Sri Lanka have been the markets of most interest. Apollo's first overseas investment was in Colombo where it set up a 350-bed super specialty hospital as a result of the large number of patients who were visiting its hospital in Chennai. Initially, Apollo tried to manage operations and facilitate investment, but as investments from other parties was not forthcoming, it decided to enter

51 Apollo is also considering markets in various countries of West Asia, Central Asia and the Caribbean as well as Fiji, Ghana, Mauritius, Nigeria, South Africa and the United Kingdom. Moreover, it is increasingly weighing the option of managing hospital assets without owning them versus investing and owning those assets.

as the primary investor. Apollo held a 47 percent share in the project, while the International Finance Corporation of the World Bank held a small equity stake and local investors held a 35 percent stake. Apollo's Colombo facility attracted patients who had earlier sought treatment in Australia, India and Thailand. However, this project was abandoned following a takeover by a Sri Lankan businessman. Recently, the Apollo Group approached the Sri Lankan Government to re-enter that market and is contemplating a majority stake of 51 percent this time.[52]

Apollo has also taken on an operations management contract for a 330-bed tertiary care hospital in Dhaka in a joint venture with a Bangladeshi partner, STS Holdings, Dhaka. The objective of this project is to cater to the large number of patients who have been travelling to India and other neighbouring countries for treatment. According to newspaper reports, Indian hospitals are increasingly looking to enter Bangladesh through joint ventures and stand-alone entities as a result of that country's growing market, affluent population and economic stability and the large number of Bangladeshi patients seeking treatment in other countries, such as Thailand. Apollo owes its success in securing some of these overseas projects through competitive bids to the fact that it provides an integrated set of services, including human resource recruitment and management, medical equipment sourcing and reasonable consulting fees (Oberholzer-Gee, Khanna and Knoop, 2007).

Likewise, the BM Birla Heart Research Centre based in Kolkata is interested in establishing a presence in Chittagong and Dhaka. It is setting up a hospital in Dhaka and taking over management of a hospital in Chittagong. Similarly, AMRI hospitals, Kolkata is considering setting up a branch in Bangladesh to serve patients who are currently visiting Kolkata and other cities in India for treatment. Cultural and linguistic similarities and geographic proximity make Bangladesh an attractive market for Indian hospitals located in the eastern part of the country. The BM Birla Group is also considering setting up a hospital in Bhutan in response to that country's dire need for state-of-the-art facilities in health care.

There are several other ventures by leading Indian hospitals that also illustrate regional opportunities and interest among private players for cross-border investment and collaboration in the hospital segment. For instance, the Manipal Hospital in Bangalore, India, has a 700-bed hospital in Pokhara (Nepal). It also runs a hospital in Kathmandu University as part of a joint educational programme through which students from Nepal can complete part of their medical studies in India. Recently, the Bhutanese Government expressed interest in investments from Indian hospitals. According to media reports, the Hinduja Group in India is considering setting up a hospital in Sri Lanka, in response to a request from the Sri Lankan Government.[53] Growing private equity financing and initial placement offers in health care have also created opportunities for regional investment in the sector.

52 See: www.livemint.com/2008/04/30154503/Apollo-to-invest-Rs-1K-cr-for.html (accessed on 14 September 2009).

53 See: www.thehinduusinessline.com/2005/06/19/stories/2005061900410500.htm (accessed on 14 September 2009).

Another promising segment where private players see commercial opportunities is in medical tourism. Medical travel from other countries in the region that have underdeveloped facilities and lack specialized treatments – in particular, Bangladesh, Maldives, Nepal and Pakistan – has been identified as one of the four strategic segments for the promotion of medical tourism by Indian hospitals.[54] Such patients would find medical care in India attractive due to cost, quality, cultural and geographic proximity considerations. Manipal Hospital in Bangalore receives patients from over 30 countries, including Bangladesh, Nepal, Pakistan and Sri Lanka, among the SAARC countries. Apollo Gleneagles hospital in Kolkata receives patients from Bangladesh and Nepal, and Apollo Chennai receives patients from Sri Lanka. Wockhardt Hospitals is a destination for patients from South Asia and other regions. Pakistan is seen as a potential source market for patients seeking high-end treatments at a reasonable cost. There have been several high profile cases of Pakistani children receiving specialized cardiac treatment at Indian hospitals. The Bhutanese Government sends patients to Kolkata and Delhi and pays for their treatment.

In view of the encouraging prospects for medical tourism and the growing internal market in India, the Narayana Hurdayalaya hospital in Banglaore is investing 10 billion rupees (about US$222.4 million) over the next three years to set up facilities in Narayana Health City, including separate suites for international patients, to provide specialized care for women and children and for patients with cancer or eye problems. It is targeting patients from the South Asian and other regional markets. Some of these hospitals have already established referral arrangements with hospitals and agents in the source countries and tied up with travel operators to provide an integrated set of services to medical tourists.

There is some evidence of telemedicine links between major hospitals in India and establishments in other countries in this region, mainly for teleconsultation and telediagnostic services. Some identified potential opportunities are the remote monitoring of patients in other SAARC countries and telepsychiatry. GE's subsidiary in Delhi provides telemedicine services to hospitals in Nepal. Wipro is considering setting up a telemedicine centre in Colombo, which would provide front-end services while the back-end reporting would be done by specialists based in India. But overall, telemedicine has still not taken off in the region; it requires more investment in high-end training and use of specialized equipment as well as acceptance of telemedicine as a form of health care delivery within the region.

Several government initiatives have also been undertaken in the region to promote cooperation in health care. In view of the common disease profile and afflictions affecting the South Asian countries, regional centres have been identified by the member governments to undertake work on disease control and joint research. For instance, a

54 The other three segments are the Indian diaspora, who tend to return to their home country for medical treatment, countries with rationed health care, such as Canada and the United Kingdom where waiting periods can be long, and the uninsured in markets, such as the United States, who might prefer the low-cost, quality treatment available in India (Obherholze-Gee, Khanna and Knoop, 2007).

SAARC Tuberculosis Centre was established in Kathmandu in 1992 for the prevention and control of TB in the region and for coordinating the efforts of the national TB control programmes of the member countries. Various regional consultations on health issues have focused on combatting communicable diseases such as TB, malaria, waterborne diseases and HIV. Training programmes have been organized to fight the major diseases and to address maternal and child health issues that are a common concern in the region. The SAARC member governments also participate in regional projects with various bilateral and multilateral development agencies, such as the Canadian International Development Agency (CIDA), the World Health Organization (WHO), the United Nations Population Fund (UNFPA) and UNAIDS, for capacity-building, research, analysis and technical cooperation. In addition, government discussions at the regional level have considered the need for regional cooperation on traditional systems of medicine to meet the basic health needs of the people. As the South Asian countries share many traditional health practices and have common resources needs, they recognize the utility of exploring complementarities in this area and possibly developing a regional health tourism package.

There are some other segments in which opportunities have been identified and initiatives taken or are being considered. For instance, there are regional opportunities for the production, sale, distribution and testing of medical devices. The GE office in Bangalore, which produces medical products, also delivers services to Bangladesh and Sri Lanka. According to the company, there is potential for cost-effective, affordable and quality health care solutions in South Asia. There is also some interest in medical education and exchange within the region. For instance, India's Manipal Group, in collaboration with the Government of Nepal, set up a college and hospital in 1994, where undergraduate training is provided and can be followed up with post-graduate training at Manipal's centre in India. Other areas that have been discussed at the regional level include cooperation in medical expertise and pharmaceuticals, harmonization of standards and certification procedures, affordable access to pharmaceuticals produced in the region, mental health research and the sharing of information and expertise through regional conferences, seminars, exchange of health professionals and academics and joint research programmes.

6.4 Challenges and constraints

Although there is potential for expanding intraregional trade, investment and collaboration in health care, there are challenges at both the government and private sector levels. For example, major private sector players in South Asia, mainly Indian hospitals that have ventured into other SAARC markets or are catering to patients from the rest of the region, see more attractive opportunities in the large domestic health care market than in the regional market. The domestic market in India is growing at an average annual rate of 15–20 percent as a result of an increasingly affluent population seeking health care. Therefore, expanding hospital chains within India itself, even in second- and third-tier cities, or setting up integrated health centres, may be a more attractive proposition than catering to the regional market. In addition, there are uncertainties in the political and regulatory environment of other SAARC countries that could discourage Indian investors from investing. As discussions with some leading corporate Indian hospitals reveal, the cost of promoting health tourism or setting up investments in other SAARC countries may be too high to warrant a regional focus. This may explain why, despite all the hype about the potential of medical tourism and forays by Indian players in other neighbouring countries, regionalization of health care remains quite limited. As noted by one respondent from a leading Indian hospital, if patients from other SAARC countries are interested in getting treated in India, this would be welcomed, but the hospital would not necessarily invest large amounts in attracting this segment, as there are ample growth opportunities within India.

There are also specific challenges that affect the scope for medical tourism and investment initiatives in the health sector within SAARC, such as issues relating to movement of patients, visas, airline connectivity, transfers to hospitals and local support infrastructure. There are also issues of financing and obtaining approval for treatment overseas, which often lead to the use of informal channels for payment and constrain medical tourism. Despite some degree of cultural affinity among the countries, there are problems in catering to patients from other SAARC countries due to linguistic and some cultural differences. More recently, medico-legal cases have been rising with growing awareness in the region of patients' rights, raising jurisdictional issues over cases of malpractice and insurance coverage. At the government level, the main constraint on expanding medical tourism is the lack of government policy on regional cooperation in this segment. Despite recognition of commonalities among the countries, there has been no effort to develop joint medical tourism products at the regional level. Medical tourism has been seen as an extension of general tourism campaigns, like the Incredible India campaign, through which major hospitals have been linked with tourism, but medical tourism among SAARC countries is not specifically promoted.

There are several challenges to regional investment in health care projects. These relate to managing partnerships with local stakeholders, issues of movement of health care professionals, investment regulations and domestic lobbies in the host country. The experience of the Apollo Group in Colombo illustrates some of these challenges. Its first entry into the Sri Lankan market was not successful. It had invested around 10 crore rupees in its Colombo hospital, but there was a mismatch of expectations between Apollo and its partner – a problem that is common to joint-venture arrangements (the form taken by most international ventures in hospitals). The Apollo Group had difficulty carrying out its operations with a minority stake and was finally forced to sell its shares to the Sri Lanka Insurance Corporation (which had the largest stake in this venture), following differences with that company over who should own the larger share.[55]

Apollo's ventures in Dhaka and Colombo have encountered difficulties over staffing. Indian hospitals, which have been recognized for their quality of infrastructure and professionals, view the standards of local staff as a potential risk to the quality of health care delivery and to the reputation of the corporate brand name. However, staffing of regional establishments

55 Based on discussions with health care industry professionals.

with home-country doctors has not been easy and has not always been well received by the host country. It has proved difficult to relocate doctors and health administrators from India to other markets in the region, with a problem compounded by the shortage of highly qualified health professionals within India. There has also been resistance by professionals in the host countries to the hiring and relocation of Indian doctors. There have been challenges due to ethnicity, such as in Sri Lanka, where patients and local staff may not be comfortable with Indian doctors due to their stand on ethnic issues. In addition, the usual concerns about the safety of investment in politically unstable markets, such as Nepal, repatriation issues, worker discipline and unionization have also hampered investments in health care within the region. For example, recently a Maoist trade union forced an indefinite closure of the Manipal Teaching Hospital, run by the Manipal College of Medical Sciences in Pokhara, Nepal. The All Nepal Health Workers' Association and Manipal Non-teaching Staff Union closed down all departments except emergency services at the hospital. Such problems had arisen earlier as well, when employees went on strike.

Similar constraints also affect the scope for telemedicine within the region, although health academics and practitioners view this segment as promising, especially if linked with medical tourism. As with medical tourism, however, Indian companies, which could potentially set up telemedicine centres in other SAARC markets and provide local services, may not be interested in the region, owing to the large and growing domestic market in India and the low profit margins in the region. There is also opposition to such foreign establishments from domestic lobbies in the host markets, such as the local radiology fraternity and commercial industry bodies. Infrastructure constraints in terms of cost of bandwidth, quality of image delivery, lack of home devices and problems of data security and potential breach of patient confidentiality are also highlighted by practitioners, notwithstanding telecommunications reforms and investment in high-speed bandwidth and encryption by governments.[56] Non-acceptance of telemedicine by patients in the region is another constraint. For instance, Apollo had to abort its plan to start a telemedicine link at its hospital in Dhaka because patients were not comfortable with long-distance teleconsultation. There is also a human resources constraint, owing to a shortage of trained specialists even for the domestic market, as mentioned earlier, which makes it difficult for telemedicine providers to focus on the regional market. Overall, telemedicine links within South Asia therefore remain limited. They are mainly confined to a few private enterprises and have not been taken up at the government level, even though there are e-health initiatives and government-subsidized programmes for ICT in health care in most countries in this region.

There are other factors as well that constrain regional health care prospects. In particular, delivery of health care services through the movement of professionals depends on recognition of the medical professionals' qualifications. But so far there is no formal mechanism for such recognition among the SAARC countries, although all the countries have similar regulations to govern the practice of medicine and dentistry and also provide

56 It is still not practical to perform surgeries remotely. Although data privacy is not yet a major issue in the region, awareness is growing, raising issues of liability and jurisdiction.

for reciprocal recognition of qualifications of the other countries.[57] In addition, there are difficulties in the regional movement of professionals and difficulties in organizing regional seminars and conferences. Despite regional consultations and initiatives, discussed earlier, there remains a lack of a regional perspective and of strong intergovernmental efforts to promote regional trade in health care. Overall, while health services present promising regional opportunities, a variety of infrastructural, human resource, regulatory, perception-related, logistical and cultural barriers limit the realization of those opportunities.

6.5 Multilateral and other commitments in health services

The health services sector is one of the least committed sectors under GATS. It is covered under two headings: professional services and health and social services. Professional health services pertain to medical and dental services, veterinary services and services provided by midwives, nurses and other health care personnel. Health and social services pertain to hospital services, other human health services and social services.

Among the South Asian member countries of the WTO, only India, Nepal and Pakistan have undertaken commit-ments in some aspect of health services, whereas Bangladesh, Maldives and Sri Lanka have not scheduled either professional health services or health services infrastructure (see annex table A2.3). It is evident from the summary of schedules and offers that South Asian countries are not very willing to negotiate health services under GATS. Even where this sector has been scheduled, the coverage has been rather limited, mainly relating to hospital services. India has made the most commitments in this sector among the South Asian countries, and its revised offers are a significant improvement on its Uruguay Round (UR) commitments, in that they cover more subsectors and also remove or liberalize limitations initially included in the UR schedule. For instance, several subsectors that were not originally scheduled by India in the UR have been included in the initial or conditional offers, and limitations in the form of foreign equity ceilings have been relaxed in the offers. Pakistan too has improved on its UR commitments by including more subsectors in its offers. Nepal has made mostly full commitments (i.e. no restrictions entered) except in mode 3, where it has set limitations on foreign equity participation and on the form of commercial presence.

An examination of these commitments suggests that the South Asian countries view health services as a sector in which market access has to be conditional on meeting certain social obligations, such as bringing in latest technology, ensuring quality services and accountability, and differentiating between health services for public, as opposed to commercial, purposes. Hospital services emerge as an important segment that the South Asian countries are willing to negotiate. All three countries have committed to opening up

57 The Indian Medical Council Act recognizes medical degrees from Bangladesh, Nepal, Pakistan and Sri Lanka under the reciprocal arrangement provision, which also means that these other countries recognize medical qualifications from notified Indian colleges and universities. But it is not clear whether there is similar reciprocal recognition of qualifications in dentistry and nursing among the countries.

this segment to foreign participation, albeit to varying degrees. All have inscribed conditions to ensure appropriate, accountable and quality investment in the hospitals segment. There is a general tendency to allow institution-based delivery of services, such as between providers in two countries, rather than direct delivery of services by providers to consumers in the other country, reflecting concerns about consumer protection, accountability and investment.

A comparison of these commitments at the multilateral level against the intraregional initiatives and opportunities in health services in South Asia shows that the countries may be more willing to negotiate issues such as investment in hospitals and collaboration among regional health establishments for research and charitable, training and academic exchange purposes at the regional level than at the multilateral level. Moreover, there are no restrictions imposed on medical tourism (consumption abroad of hospital services), which indicates that this is another segment in which there may be a willingness to negotiate on arrangements between medical establishments or common products, such as marketing the region as a medical tourism destination. Several of the bilateral and regional agreements signed by the South Asian countries with countries outside the region include health services. Issues of cooperation, movement of professionals and foreign investment in this sector have also been discussed. Overall, the multilateral as well as regional/bilateral commitments made in health services indicate that the South Asian countries are likely to have a common approach and objectives, thus providing sufficient ground for regional negotiations for further cooperation in this sector.

6.6 Looking ahead

The health services sector is generally believed to be one of the most promising areas for regional integration, and indeed, as shown in the preceding discussion, there are clearly opportunities for integration of many segments of the sector. However, as also mentioned, there are numerous challenges, which, together with the social and commercial objectives of this sector, warrant a regional strategy that adopts a gradual approach. Such an approach could include pilot initiatives and cooperation in selected segments, coupled with specific efforts to tackle some of the aforementioned constraints and to promote regional commercial opportunities and social objectives.

There are broadly three segments that could be targeted regionally: commercial opportunities in medical tourism, cross-border investments, and capacity-building and regulatory cooperation. Regional discussions would need to focus on facilitating cross-border investments, particularly in hospitals and, potentially, telemedicine centres; facilitating regional mobility of patients; instituting mechanisms to make the region more attractive as a destination for medical tourism, both within the region and for tourists from other regions; and initiating joint efforts in research, training and capacity-building through tie-ups between selected centres and establishments.

In the context of medical tourism, it would be important to address insurance and cross-border payment arrangements. For instance, some kind of regional insurance scheme could offer an overseas package for treatment in other countries. Because international insurance premiums are high, an insurance policy could be designed to cover treatment only within the region as a possible mechanism to help promote medical tourism. One leading Indian health practitioner has suggested a regional Medicare system with a transparent schedule of standardized norms, eligibility and rates for different precedures and treatments for each country in the region. Medical tourism in the region would also get a boost if regional insurance companies recognized payments in each other's markets along with bank-to-bank guarantees. As a first step, Indian insurers could take the lead and only cover treatment in India, with a lower fee structure for medical tourists from the region than for those from outside the region.[58] Pilot schemes could be introduced for specialized elective treatments and procedures, which may not be available in the home country of the patient. Some potential segments would be transplant surgery, infertility medicine, joint replacements and treatments for cardiac, eye, dental, urological and gastrointestinal problems. The experience of other regional blocs, such as the Common Market of the South (Mercosur) in Latin America, which has instituted regional payment arrangements to promote medical tourism, could be instructive.

In addition to facilitating payments, other issues, such as visas, transport and logistical support in the destination country and follow-up services, would also need to be discussed to promote medical tourism. For instance, visa application procedures for medical tourists need to be streamlined. A 2001 study on Bangladeshi patients travelling to India for treatment found that, due to the more onerous documentation requirements associated with a medical visa, patients often go on a tourist visa and make use of informal channels of payment (Rahman, 2001). This results in an underestimation of the magnitude of medical tourism within the region, as the purpose of travel often is not revealed in the application for a visa. Streamlining documentation requirements and reducing the processing time for visas for medical travel would increase patient mobility. Another issue concerns related support services, such as accommodation, which is subject to high taxes and rents. The multiplicity of taxes and high tax rates can hinder tourism (as highlighted in the tourism chapter); to promote medical tourism, governments could perhaps consider reducing the burden of such levies. It will also be important to adopt an integrated approach to medical tourism, including instituting follow-up facilities in the home country of the patient in the form of stand-alone centres or tie-ups between establishments in the host and home countries for the purpose of pre- and post-treatment consultations, creating telemedicine facilities and relaxing restrictions on cross-border practise by physicians and specialists. Like tourism, tourism for health care could benefit from a coordinated marketing and promotion

58 However, there would be some inherent limitations, as there would be less scope for the insurance companies to increase-prices, and their insurance model would need to be more service delivery oriented, as opposed to revenue-led, given the lower-paying capacity of potential clients in this region compared with other regions.

campaign by the countries in South Asia, such as the marketing of specific health tourism products, wellness tourism and alternative treatments.

Most of these efforts would have to be initiated by private enterprises with support from governments on matters such as visas, approvals and registration requirements. Governments and private sector players would need to adopt a regional perspective to enable a structured movement of regional patients to identified centres of excellence and better utilization of the specialists and high-end equipment available in the region. As noted earlier, to date such a regional perspective has been lacking, and regional players, particularly those in India, may not have sufficient incentive to focus specifically on the South Asian countries as a target market.

Another area that should receive more attention is facilitation of cross-border investments in hospitals and telemedicine establishments. At present, these are constrained by a number of bottlenecks, as mentioned earlier. Investment regulations and approval processes concerning the setting up of hospitals within the region need to be streamlined. Associated restrictions on the movement of doctors from the source country of investment, special registration and approval requirements for foreign doctors and restrictions on their practice need to be relaxed because such conditions affect the ability of the investing hospital to ensure quality service and attract local patients. The mobility of professionals associated with cross-border investment ventures should also be liberalized. Again, private sector initiatives need to be supported by government measures relating to visas, licensing, registration, repatriation of income and profits, and provision of a stable, investor-friendly environment not only in health care but also in general. A more favourable business environment and policies that promote regional integration would be conducive to the creation of regional establishments in the health sector.[59] Government-sponsored investments are also worth considering, whereby some of the SAARC member governments could invite investments from leading hospitals in the region and also work out arrangements with the source countries for staffing these establishments.[60]

Much could be accomplished through intergovernmental dialogue on capacity-building and regulations and the implementation of some already agreed proposals. There is scope for R&D, with multi-centre and multi-country studies focusing on common diseases that afflict the region, lifestyle diseases (such as heart disease and diabetes), new areas such as stem cell research and public health issues. Cross-country teams of researchers could work together, common protocols on research could be developed and data shared and validated. There is also scope for joint initiatives in public health for education, research, training and awareness-raising purposes. For such joint efforts to take place, country-specific evaluations would be needed to identify centres of excellence. Given the dearth

59 According to industry sources in India, there are around ten potential players like Apollo Hospitals that could establish themselves in the regional market.

60 For instance, the Government of Bhutan is interested in having specialists from India work in existing facilities in Bhutan.

of financial resources for health care in this region, it would be important to involve both public and private enterprises for such joint initiatives through public-private partnership arrangements.

Another prerequisite for greater regional cooperation is increased interaction among the medical community and among training institutions and hospitals in the region. Interaction could take the form of conferences, workshops and the exchange of health professionals to enable sharing of knowledge, best practices, latest research, discussions on common problems and objectives in the health sector and dissemination of information regarding regional facilities and services. Such interaction would be critical for removing certain preconceived perceptions that hinder regional trade in health services and for creating common mechanisms for promoting health care within the region. Short-term exchange programmes for doctors and students from research centres and training institutions could facilitate capacity-building in specific domains and provide knowledge about treatments that are not yet available in some of the other countries. Educational and research institutions could also be linked through regional scholarships provided by governments and/or leading hospitals to promote medical studies in the region. Joint training could take place in areas such as nursing and paramedical services. Such initiatives could help overcome the shortage of skilled human resources and problems of quality.

There is also need for regulatory cooperation among the SAARC countries on the issues of recognition of qualifications and standards and accreditation of medical establishments. Such efforts towards quality assurance would help in brand building and in marketing the region as a destination for medical travellers. It would also facilitate cross-border staffing of hospitals, exchange of students and professionals and regional insurance and payment arrangements for medical tourism. This would require cooperation among professional associations, private players and regulatory bodies. However, standardization of training within the region will not be easy; even within India, which is the dominant SAARC country for health care, there is lack of standardization in medical education.

Governments in South Asia could increase cooperation in a number of other areas and enter into public-private partnership arrangements to improve the quality and reach of health care delivery. One such area is the promotion of ICT for health. The Indian Space Research Organization provides satellite connectivity within SAFTA, which could possibly be used by hospitals and training institutions within South Asia to enter into cooperative telemedicine arrangements with government support to provide cross-border health care. Such satellite connectivity would not be constrained by infrastructure and security concerns, unlike broadband delivery. Private telemedicine firms could join such a regional initiative. There is particularly good scope for telemedicine arrangements with some countries in the region, such as Maldives, which, as islands, focus on ICT for development. Another potential area is that of clinical trials. Given the racial diversity and the common diseases and afflictions in the region, the large population base in South Asia provides opportunities for carrying out

Phase III and IV clinical trials.[61] Many of these cooperation efforts in health services would also have implications for trade in health products, such as pharmaceuticals and medical equipment.

In sum, there is considerable scope for private and government regional initiatives and consultations in the health sector, and the range of measures required is quite wide. These include measures pertaining to investments in physical infrastructure, human resource development, harmonization of standards, streamlining regulatory frameworks, information communication and dissemination, and developing an integrated approach to both social and commercial opportunities in health care. Many synergies can be derived from integration of the different segments, with investments driving medical tourism and vice versa, facilitating management tie-ups and joint ventures, telemedicine possibilities and movement of professionals. Synergies can also result from trade and investment in health sector products, such as medical equipment, pharmaceuticals and manufacturing. Furthermore, the region offers scope for economies of scale and resource pooling in many areas of health care.

Although there are many opportunities and the measures required are also fairly evident, there are two major challenges to health services integration. The first is the lack of a regional vision for health care due to the dynamics of the regional market, whereby the main provider market, India, is more focused on the internal market as opposed to the regional market. The second challenge relates to the strained political relations, which are a deterrent to investment flows, to the mobility of patients and health professionals and even to development initiatives in ICT and infrastructure-sharing in the health sector.

Regional cooperation in health services offers many potential human development benefits, including improved access to and quality of health care and much-needed investment in infrastructure, training of personnel and improvements in standards. Furthermore, joint initiatives in the form of public-private partnerships and intergovernmental arrangements in areas such as infectious diseases, vaccine and drug development, telemedicine and R&D could help countries in this region deal more effectively with common health concerns.

61 Phase III trials are randomized, controlled multi-centre trials on large patient groups (300–3,000 or more depending on the disease/medical condition studied). Phase IV trials, known as a post-marketing surveillance trials, involve safety surveillance (pharmaco-vigilance) and ongoing technical support after a drug receives permission to be sold.

Chapter 7

The costs of non-cooperation in services in South Asia are evident from the analysis in this report. It highlights the potential mutual benefits from enhanced cooperation and increased trade and investment flows in services within the region. There are intraregional opportunities for all kinds of services: infrastructural services, as highlighted by the telecommunication and energy sectors; commercial services, as illustrated by the tourism sector; and social services, as in the health sector. Moreover, these opportunities span all four GATS modes of service delivery. Although only a few representative services have been discussed in this report, similar potential is likely to exist in other services as well, such as education, entertainment and information technology. The analysis also highlights the synergies and complementarities that exist across different modes and services, with positive implications for regional integration efforts in general, extending well beyond the services sector.

The potential for gains from the integration of services in South Asia arises from a mix of asymmetries, complementarities and commonalities among the countries in this region. Asymmetries and complementarities in size, levels of development, technical and institutional capacity, private enterprise and financial and human resources create scope for resource flows between the countries to leverage these differences or to address existing gaps. At the same time, common objectives and interests stemming from similar infrastructural problems, income levels and regulatory conditions also create scope for cooperation as well as increased trade and investment ties in various services to address common goals of physical and social infrastructure development, employment creation, universal service provision, equity and poverty alleviation.

Yet, as the analysis indicates, there has been virtually no progress in the regional integration of services. Very few programmes and projects have been undertaken, although there have been numerous dialogues, working groups and planned initiatives. Even where intergovernmental cooperation has progressed and resulted in successful outcomes, it has been limited to bilateral arrangements, which have been narrow in scope and piecemeal in nature and not part of any long-term integrated strategy for cooperation. Even subregional and plurilateral initiatives have not succeeded in the region, despite support from various development agencies such as the ADB, the World Bank and USAID. Private sector initiatives have made comparatively greater progress, especially in less-regulated sectors such as health care and tourism, which are not dominated by public sector entities. But even here, the engagement has been largely bilateral, limited in scope and not underpinned by any long-term strategy for regional cooperation in these services or by government efforts to create a climate that is conducive to regional investment and trade flows.

Given the experience with services in South Asia so far, can SAFAS be expected to make a significant difference to regional integration in this sector? To answer this question, attention should be focused on three issues. First, the main drivers of services integration in South Asia should be identified so as to arrive at a well-considered and structured strategy for promoting services trade in the region. Second, the obstacles to intraregional trade in services should be recognized and either overcome or worked around. Third, it is necessary to identify the problems with the approach taken through SAARC thus far, which have prevented the realization of concrete outcomes, so that a more workable and realistic strategy can be formulated for an effective regional integration of services.

7.1 Identifying the drivers of regional integration of services

There are four mutually interdependent drivers of services integration in South Asia: infrastructure gaps in the region; the presence of a dynamic private sector; social, cultural and historical ties; and institutional and human resource requirements.

Integration of services in South Asia is necessitated by the huge infrastructure gap that exists in service sectors such as telecoms, power, transport, logistics and health care, and the consequent need for financial, managerial and technical resources that are locally relevant and appropriate for local conditions to bridge this gap. In addition, common concerns facing these countries as well as differences in their levels of development, stages of liberalization, private sector maturity and regulatory capabilities create opportunities for regional cooperation in the development and management of infrastructure. The creation of physical and social infrastructure is not only a necessity in all the countries; it also provides an opportunity to align national objectives with regional objectives, such as through the establishment of a regional power grid, cross-border investments in health and educational infrastructure, creation of regional transport corridors and associated road networks and the subregional development of a tourism infrastructure. Integration of services also has the potential to create numerous externalities with regard to employment creation, socio-economic development, trade in goods and overall economic relations in the region.

The presence of a dynamic private sector in several of the countries is another important driving force for regional services integration. The private sector, as discussed earlier, has become increasingly important, not only in the traditionally less-regulated services but also in sectors that have been liberalized in recent years. There are now greater opportunities for increased private sector investment in South Asia through wholly owned subsidiaries, joint ventures, management and technical tie-ups and even for public-private partnerships across countries. These can be supported by a consortium of private sector companies in particular services and through dialogue among industry associations. Once again, there is scope to align national objectives with the regional goals of encouraging cross-border investments, creating employment and promoting exports of services and private sector participation in services through regional cooperation.

A third driving force is the social, cultural and heritage bonds linking the countries, which can be leveraged to promote commercial and non-commercial relations in services. Sharing of a common history, languages, boundaries and recreational and cultural interests creates commercial and non-commercial opportunities in a wide range of services, including tourism, sports, media, entertainment, health care, education, transport and finance. Again, the common national objectives of promoting cultural integration, social cohesion, services exports, investment, employment and diversification of the services sector can be supported through regional integration efforts.

A fourth important driver of services integration is the need to address capacity gaps in human resources and institutions, which can best be achieved through regional cooperation. There is a need to develop soft skills and managerial, technical and professional expertise in many services. In addition, regulatory bodies should be established or their functioning improved, and regulatory frameworks need to be designed and adapted to changes in the economic and policy environment, while standards in many services need to be harmonized. There is scope for cross-country learning, transfer of knowledge and best practices, data and information gathering and sharing, and joint studies on services to address both human resource and institutional capacity gaps in the region. Here too, regional efforts can be aligned with national goals of institutional capacity-building and skills development in the services sector.

7.2 Key channels for integrating services

In identifying these main drivers of regional integration of services, the key channels become evident. These are *mobility of factors of production* in the form of financial and human resource flows and *mobility of factors of consumption* in the form of consumer flows, which are likely to be interdependent. Mobility of both these factors can enable countries to realize economies of scale by harnessing regional endowments and the consumer base. For example, investment inflows coupled with increased consumer mobility in tourism services can enable the smaller countries in the region to develop their tourism infrastructure and cater to the larger domestic market, thus realizing economies of scale in the tourism industry. The prospects of a large regional consumer base can in turn help attract further investment into the sector.

Both these channels can also enable countries in the region to specialize in different parts of the value chain in certain services, thus creating scope for intra-industry trade in services and a diversified services export basket. For example, in IT services, lower value-added tasks could be outsourced from the more advanced countries like India to other countries. Such differentiation would be made possible by investments from Indian companies in these other markets, which, in the process, could also expand regional exports of IT and IT-enabled services, thus helping to develop this sector.

Investment is perhaps the most important means of fostering regional integration in services. This is evident from the preceding analyses of selected services, in which investment emerges as the main form of intraregional engagement and an important objective in most intergovernmental efforts. Investment has a bearing on all the aforementioned drivers. It is a means of addressing infrastructure gaps, promoting private sector participation, leveraging linguistic and cultural affinities and enabling the development of institutional and human resource capacity. For example, increased intraregional investment is critical to realize goals such as the establishment of a regional power grid and exploitation of hydropower resources to promote energy security. Investment, whether public or private or partnership-based, is critical for the development of transport corridors and road networks to facilitate trade in goods. It is required for the establishment and management of health and educational institutions, to improve access to social infrastructure and for the establishment of telecom grids and cable networks within the region to improve connectivity and develop capabilities in related areas like IT. As is evident, the associated benefits are numerous, not only in services but also in other areas. Thus, investment is critical for promoting regional integration in services and also more generally in South Asia. Further, recent liberalization and regulatory reforms of services in the South Asian countries provide a good basis for expanding intraregional investment flows through cross-border participation of the private sector and public-private partnerships in services.

Investment flows need to be complemented by intraregional mobility of persons, in particular technical and professional persons, and business visitors.[62] Likewise, intraregional mobility of consumers is needed to integrate the regional market across a wide range of services, including tourism, education, health care, entertainment, recreation and culture. Such mobility is essential for leveraging the large consumer base that exists in South Asia, and it could help some of the smaller countries in realizing economies of scale that their fragmented domestic markets would not otherwise support. Thus mobility of persons for service delivery and consumption, particularly as linked to investment flows, would be an important element for the successful integration of services.

7.3 Possible approach to integration of services in South Asia

It has been said time and again that regional integration has been a failure in South Asia, and there is no reason to expect any better outcome for the services sector. This failure has been blamed mainly on the complex political economy of the region, in particular, the strained relations between the two largest economies, India and Pakistan. But this failure is also due to the approach to integration. There has been a tendency to declare ambitious projects and targets without addressing the fundamental problems relating to the very channels outlined previously for affecting this integration. Action plans, documents and summit declarations have been made without heed to investment regulations, institutional and regulatory capacity or mobility of persons, all of which are essential for actual implementation of those action plans and declarations.

62 Although there is considerable movement of low- and semi-skilled labour, documented and undocumented, within the region (as noted in chapter II), liberalization of movement of this category of workers would not be realistic at the present juncture, given the associated employment, security, welfare and administrative issues involved.

Thus, first and foremost the approach to services integration has to be realistic and phased, focusing more on tangible economic cooperation. There needs to be clear time tables for deliverables over the medium and long terms; without them, discussions on services will remain mere intentions, as in the past. The time table for integration would also need to vary, depending on the services and issues under consideration: some services involving fewer sensitivities or complex regulatory issues, and thus easier to negotiate, could possibly be negotiated first.

It will be important to address the fundamental obstacles to services integration. As mentioned earlier, pooling of factor and consumption markets will be the main channel. Hence, regional discussions would need to focus on all the cross-cutting issues that have a bearing on factor and consumer mobility in the region. The most important among these cross-cutting issues are the streamlining of investment regulations, improving the business environment, enhancing institutional and regulatory capacity, ensuring regulatory cooperation and facilitating mobility of persons. Specific initiatives on each of these issues will need to be undertaken at the regional level, and they should be complemented by reforms and policy initiatives at the country level.

In the context of investments in the region, one of the main constraints has been procedural and administrative delays, lack of transparency and uncertainties stemming from economic and political instability and policy changes. These should be overcome through regional discussions, specifically focusing on speedier clearance and approval procedures in general, fast-track procedures for regional investors with prior collaboration or expertise in the country or sector, fast-track clearances in identified services that are largely commercial in nature and where there are fewer sensitivities, provision of regular and updated information on the regulatory framework governing investments in different services through government websites and reports, and information on bidding processes and awarding of contracts to ensure transparency.

It would also be useful to consider a regional investment treaty to remove existing barriers to investment in the region. Such a treaty would need to address issues of investment facilitation, investor protection, dispute settlement and contract enforcement so as to ensure greater ease, transparency and commitment in regional investments. A common investment framework would help countries to develop investment policies and associated regulations in a coordinated manner, enable harmonization of rules and procedures and mutual recognition of standards and technical specifications in services. In addition, it could address issues relating to tax administration within the region. Similarly, a regional tax treaty among the SAARC member countries, which goes beyond the current agreement on administrative matters, such as exchange of information and assistance in tax collection, is required.[63] This agreement needs to be widened to include issues of withholding taxes and taxes on dividends deducted at source, royalties and other incomes, as this would greatly

63 Some countries in the region have already concluded double taxation treaties (DTTs). For example, : India has DTTs with Bangladesh, Nepal and Sri Lanka but does not have a comprehensive DTT with Pakistan.

benefit companies operating in this region. Energy services, where there are many cross-border projects, would be major beneficiaries. The experience of other regional groups that have such treaties in place could be instructive in framing such an agreement within South Asia. A regional tax treaty, rather than many varying bilateral treaties, would not only be easier to interpret but would also help curb "treaty shopping" within the region.

Clearly, these efforts will need to be complemented by national activity and should be seen by the individual countries as part of an overall drive towards improving their business environment to attract not only regional investors but also investors from outside the region. According to the World Bank's *Doing Business in South Asia 2007* report, the countries in this region perform poorly on a variety of business environment parameters, including key parameters like business registration, access to credit, investor protection, contract enforcement and licensing policies. With regard to the business environment, only India among the South Asian countries features among the top 10 reformers. Thus, regional efforts to increase transparency and improve the procedures for investment must be made part of national efforts to reform the business climate in each of the countries.

Regional efforts will also need to focus on facilitating mobility of persons in the context of delivery and consumption of services. Efforts should be made to streamline visa procedures and requirements for selected categories of persons within the region. If investments are indeed critical to services integration, then mobility of persons associated with investment flows must be given priority in any discussion on labour mobility. In particular, visa procedures and approvals could be simplified and expedited for certain categories of persons, such as business visitors, intra-corporate transferees and professionals and academics with bona fide approved or prospective investment projects, institutional tie-ups and exchange arrangements. Likewise, streamlined processes and speedier approvals could be introduced for special categories of services consumers, such as medical tourists, students and leisure and transit tourists. No doubt, there are security concerns in relaxing visa regulations between some of the countries, but even in these cases, mobility restrictions could be relaxed for specific categories of persons, such as those associated with a commercial presence. Similarly, mobility restrictions could be relaxed for those services that have been identified as high-priority or fast-track sectors. Related issues such as transport connectivity will also need to be addressed, for example by identifying selected bilateral and subregional projects to develop road and rail transport links and joint investments in these projects, signing of "open skies" agreements between countries in the region and developing transit hubs.

It is evident that neither investment facilitation nor facilitation of mobility of persons, even on a selective basis, can proceed without institutional and regulatory cooperation in specific services and more generally. As already noted in the context of a regional investment treaty, discussions are required on establishing standards and mutual recognition of those standards. The discussions should involve not only governments but also regulatory bodies, professional associations, industry associations, research institutions and civil society in the region, in order to share information, exchange best practices, collect data, conduct joint feasibility and impact analysis studies, identify priority areas for a services agreement, develop soft skills and create regional templates for investment or immigration-related initiatives.

Thus a multipronged approach is required, with regional efforts being complemented by national efforts, key issues of investment and mobility of persons being prioritized and related institutional efforts undertaken at various levels. Similarly, a phased and prioritized approach is required with regard to sector coverage, as also noted earlier. It would be useful to first liberalize the least contentious services, such as tourism or IT, in which there are greater chances of success and fewer regulatory complexities that could delay efforts. Pilot projects could be launched in these services, ideally on a plurilateral or subregional basis. For instance, there are initiatives that have already been agreed upon in the tourism sector, such as the Buddhist tourism circuit under the SASEC programme. Similar projects could be identified and implemented on a priority basis, and related issues of mobility, transport connectivity, tourism infrastructure development and investments could be worked out. A pilot-based approach in selected services that goes beyond bilateral arrangements could provide the much-needed confidence and practical experience necessary for subsequently engaging in larger and more complex regional projects, such as in energy or telecom services. Successful outcomes in some areas could also have a positive demonstration effect for other services and could provide the impetus for launching initiatives in other areas.

A similar phased and prioritized approach could be taken with country participation in discussions on services. It may be useful to proceed on issues as well as sectors and subsectors where there is a minimum core group of three or more member countries that are interested in participating, as it may not be practical to wait for buy-in from all the countries in this region. This group could be expanded over time as the smaller group of countries begins to realize benefits through a process of learning by doing. Attempts could also be made to build on existing bilateral agreements and other plurilateral agreements already concluded among some of the countries in the region (such as BIMSTEC) as a basis for negotiations under SAFAS.

7.4 Possible architecture of a regional agreement and negotiating modalities

For scheduling and regional commitments, the approach outlined and the key channels for affecting integration of services will need to be kept in mind. The GATS scheduling framework, with sectoral and horizontal schedules and a positive list approach, could be adopted.

In line with the need for a phased approach to integration of services, scheduling should be progressive. While there should be substantial sectoral coverage under SAFAS, initial scheduling could be limited to a few agreed services identified as high priority for fast-track negotiations within the region. However, countries could always schedule additional services that extend beyond this agreed list even in the initial stages. Ideally, market access commitments should reflect existing policies, thus binding in the prevailing regulatory and policy environment and, where possible, going beyond by providing more favourable conditions at the regional level. But at a minimum, they should be GATS-plus. Discriminatory measures should be removed as far as possible, unless there are clearly specified grounds for imposing such measures, such as national security, consumer protection or availability of government subsidies and other incentives for social and developmental reasons. Special and differential treatment should be provided for the least developed countries (LDCs) in the region, by allowing them longer implementation periods for their commitments or narrower coverage of sectors and subsectors in the scheduling process. It may not be useful to encourage special and differential treatment in terms of maintaining more restrictions against the commitments made, as this would negate many of the potential benefits of scheduling a sector, especially for the LDCs, which stand to gain from increased investment flows from other countries in the region.

Investment, mobility of persons, government procurement, subsidies, taxes and other cross-cutting issues would also need to be addressed in the horizontal commitment schedules. To make progress on some of the more contentious issues, such as movement of persons, it may be worth considering a request-and-offer approach to liberalizing temporary movement for select categories of service providers or professionals in specific disciplines. This could also apply to horizontal market access commitments for investment and government procurement policies, where procedural issues could be simplified and inscribed for specified services, and streamlined institutional provisions could be incorporated into the schedules.

Overall, the architecture of the regional agreement on services needs to be flexible and incremental but at the same time have mechanisms to ensure commitment to the regional liberalization process. In particular, the agreement must include provisions for transparency, safeguard measures and review mechanisms. Because lack of transparency and uncertainty about the policy environment have been identified as major obstacles to regional trade and investment in services, SAFAS should contain transparency provisions, which require the countries to provide information on current rules and regulations as well as prior information on proposed changes to these policies. There must also be built-in mechanisms to undertake periodic reviews of commitments and their implementation status to encourage compliance and progressive liberalization. Safeguard measures are also necessary to provide some cushion to countries in case of emergencies, which may necessitate temporary withdrawal of certain commitments.

7.5 Necessary steps for integration

There are four critical steps that are prerequisites for successful regional integration in services in South Asia. Some progress in these areas would need to precede the finalization of any services agreement and should constitute an integral part of the work agenda, both in the lead up to and during the SATIS negotiations.

The first step is to improve information about services, not only in individual member countries but also with regard to bilateral trade and investment flows with other South

Asian countries, to enable a more informed view about the services sector and the scope for regional integration. Only a proper understanding of the significance and nature of services in bilateral relations and the barriers to trade and investment flows in individual services and markets can enable meaningful negotiations and the framing of a suitable architecture for the proposed agreement.

A second step would be to undertake more regional discussions on regulatory and institutional issues so as to facilitate cross-country learning in the development of regulatory frameworks and enable an eventual move towards greater harmonization of standards in the region. Such discussions would also be necessary for reaching agreements on such issues as visas and taxes. All of this would form the basis for greater labour and capital mobility within the region, which, as discussed earlier, would be the critical modes for services delivery across a range of services.

A third step, which would need to underpin much of the regional efforts in services (and also in goods), would be the development of regional transport services infrastructure and trade facilitation measures in the region. Their importance is well recognized within SAARC in the context of trade in goods, but they also need to be underscored as necessary for promoting movement of consumers, service providers, investors and business visitors, which are all integral to trade and investment flows in services. Improved air and land connectivity within the region and transit agreements among groups of countries could greatly facilitate the regional integration of services, supported of course by regulatory cooperation on taxes, investment, standards, visas and the other cross-cutting issues discussed earlier.

A final critical step would be to engage in capacity-building efforts regionally. This would take the form of joint R&D activities, joint projects in selected services such as health care, environment, education, renewable energy and tourism (as highlighted in several of the sector chapters), regional training and development of human resources, sharing and exchange of ideas and information and sharing of best practices. Such efforts may also enable the countries in this region to arrive at common positions with regard to energy, environment and health care services and to adopt a unified position in other negotiating forums.

7.6 Political economy challenges: Some concluding thoughts

Various strategies and approaches to regional integration of services in South Asia have been outlined, but the single biggest challenge to such integration, and for that matter overall integration, is the complex political economy of this region. Whatever has been proposed as the way forward cannot be de-linked from the political economy realities. Political problems cut across all the areas that have been identified as critical prerequisites for successful integration of services under SATIS. For instance, the economic agenda of improving the mobility of service providers and people within the region or improving land connectivity and developing transport corridors or engaging in energy trade cannot be insulated from these political realities.

There are two fundamental problems of political economy that would impede progress in services integration in South Asia. The first is internal to most of the SAARC member countries and concerns the political instability and fragility that characterizes many of them. Several governments in the region are or have been faced with internal conflicts on ethnic, religious and/or social grounds, which threaten their stability and their ability to implement institutional, structural and regulatory reforms as well as to make necessary investments in social and physical infrastructure with long-term objectives in mind. Yet these are prerequisites for regional integration. Weak governments and lack of internal social and political cohesion also make it difficult to invest in cooperation and relation-building efforts with other countries in the region.

The second fundamental problem is the structural and geopolitical asymmetry of the countries of South Asia. Although the large differences in endowments, economic size, trade baskets and strategic importance of these countries create scope for complementarities in terms of trade and investment flows, they pose challenges with regard to the distribution of benefits from regional integration; they also give rise to differing strategic interests. As pointed out, India dominates in terms of the rate of growth of its services sector and its trade and investment flows, competitiveness trends and overall significance of services. Any services agreement is bound to reflect these asymmetries. Thus the architecture of any regional services agreement and the negotiating modalities would need to take into account these asymmetries by granting special and differential treatment to the less-developed countries of the region. Such treatment should allow them to trade off concessions against benefits in other sectors or through cooperation on issues of common interest and through a flexible, incremental negotiating approach to ensure an equitable distribution of benefits and adjustment costs. A regional services agreement should not lead to increased dependence of the smaller countries in South Asia on the larger countries as export markets and sources of investment; rather it should be designed to help them develop their capacity for delivering a wider range of services.

Overall, South Asian integration is constrained by the strong divisions that exist within and among some of the members. Hence, intergovernmental efforts alone are unlikely to result in substantive outcomes; parallel efforts involving industry, civil society and academia through continual dialogue and institutional cooperation at various levels are essential to build confidence, remove distrust and develop the will to proceed with regional integration in the long run. Regional integration of services could bring significant developmental and poverty-alleviation benefits to the member countries. These range from improvements in physical infrastructure, accumulation of human capital, employment creation, increased foreign exchange earnings, diversification of services trade and output, better access to technology and improved accessibility and quality of services, among others. These benefits will need to be highlighted to counter any political opposition to the regional integration of services.

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Annex 1

FDI policies of South Asian countries for selected services

Table A1.1: South Asian countries' FDI policies relating to telecommunication services

Country	Source	Investment policies
Bangladesh	National Telecommunications, 1998	Investment from sources outside the country may be arranged through, for example, suppliers credit, joint ventures and BLT/ BOT/BOO/ BTO agreements,* in addition to the usual loans and grants from international organizations as well as through bilateral agreements with other countries, in conformity with the industrial policy of the Government. Foreign investors are encouraged to demonstrate their commitment to Bangladesh by forming joint ventures with local companies and within the telecommunications sector. Government will consider equity participation of up to 100% of the overall shareholdings of the telecommunications operating company.
Bhutan	FDI Policy Rules and Regulations, 2005	Telecommunications not opened to FDI.
India	DIPP	FDI up to 100 percent for telecom manufacturing, Internet service providers (ISPs) without gateways, infrastructure providers (IPs)-I, call centres and IT enabled services. FDI up to 74 percent for ISPs with gateways, IP-II and radio paging. FDI up to 74 percent (automatic up to 49 percent, Foreign Investment Promotion Bureau (FIPB) approval above 49 percent) in all other telecom services (e.g. basic and cellular, unified access services, national/international long distance, v-sat, public mobile radio trunk services, global mobile personal communications services and other value-added telecom services.
Nepal	Telecommunications Policy, 2004	Foreign investment shall be sought in the telecommunications sector. A minimum of 20 per cent domestic participation shall be required for such investment, through joint ventures in basic telephone and mobile telephone services.
Maldives	Investment Bureau	Telecommunications not open to FDI .
Pakistan	Investment Bureau	Government permission not required except for licences. 100 percent foreign equity ownership. Repatriation allowed (all telecom services). Minimum amount to be invested – US$0.15 million.
Sri Lanka	Investment Bureau	Allowed up to 100 percent foreign equity participation. These services are regulated and subject to approval by various government agencies. The screening mechanism is non-discriminatory and, for the most part, routine.

Source: Various countries' telecommunications regulatory bodies/ministry websites/telecommunications policies.
Note: *BLT= build, lease, transfer; BOT=build, operate, transfer; BOO=build, own, operate; BTO=build, transfer, operate.

Table A1.2: South Asian countries' FDI policies for hospitals

Country	FDI	Entry conditions	Restrictions on form of participation	Discriminatory provisions, other restrictions/facilities
Bangladesh	No restriction or limit on foreign equity participation: 100 percent equity permitted in any undertaking.			No restrictions on repatriation of profits and income by foreign companies.
Bhutan	Not allowed, so far, but considering opening up the health sector to FDI.			
India	Up to 100 percent	Automatic approval for FDI up to 100 percent	No	
Maldives	Up to 100 percent		Wholly owned/joint venture	Foreign investors registered with the Invest Maldives are required to pay annual royalty to the Government. Royalty fee is 3percent of gross income or 15 percent of profits, whichever is greater, for majority foreign-owned companies; for others it is 1.5 percent of income or 7.5 percent of profits, whichever is greater. No restrictions on repatriation of earnings or profits, and no foreign exchange restrictions.
Nepal	Up to 100 percent			Except industries that affect security and public health, no other industries need to obtain any licence or permission for establishment and operation. They just need to be registered with the relevant department.
Pakistan	Up to 100 percent	Automatic	No	If the amount of foreign equity in the company/project is at least US$0.3 million, 100 percent foreign equity is allowed. Income from FDI can be repatriated. Equal treatment for domestic and foreign investors.

Country	FDI	Entry conditions	Restrictions on form of participation	Discriminatory provisions, other restrictions/facilities
Sri Lanka	Remains restricted and subject to case-by-case approval for foreign equity exceeding 49 percent.	Approval is required from the Board of Investment (BOI) prior to the establishment of a foreign business venture in Sri Lanka.		The BOI has a separate incentive programme to promote regional development, with the aim of establishing new factories or service companies (such as hotels, hospitals or training institutes) in regions outside Colombo. Incentives include 10– to 20–year tax holidays for investments in northern and eastern provinces and 2– to 10–year tax holidays for investments located in other provinces. In addition, imports of machinery and equipment are exempted from both customs duty and value-added tax. Minimum investment levels apply. Generally, treatment of foreign investors is non-discriminatory.

Sources: National boards of investment websites (see in list of references) and other official documents of the respective countries.

Annex 2

Commitments and offers of South Asian countries members of WTO under GATS for selected services

Table A2.1: WTO-GATS commitments and offers in telecommunication services, by South Asian countries

Sector/subsector	Uruguay Round commitments	Conditional initial offers	Revised offers
Bangladesh	**April 1995**		
All subsectors	Market Access Limitation Mode 4: Employment of foreign nationals to be approved by the Government, and such personnel shall be employed in higher management and specialized jobs only. National treatment limitation Modes 1 and 3: Certain subsidies and tax benefits may be extended only to national operators.		
For public use: international service	1) No bypassing of network facilities of the government operator. No call-back or reply allowed. 2) No limitations. 3) Reserved for exclusive supply by the government operator. 4) Unbound.		
For public use: fixed network infrastructure, domestic long-distance and local service	1) No bypassing of network facilities of the government operator. 2) No limitations. 3) Two licences can be issued to private operators, each to serve designated administrative (rural) areas in competition with the government operator. 4) Unbound.		

Sector/subsector	Uruguay Round commitments	Conditional initial offers	Revised offers
The above for non-public use	1) No bypassing of network facilities of the government operator 2) None 3) Only on network facilities supplied by the government operator and other licensed public service operators. Two-ended breakout and resale of excess capacity are not permitted. 4) Unbound.		
Internet access services	1) No bypassing of network facilities of the government operator. 2) None. 3) Only on network facilities supplied by the government operator and other licensed public-service operators. 4) Unbound except as indicated under all subsectors.		
Cellular/mobile voice telephone services	1) No bypassing of network facilities of the government operator. 2) None. 3) Four licences issued to private operators, in addition to the government operator. 4) Unbound.		
VSAT/Gateway Earth services/teleconferencing	1) No bypassing of facilities of the government operator. 2) None. 3) Reserved to exclusive supply by the government operator. 4) Unbound.		

Sector/subsector	Uruguay Round commitments	Conditional initial offers	Revised offers
India	**April 1995**	**12 January 2004**	**24 August 2005**
Voice telephone services	1) Unbound. 2) Unbound. 3) Provision of service permitted only after the operator gets a licence from the designated authority, subject to terms and conditions. FDI limit of 25 percent on wire-based services.	1) No change. 2) No change. 3) No change. Additional requirement of FIPB approval for foreign investors having prior collaboration. FDI ceiling of 25 percent for wire-based services.	1) No change. 2) None. 3) Licensing terms and conditions requirement removed. Foreign equity limit on wire-based services raised to 49 percent.
Cellular mobile services	1) Unbound. 2) Unbound. 3) As in voice telephony. Only digital (GSM) technology, terrestrial based, to be permitted.	1) No change. 2) No change. 3) No change.	1) No change. 2) None. 3) GSM technology requirement relaxed and FDI ceiling raised to 49 percent.
Data and message transmission services (e-mail/voice mail etc.)	(1) None. (2) Unbound. (3) Foreign equity ceiling of 51 percent.	(1) No change. (2) No change. (3) No change.	(1) No change. (2) None. (3) Foreign equity ceiling increased to 74 percent.
Nepal	**Date of submission: 30 August 2004**		
Basic telecommunications (local telephone service, domestic telephone service, international telephone services, telex service, domestic and international telegraph service)	1) None. 2) None. 3) No limitation on number of service providers from January 2009. Foreign equity limit of 80 percent on joint ventures. 4) Unbound. Consultants not available in Nepal may enter to work for 90 days.		

Sector/subsector	Uruguay Round commitments	Conditional initial offers	Revised offers
Mobile telecommunication services	1) None. 2) None. 3) None, except: • No limitation on number of service providers from January 2009. Foreign equity limit on joint ventures – 80 percent. • Mobile technology will not be prescribed but will be left to the choice of the operator upon the date of accession. 4) Unbound.		
Value-added telecommunications	1) None. 2) None. 3) None, except foreign participation permitted through joint venture with up to 80 percent equity participation. 4) Unbound, except as indicated in the horizontal section.		
Pakistan	**April 1995**	**30 May 2005**	
All subsectors	• Number of operators, service providers and licensees may be limited due to technical constraints. • The confidentiality of international total accounting rate (TAR) shall be maintained. • The bilateral agreements on accounting rates shall be in accordance with ITU guidelines. • Up to 100 percent foreign investment on licensed services may be permitted • Does not include any broadcasting services.		
Voice telephone services	1) None since 2004. 2) Alternative practices, such as call back, are not allowed. Country direct card service can only be permitted by mutual agreement with the licensed operator. 3) Unbound. 4) Unbound.	1) No change. 2) No change. 3) None.	

Sector/subsector	Uruguay Round commitments	Conditional initial offers	Revised offers
Packet-switched data E-mail, Internet and intranet Services and circuit-switched Data transmission services	1) None since 2003. 2) None. 3) Licensing restrictions on number of licences granted. 4) Unbound.	1) No change. 2) No change. 3) None. 4) No change.	
VSAT for domestic data services/telegraph services	1) Licensing restrictions. 2) None. 3) None. 4) Unbound.	VSAT: 1), 2), 3) and 4) No change. Telegraph: 1) None.	
Telex services/facsimile services	1) None. 2) None. 3) None. 4) Unbound.	1), 2), 3) and 4) No change.	
Private leased circuit services/video conferencing/trunk radio dialling	1) None. 2) None. 3) None. 4) Unbound.		
Mobile communication services	Sector not scheduled.	1) None, subject to technical constraints. 2) None. 3) None. 4) Unbound.	
Sri Lanka	**April 1995**	**September 2003**	
International voice	1) Monopoly for Sri Lanka Telecom till December 1999, and issuing of licences thereafter based on satisfactory conclusion of tariff rebalancing. 2) None. 3) Monopoly for Sri Lanka telecom till December 1999, and issuing of licences thereafter based on satisfactory conclusion of tariff rebalancing Foreign equity participation permitted in Sri Lanka Telecom of up to 35 percent. 4) Unbound.	1) Unbound. 2) No change. 3) None. 4) No change.	

Sector/subsector	Uruguay Round commitments	Conditional initial offers	Revised offers
Domestic long distance and local – mobile cellular services	1) None. 2) None. 3) Four licences issued – number to be reviewed in 2000. 4) Unbound.	No change – four licences issued.	
Wireless local loop	1) None. 2) None. 3) Two licences issued – duopoly guaranteed for 5 years – to be reviewed in 2000.	No change – three licences issued.	
Public pay phone services	1) None. 2) None. 3) Five service providers – number to be reviewed according to economic needs. 4) Unbound.	No change – five licences issued.	
Radio paging services	1) None. 2) None. 3) Five licences. 4) Unbound except as indicated in the horizontal section.	No change – five licences issued.	
Data communication services	1) None. 2) None. 3) Six licences only. 4) Unbound except as indicated in the horizontal section.	No change – six licences issued.	
Satellite-based services GMPCS services supplied through own gateways	1) None. 2) None. 3) Issuing of licences is under consideration. Foreign equity participation in these enterprises determined per the horizontal section. 4) Unbound except as indicated in the horizontal section.	1) No change. 2) No change. 3) None. 4) No change.	

Sector/subsector	Uruguay Round commitments	Conditional initial offers	Revised offers
Trunk radio mobile services	Sector not scheduled.	1) None. 2) None. 3) One licence issued. 4) Unbound, except as indicated in the horizontal section.	
Value-added services, such as: – electronic mail – voice mail – online information and database retrieval – enhanced/value-added facsimile services – code and protocol conversions – online information and/or data processing	Sector not scheduled.	1) None. 2) None. 3) None. 4) Unbound, except as indicated in the horizontal section.	
Electronic data interchange (EDI)	Sector not scheduled.	1) None. 2) None. 3) Unbound. 4) Unbound except as indicated in the horizontal section.	

Source: Based on GATS commitment and offer schedules.

Note: The figures in brackets refer to the modes under GATS.

Table A2.2: WTO-GATS commitments and offers in tourism and travel-related services, by South Asian countries

Sector/subsector	Uruguay Round commitments	Conditional initial offers	Revised offers
Bangladesh	**April 1995**		
Five-star hotel and lodging services	1) Unbound. 2) Unbound. 3) Commercial establishment in accordance with all local laws and regulations, with 100 percent foreign equity participation permitted. 4) Employment of foreign nationals to be approved by the Government, and such personnel shall be employed in higher management and specialized jobs only.		
India	**April 1995**	**12 January 2004**	**24 August 2005**
Hotels and lodging services	1) Unbound. 2) Unbound. 3) Only through incorporation. 4) Unbound.	1) No change. 2) None. 3) Foreign Investment Promotion Bureau (FIPB) approval requirement added. 4) No change.	1) None. 2), 3) and 4) No change.
Travel agency and tour operator services	1) Unbound. 2) Unbound. 3) Only through incorporation. 4) Unbound.	1) No change. 2) None. 3) FIPB approval requirement added. 4) No change.	1) None. 2), 3) and 4) No change.

Sector/subsector	Uruguay Round commitments	Conditional initial offers	Revised offers
Tour guide services	Sector not scheduled.	Sector not scheduled.	1) Unbound. 2) None. 3) Limitations: – Only through incorporation – Total ceiling of 500 tour guides conversant in Chinese, Japanese, French, Spanish and Portuguese – FIPB approval required. 4) None for tour guides conversant in Chinese, Japanese, French, Spanish and Portuguese, up to a maximum of 500. Unbound for others.
Maldives	**April 1995**		
Nepal	**(Date of submission: 30 August 2004)**		
Hotels and restaurants, travel agencies and tour operator services	1) None. 2) None. 3) None, except only through incorporation in Nepal and with maximum foreign equity capital of 51 percent for travel agencies and tour operator (CPC 7471) and 80 percent for hotel and lodging services (CPC 6411) (star hotels only) and graded restaurants (CPC 6421-6423). 4) Unbound, except as indicated in the horizontal section.		

Sector/subsector	Uruguay Round commitments	Conditional initial offers	Revised offers
Pakistan	**April 1995**	**30 May 2005**	
Hotels and restaurants	1) Unbound. 2) Unbound. 3) None. 4) Unbound.	1) None. 2) None. 3) No change. 4) No change.	
Travel agencies and tour operator services	1) Unbound. 2) Unbound. 3) None. 4) Unbound.	1) None. 2) None. 3) No change. 4) No change.	
Sri Lanka	**April 1995**	**September 2003**	
Hotel and lodging services	1) Unbound. 2) Unbound. 3) None, except as mentioned in the horizontal services. 4) Provision of labour, immigration and customs laws.	1) No change. 2) No change. 3) None. 4) Unbound, except as indicated in the horizontal section.	
Travel agencies and tour operator services	1) None. 2) Unbound. 3) None, except as mentioned in the horizontal section. 4) Provision of labour, immigration and customs regulations.	1) No change. 2) No change. 3) None. 4) Unbound, except as indicated in the horizontal section.	

Source: WTO-GATS commitment and offer schedules.

Note: The figures in brackets refer to the modes under GATS.

Table A2.3: WTO-GATS commitments and offers in health and related services, by South Asian countries

Sector/subsector	Uruguay Round commitments	Conditional initial offer	Revised offer
Bangladesh	**April 1995**		
Health services not scheduled or offered			
India	**April 1995**	**12 January 2004**	**24 August 2005**
Professional services			
Medical and dental services	Sector not scheduled		No change
Veterinary services	Sector not scheduled.	Sector not scheduled.	1) None. 2) None. 3) Limitation: subject to FIPB approval. 4) Unbound, except as indicated in horizontal section.
Services provided by midwives, nurses, physiotherapists and paramedical personnel	Sector not scheduled.	1) None for provision of services on provider-to-provider basis such that the transaction is between established medical institutions covering areas of second opinion to help in diagnosis of cases or in the field of research. 2) None. 3) Limitations: Only through incorporation with a foreign equity ceiling of 74 percent and transfer of the latest technology for treatment. FIPB approval needed. Public funded services may be available only for Indian citizens or price differential for other citizens. 4) Unbound, except as indicated in the horizontal section.	No change
Health services			

Sector/subsector	Uruguay Round commitments	Conditional initial offer	Revised offer
Hospital services	1) Unbound. 2) Unbound. 3) Foreign equity ceiling of 51 percent, only through local incorporation. 4) Unbound, except as indicated in the horizontal commitments.	1) "None", provided transaction is between two established medical institutions, covering areas of second opinion for diagnostics or research. 2) None. 3) Foreign equity ceiling increased to 74 percent. FIPB approval required for foreign investors with prior collaboration. Only through local incorporation. Subject to inflow of latest technology for treatment. Different conditions for publicly funded services. 4) No change.	1) No change. 2) No change. 3) No change. 4) No change, except restrictions removed for charitable purposes.
Maldives	**April 1995**		
Health services not scheduled			
Nepal	**(Date of submission: 30 August 2004)**		
Professional services			
Veterinary services	1) None. 2) None. 3) None, except only through incorporation in Nepal and with maximum foreign equity capital of 51 percent. 4) Unbound.		
Health services			

Sector/subsector	Uruguay Round commitments	Conditional initial offer	Revised offer
Hospital services	1) None. 2) None. 3) None, except only through incorporation in Nepal and with a maximum foreign equity capital of 51 percent. 4) Unbound, except as indicated in the horizontal section. Medical experts can work with the permission of the Nepal Medical Council for a maximum of one year.		
Pakistan	**April 1995**	**30 May 2005**	
Professional services			
Medical and dental services	1) Unbound. 3) Subject to regulatory provisions. 4) Unbound.	1) No change. 2) No change. 3) No change. 4) No change.	
Veterinary services (excluding services provided by public institutions)	Sector not scheduled.	1) Unbound. 2) None. 3) Market access limitations: economic needs test National treatment limitation: residency requirement. 4) Unbound.	
Services provided by midwives, nurses, physiotherapists and paramedical personnel (excludes services provided by public institutions)	Sector not scheduled.	1) Unbound. 2) None. 3) None. 4) Unbound.	
Health services			

Sector/subsector	Uruguay Round commitments	Conditional initial offer	Revised offer
Hospital services	1) Unbound. 2) None. 3) Subject to regulatory provisions. 4) Unbound.	1) No change. 2) No change. 3) None. 4) No change.	
Sri Lanka	**April 1995**	**September 2003**	
Sector not scheduled			

Source: WTO, GATS schedules and offers of SAARC countries that are members of WTO.

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Note: The figures in brackets refer to the modes under GATS.

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