2nd South Asia Economic Summit (SAES)
South Asia in the Context of Global Financial Meltdown

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Regional Integration in Services in South Asia: Prospects and Challenges

by

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at
South Asia Economic Summit
New Delhi
December 10-12, 2009
Outline

• Background and motivation

• Why services integration?

• Prospects and challenges in selected services
  – Telecommunications
  – Energy
  – Tourism
  – Healthcare

• Way forward for services integration in South Asia

• Concluding Thoughts
Background and Motivation

• Spurt in regional and bilateral integration efforts in past decade

• South Asian countries no exception to these trends, but relatively slower shift towards trade promotion - SAARC to SAPTA to SAFTA and some discussions on South Asian Economic Union

• Most studies suggest regional integration in South Asia has been limited
  – Intraregional trade in SAARC increased only marginally (2.68% in 1990 to 4.85% in 2005)
  – Intraregional investment flows limited
  – Lack of progress on critical issues that would need to supplement regional integration efforts

• Several factors have impeded progress
  – Strained political relations between India and Pakistan, security concerns, competing trade baskets, lack of transparency, poor transport and related services infrastructure, lack of political will
  – Architecture of agreements- narrow coverage of commitments, limited trade interest and potential in covered products, modalities of trade liberalization
  – Factors inherent to the region- limited purchasing power, lack of economies of scale
• Studies generally conclude that regional prospects are not promising and recommend move towards a full-fledged FTA in Asia and pan-Asian integration

• But these analyses are based on existing framework and scope of SAFTA

• Conclusions about regional prospects may be different if SAFTA broadens its ambit to include services and issues of investment and movement of persons

• Several SAARC Summits stressed need to broaden scope of SAFTA, 14th SAARC Summit called for integration of services into SAFTA and conclusion of SAFAS, reiterated at August 2008 Colombo Summit

• Sub regional economic cooperation working groups have been formed in transport and tourism, specific areas recommended have bearing on services

• Already discussions in other sub-regional groups on services
• Is there a strong case to be made for including services under SAFTA?

• Can this expansion provide the much needed dynamism to South Asian integration?

• Report argues there is a convincing case to be made for including services, potential gains for member countries, recent performance and policy trends made conditions conducive to framing a services agreement in South Asia

• Potential for regional services integration arises from:
  – Asymmetries and complementarities in size, levels of development, technical and institutional capacity, private sector enterprise, and financial and human resources create scope for resource flows between countries to leverage differences and address gaps

  – Commonalities in objectives and interests due to infrastructural, income, and regulatory status of countries create scope for cooperation and increased trade and investment ties in various services to address goals of infrastructure development, employment, universal service provision, equity, poverty alleviation
Why Services Integration?

• Several factors argue for including services under SAFTA

• Growing contribution of services to output and growth
  – Services have outperformed other sectors of the economy in South Asia with higher growth and less volatility
  – Services have consistently outperformed overall GDP growth, helping pull up overall economic growth in the region
  – Driven by deregulation and policy reforms in key services, rising incomes and domestic demand

• Share of services in employment has increased but not commensurate with growth in services output

• Growth in region’s services trade, increased participation of region in world services trade, rising RCAs in services, higher than in goods trade
Trends in overall and sectoral growth in South Asia, CAGR (%) (constant 1991 prices)

Source: Author’s calculations based on UN online statistical database

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<td>39.1</td>
<td>42.2</td>
<td>48.7</td>
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Superior growth performance in services led to rising and dominant contribution to region’s GDP

Source: Author’s calculations based on UN online statistical database
Services Contribution to GDP in Different Regions (%), 1990-2006

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CAGR of 11.2% service sector growth in 2001-06, higher than for other regions

But mirrors trends in India

Source: Author’s calculations based on UN online statistical database
Sectoral composition of GDP in South Asian countries (%)

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Author’s calculations based on UN online statistical database

Growing share of services seen in all countries, smaller countries are highly dependent on services

Subsectoral trends reveal differences and similarities

Communication, transport, trade and distribution, and government services important contributors to services GDP and growth
South Asia’s participation in world services trade (%)

Share of 1% of world services exports and imports to nearly 3% and 2% between 1980 and 2007

Average annual growth rate of services exports and imports risen in recent decade, above growth rates for the world

Average annual growth rate of services trade in South Asia and the World (%)

Author’s calculations based on UNCTAD Handbook of Statistics 2008 (online version)
Revealed Comparative Advantage Indices for Services in Different Regions (1995, 2007)

South Asia’s Revealed Comparative Advantage in services and merchandise trade (1990-2007)
Trends largely reflection of India’s services trade, dominance grown

Share of countries in South Asia’s services exports (%)

Share of countries in South Asia’s services imports (%)
India only country to have significantly increased its share in world services exports and imports during 1990-2007 period, shares of all other countries remained around the same levels.

Share of South Asian countries in world services exports (%)

Share of South Asian countries in world services imports (%)

• Growth in South Asia’s services trade and growing competitiveness and penetration of world markets in services, though largely driven by India’s performance

• Dominant player India will need to play an important role in driving regional integration process, different distributional effects likely

• Almost all South Asian countries show higher RCA for services than in goods

• Although asymmetries, sub-sectoral composition of services trade for individual South Asian countries suggests potential complementarities in sectors and modes of delivery across the countries
Trends in RCA indices for merchandise and services in South Asian countries (1995, 2007)
Composition of service sector exports in South Asian countries, 2006 (%)

Composition of services imports in South Asian countries, 2006 (%)
• Services exports show shift away from traditional to professional and business services for India, others show continued dependence on traditional services, smaller countries dependent on few services (travel and tourism)

• Services import composition shows diversification towards new services reflecting outcome of services liberalization and reforms

• Complementarities and areas of interest evident
  – All countries have common interest in travel and transport services
  – Business services an increasingly important export segment for India, increasingly important import segment for other South Asian countries
  – Scope for regional cooperation in related areas such as air and land transport services, facilitation of business and leisure travel
  – Significance of government services implies scope for collaboration, capacity building, and regulatory cooperation in services such as healthcare, energy, education
• Significance of mode 4 with the rest of the world and also within region, India main source country for intraregional remittances, Maldives has high share of remittance outflows in GDP (9.2% in 2006)

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<td>4.88</td>
<td>5.91</td>
<td>6.83</td>
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Workers remittances (receipts) as % of GDP for South Asian countries

Remittances sent from India to selected countries, 2006 (% estimated in US$ mns)
FDI inflows into South Asia (1991-2007) in USD million at current prices

<table>
<thead>
<tr>
<th>Source of FDI</th>
<th>Recipient of FDI</th>
<th>India</th>
<th>Pakistan</th>
<th>Sri Lanka</th>
<th>Bangladesh</th>
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<td>x</td>
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<td>Sri Lanka</td>
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<td>-</td>
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<td>-</td>
<td>-</td>
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<tr>
<td>Share of South Asia</td>
<td>0.04</td>
<td>-</td>
<td>2.10</td>
<td>0.40</td>
<td>37.60</td>
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</table>
• Growth in FDI inflows and outflows in region

• India’s FDI exports have been growing and thus potential source of intraregional FDI

• Services constitute growing share of inward FDI in several South Asian countries

• Key services receiving FDI are telecommunications, business process outsourcing, tourism, energy

• Scope for increased intraregional FDI as complementarities exist between investor and recipient countries and continued deregulation of many services in South Asian countries
• Overall variety of factors argue for services integration in South Asia
  – Shift in structure of economies towards services
  – Increased growth in services trade and investment

• But much of output, growth, export performance, diversification of services trade driven by India and thus India’s role critical for services integration

• Potential complementarities with regard to labour and capital flows within region, Indian companies as potential investors in several sectors in areas like energy and communication services, smaller countries could benefit

• Scope for movement of professionals from India to other countries and, scope for movement of service providers in selected services to smaller countries like Maldives

• Services discussions must not overlook social services where government an important provider, regulatory cooperation and capacity building initiatives will be important

• Lack of commensurate employment in service sector and thus potential for using services integration to address employment and poverty related concerns
Prospects and Challenges in Selected Services

• Four services selected for analysis covering different kinds of services to highlight range of issues
  – Telecommunication and energy services - infrastructure services
  – Tourism services – commercial services
  – Healthcare services – social services

• Sectoral analysis includes:
  – South Asia in comparative perspective with rest of the world
  – Highlights status of sector in individual South Asian countries
  – Recent trends in regulatory and liberalization status
  – Intraregional collaboration and commercial ventures
  – Nature of commitments in sector under WTO and other agreements
  – Outlines possibilities for furthering integration in sector

• Some plurilateral initiatives exist, though mostly bilateral
Telecommunication Services

- Sector witnessed rapid growth in South Asian countries in past decade
  - Subscriptions and teledensity risen manifold
  - Better performance in mobile segment
  - Internet penetration and usage increased

- But indicators below global average

- Indicators reflect regulation, policy and infrastructure related factors continue to constrain fixed line telephony

- Low internet usage and penetration indicators reflect lack of related communication and electricity infrastructure, low levels of literacy, per capita incomes, and urbanization in region

- But still relatively underdeveloped telecom infrastructure
Trends in total teledensity in the South Asian countries, 2000-08

ITU, World Telecom Regulatory Database

- Indicators suggest expansion in scale and scope of telecom services, need for further investment in certain segments
- Mobile telephony potentially most attractive area for regional discussions, where likely convergence of interests and objectives
• Common objectives across countries in region of developing telecom infrastructure, provide universal access, improve quality of telecom services

• All South Asian countries undertaken liberalization in telecom services
  – Restructuring and partial privatization of state owned entities, allowed entry into mobile segment and in value added services, competition in fixed line services, adopted national telecom policies, established regulatory bodies
  – Extent of liberalization varies with some allowing full competition and foreign ownership and relaxed conditions on repatriation and licensing
  – Pakistan and India liberalized most with full competition in many segments, while smaller countries still have monopoly state operators in fixed line segment, or with specified equity ceilings and various approval requirements

• Outcome of reforms and FDI liberalization evident from rise in teledensity and subscriber base, increased competition, lower prices, wider range of telecom services

• Telecom services one of most attractive segments for FDI inflows
• More than market entry barriers, challenges remain due to institutional and regulatory practices

  – lack of institutional transparency
  – anti-competitive practices
  – 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 policies in practice
  – continued monopoly in certain segments
  – problems of infrastructure and in particular spectrum allocation
  – high surcharges and levies on telecom operators due to a high dependence on this sector for revenues in some countries.
Intraregional initiatives

• Information and communication technology (ICT) designated as one of the priority sectors for cooperation under the SASEC program

• Lack of connections between the member countries, lack of strong infrastructure, and poor human resource capacity in this sector seen as major barriers to regional penetration of telecom services in South Asia

• Working group on telecom and ICT set up in January 2004

• 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 available on the internet
  – Agreement on SASEC Information Highway Project to optimize the interconnection costs in the region, extend reach of ICT services in this region.
Important intergovernmental initiative with establishment of SATRC, a permanent body that functions under the APT (member countries include Afghanistan, Bangladesh, Bhutan, India, Iran, Maldives, Nepal, Pakistan, and Sri Lanka)

SATRC aims to identify and promote areas of potential cooperation in telecommunications among the South Asian countries and serves as a forum for mutual learning, sharing of experiences, harmonization of regulation, facilitates regional seminars, workshops, training courses

SATRC Action Plan drawn up at the 2004 SATRC meeting to reflect common issues and concerns of the countries in South Asia

Key issues under SATRC under Action Plan:
- licensing, service quality, universal service and access obligations, tariff rebalancing, interconnection, numbering plan, number portability, equal ease of access, intelligent network services, and broadband technology
• Plan aims to
  – lower telecom tariffs within the SAARC region 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 and use of either direct links or hubbing or transit facilities to facilitate intraregional communications
  – promote regulatory cooperation to improve performance

• Common priority areas under plan are universal access, development of rural services, optimal sharing of available resources, enhanced cooperation in technology transfer, and standardization

• Council has completed case studies of Universal Access programs in Nepal and Sri Lanka, decided to establish a Universal Service Fund and monitoring mechanism to ensure that universal service obligations met
• Harmonization seen as important for enabling access to international telecom networks within SATRC network and for simplifying the network

• Council decided to review issues of harmonization of emergency telephone numbers, mobile service access code, satellite based mobile telephony and terrestrial mobile telephony

• New numbering formats proposed among members, some flexible areas identified where harmonization can be achieved- emergency services (police, fire, medical)

• Numbering formats proposed for mobile, internet, public switched data networks, and intelligent networks

• Some discussions on tariff rebalancing, performance indicators, quality of services, licensing issues, enforcement mechanisms, classification and form of licenses, policies for broadband development in region
Industry level initiatives

• Annual meeting of a CEO Conclave consisting of SAARC industry leaders in telecom sector

• Key issues discussed
  – lowering of tariffs, improving roaming facilities, high speech services, sharing of regulatory best practices, building knowledge and capacity on latest technology in the sector, standardization of telecom monitoring methods, improved cross border availability of services, cooperation among operators in voice and data services, standardization of products and services

• SAARC Industry forum launched for the telecom sector with focus on network expansion and mobile security, roadmap drawn up for telecommunications in the region for 2008 and beyond by the Council

• Possibilities for regional operators such as BSNL to service the regional market mooted
Private sector initiatives

- Indian telecom giant, Bharti Airtel entered Sri Lanka in Jan 2009 with $100 mn investment, set up a Sri Lankan subsidiary, Bharti Airtel Lanka Pvt. Ltd, to invest $200 mn over three years

- Within a few months of entry, customer base had crossed 1 million, offering 2G and 3G services

- Entered into a 3 year managed network deal with China’s Huawei Technologies.

- Big Indian telecom operators interested in other SAARC markets
  - Bharti Airtel announced plans to expand its cable network to Bhutan to create terrestrial cable network in Bhutan in partnership with the Bhutan government
  - Reliance Infocomm and Bharti Airtel have shown interest in bidding for a license for GSM 2D cellular services in Bhutan
  - In 2004, Airtel signed first ever roaming agreement with Pakistan’s Mobilink to provide mobile roaming facilities for its pre-paid and post paid customers
  - In November 2008, BSNL cut international call rates to SAARC countries
• Similar initiatives by Indian companies in Bangladesh
  – Bharti Airtel and Reliance Communications have submitted a joint proposal to Bangladesh Telecommunications Regulatory Commission to establish a telecom corridor through Bangladesh to reach the north-eastern part of India, in return offered a stand-by submarine cable to Bangladesh
  – Indian companies have already brought Pakistan, Nepal, and Bhutan under their submarine cable network, this initiative would benefit Bangladesh by connecting it to the rest of the region
  – Internet service providers in Bangladesh have endorsed this initiative, but Bangladesh government, however still to decide on this proposal.

• But several challenges to intraregional investments
  – Anticompetitive practices by incumbent operators
  – Delays in getting regulatory approvals
  – Politicization of investment approvals
  – Infrastructural constraints, shortage of spectrum, lack of sufficient interconnection capacity between operators
  – Security issues
  – Very high roaming tariffs and termination charges for SAARC originated international traffic compared to tariffs for calls with rest of the world
Commitments in telecom services

- Telecom services most committed sector under WTO

- Differences in scope and extent of liberalization but mode 3 most sensitive, with mostly partial commitments, foreign equity ceilings

- Scope kept for preferential accounting rates

- Countries willing to negotiate telecom services, but retain policy space, sequence liberalization from unilateral to multilateral and prepare domestically

- Telecom services don’t feature importantly in other agreements

- But where features as in Pakistan-China FTA, Pakistan-Malaysia FTA, India-Singapore CECA, more liberal commitments than under WTO

- Potentially greater liberalization under SAFTA than under GATS
Looking ahead

- Need to accelerate pace of discussions on regulatory cooperation, deliver something concrete on harmonization of numbers for identified services

- Focus on bringing down intraregional call rates as potential wider benefits in many other sectors, including tourism, business travel, investment, and potential outsourcing and ICT services within the region

- Take advantage of room created under GATS for preferential accounting rates for operators

- Improve investment climate, reduce uncertainties, institutional streamlining of investment approvals and clearances

- Leverage common interests of overcoming challenges of geography, improving government efficiency through e-governance initiatives, infrastructure sharing arrangements with other South Asian countries, opportunities created for intraregional investments and partnerships among players with opening up of FDI
Energy Services

- Growing demand for energy in South Asia, outpacing energy production, hence energy security and energy efficiency major priorities

- Dependence on energy imports increased, 12% of total energy supply to 30% between 1990 and 2006, around 53% of commercial energy requirements met by imports

- Energy exports risen for some countries in this period

- All South Asian countries have embarked on power sector reforms

- Potential for energy trade given contiguous landmass, complementary energy resource endowments, complementarities in demand and supply
Commercial energy mix in South Asian countries (% shares)

Energy usage mix varies in line with varied endowment mix in region, high dependence on particular source in each country, very limited use of alternative sources.
• Main feature of power sector reforms:
  – increased role of the private sector, liberalization of FDI in several segments
  – domestic and international investments in energy exploration and generation
  – independent power producers selling power under long term power purchase agreements to incumbent power companies or state electricity boards
  – Corporate players emerged, interested in investing in other markets in the region
  – Complementary structural reforms- disinvestment, restructuring and corporatization of public sector companies, move towards more reasonable and competitive tariffs
  – Unbundling of state owned utilities into separate functional companies to improve their financial position and operational efficiency
  – Establishment of regulatory agencies

• But reforms need to go further in South Asia
  – Public sector still dominates
  – Political interference in electricity pricing continues
  – Lack of reforms in distribution sector
  – Poor governance, inefficiencies, lack of transparency and accountability, anti-competitive cross subsidization policies, reversals on tariff increases, and populist resistance to pro-competitive and commercially justified measures.
### Overview of Trade Prospects in the Eastern and Northern SAARC region

<table>
<thead>
<tr>
<th>Exporting countries</th>
<th>Importing countries</th>
<th>Bangladesh</th>
<th>Bhutan</th>
<th>India</th>
<th>Nepal</th>
<th>Sri Lanka</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>Bangladesh</td>
<td>Small amounts of thermal power and gas connection possible via India</td>
<td>Natural gas and power exports possible</td>
<td>Small amounts of thermal power and gas connection possible via India</td>
<td>Not likely due to distance</td>
<td></td>
</tr>
<tr>
<td>Bhutan</td>
<td>Bhutan</td>
<td>Some hydropower potential via India</td>
<td>Large quantities of hydropower exports possible</td>
<td>Unlikely due to similar resources and seasonal shortages</td>
<td>Not likely due to distance</td>
<td></td>
</tr>
<tr>
<td>India</td>
<td>India</td>
<td>Sharing reserves, electricity swaps</td>
<td>Dry season support</td>
<td>Dry season and thermal power support</td>
<td>Dry season and thermal power support</td>
<td></td>
</tr>
<tr>
<td>Nepal</td>
<td>Nepal</td>
<td>Some hydropower potential via India</td>
<td>Unlikely due to similar resources and seasonal shortages</td>
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<td></td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>Sri Lanka</td>
<td>No scope</td>
<td>No scope</td>
<td>Could provide peak power support</td>
<td>No scope</td>
<td></td>
</tr>
</tbody>
</table>
### Overview of Trade Prospects in the Western SAARC region

<table>
<thead>
<tr>
<th>Exporting countries inside and outside SAARC</th>
<th>Importing countries in SAARC</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>India</td>
<td>Pakistan</td>
</tr>
<tr>
<td>Afghanistan</td>
<td>Possibility of transit of gas</td>
<td>Possibility of transit of gas</td>
</tr>
<tr>
<td>India</td>
<td></td>
<td>Short term trading in power and mutual support possible</td>
</tr>
<tr>
<td>Iran</td>
<td>Significant potential for gas exports and transit via Pakistan</td>
<td>Significant potential for gas export, cross border electricity trade could grow</td>
</tr>
<tr>
<td>Pakistan</td>
<td>Short term trading in power and mutual support possible</td>
<td></td>
</tr>
</tbody>
</table>
**Intraregional initiatives**

- Energy cooperation progressed mainly at bilateral level, mainly between India and Nepal and India and Bhutan

- Power import policy which would aid hydropower development in Nepal and Bhutan and also facilitate electricity inflows into India, with greater role for private firms

- So far energy exchanges mainly limited to hydroelectric power

- Some sub-regional initiatives considered but remain at conceptual stage
(a) India-Bhutan

- India absorbs 75% of electric power generated in Bhutan
- Electricity exports largest single source of foreign exchange for Bhutan
- Framework agreement between governments of India and Bhutan on hydropower development and trade through public and private participation
- Plans to develop several projects and upgrade existing transmission links

(b) India-Nepal

- Indian government has provided financial and technical assistance to 4 hydroelectric schemes in Nepal
- Several projects identified for cooperation to develop transmission network
- Such projects could potentially enable Nepal to export power to India during wet season and to import power from India during dry season

(c) Others

- Discussion between India and Sri Lanka for laying transmission line between them
### Power sales from Bhutan to India (millions of Ngultrum)

<table>
<thead>
<tr>
<th>Year</th>
<th>Export of power to India</th>
<th>Total export of principal commodities</th>
<th>Proportion of power in exports to total exports (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>2189.5</td>
<td>3174.2</td>
<td>68.98</td>
</tr>
<tr>
<td>2001</td>
<td>2072.0</td>
<td>3271.5</td>
<td>63.33</td>
</tr>
<tr>
<td>2002</td>
<td>2344.2</td>
<td>3307.9</td>
<td>70.87</td>
</tr>
<tr>
<td>2003</td>
<td>2603.5</td>
<td>3629.8</td>
<td>71.73</td>
</tr>
</tbody>
</table>

### Revenues from Nepal’s electricity sales to India

<table>
<thead>
<tr>
<th>Year</th>
<th>Bulk Supply to India (GWh)</th>
<th>Revenue ( in million Rs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>95.00</td>
<td>327.80</td>
</tr>
<tr>
<td>2001</td>
<td>126.00</td>
<td>396.06</td>
</tr>
<tr>
<td>2002</td>
<td>133.86</td>
<td>514.12</td>
</tr>
<tr>
<td>2003</td>
<td>192.2</td>
<td>809.0</td>
</tr>
<tr>
<td>2004</td>
<td>141.2</td>
<td>673.7</td>
</tr>
<tr>
<td>2005*</td>
<td>110.7</td>
<td>573.4</td>
</tr>
</tbody>
</table>
- Besides intergovernmental agreements and initiatives, bilateral energy cooperation facilitated by liberalization of energy market in South Asia

- Energy sector been opened up to international competitive bidding, made cross border private participation possible within region, growing interest among private players to enter other markets in region
  - Govt of Nepal awarded 200MW Upper Karnali hydroelectric project to GMR group
  - Tata Group’s TPTCL part owner of transmission line between Tala project in Bhutan and Delhi
  - TPTCL entering into joint projects with SN Power, largest independent power producer in Nepal
  - Govt of Bhutan working on possibility of allowing 100% foreign equity investment by Indian companies in hydropower

- But no progress between India and Pakistan, India and Bangladesh with natural gas trade and trans-country pipelines
• Subregional cooperation scope between Bangladesh, Nepal, Bhutan, India

• Interest on Bangladesh’s part to import electricity from Bhutan and Nepal, related discussions about connecting Bangladesh’s electricity grid to grids in Nepal, India, Bhutan

• Two direct interconnections under consideration between Northeastern region in India and Eastern Zone of Bangladesh

• Discussion about cooperative arrangements with India for joint development of hydropower projects and swap deals for power exchange with eastern and northeastern Indian states

• Four Borders region project under South Asia Regional Initiative/Energy programme by USAID aims at tapping regional power transfer opportunities via regional interconnection of transmission systems of four countries
Regional forums and initiatives

- SAARC initiatives to facilitate dialogue on regional cooperation, capacity building, and information dissemination in energy sector, though more at proposal stage

- Concept of Energy Ring mooted, with regional transmission link in region, transnational lines for trade in electricity, gas, oil

- SAARC Energy Centre established, to work on several areas
  - Renewable energy projects
  - Developing regional energy database
  - Training workshops for sharing experiences and learning of best practices
  - Understanding interdependence of policies in energy sector and other sectors
  - Exchange of experts and officials among energy research institutions in region

- Agreement between SAARC Secretariat and ADB for technical assistance for energy sector dialogue and Energy Centre’s capacity development project

- Survey report prepared on availability of surplus power and electricity demand and load forecast over medium term as basis for discussing energy trade in region
• SARI energy program aims at promoting energy security via cross border energy trade, creation of energy markets, partnerships to facilitate access to clean energy and mitigate environmental impact of energy production

• Pre-feasibility studies done on Nepal-India petroleum pipeline, support to private sector financial institutions to set up equity and venture funds for investments in clean energy projects

• But nothing concrete, mostly progress with best practices sharing, identifying possibilities, studies, capacity building

• Numerous constraints remain in form of political, institutional, infrastructural, and geographic factors
  – Lack of transmission grid, no regional network of institutions or focal institutions for power purchase agreements, poor operational and financial performance of electricity utilities, lack of commercial considerations in power pricing, lack of transparency and accountability
Steps to deepen energy integration

- Need to have agreement based on:
  - evaluation of existing studies on energy cooperation in region
  - Understanding implications of current regulatory and policy environment
  - evaluation of tradeoffs between energy trade and energy self-sufficiency
  - assessment of technical and economic feasibility of an integrated electricity network in region
  - examination of contractual obligations in energy trade

- Could set up apex regional body consisting of state owned and leading private sector companies engaged in energy exploration, production, sales

- Public and private bodies could jointly undertake assessment of material and other resources, conduct joint R&D, take collective action on renewable energy sources, share information and experiences to evaluate benefits of cooperation, seminars and training programmes

- Also need broad based regional forum given cross cutting nature of issues in energy
• Build on existing bilateral treaties for power exports, move to plurilateral level

• Stepwise approach to interconnection
  – Promote power cooperation first based on common understanding of spare capacity, enabling coordination of generation systems
  – Follow this with short and long term power exchange using these interconnections based on supply and demand characteristics of networks
  – Follow with joint planning, design, funding, construction, and operation of transmission lines
  – Follow with joint construction of power stations and associated power trade on plurilateral basis

• Success under some of these joint projects could provide confidence to develop larger regional projects

• Use possibility of lagged cooperation, one country provides energy resource to another for a defined period and latter required to provide former with contracted amount of energy in future, but studies required
• Natural gas trade- involve private and public sector entities with interest in such trade

• Supplementary measures required to further energy cooperation
  – Reforms of state electricity boards via competitive retail pricing, more commercial discipline and less political interference

• Need ratification by all member countries of a legally binding instrument such as energy charter or treaty which covers issues of investment, trade, transit, safeguards for investors, dispute resolution

• Cooperation on legal and regulatory frameworks in this sector, on approaches to private investment, tariff setting, discuss issues of standards and specifications

• Establish a Regional Power Trading Corporation as regional institutional mechanism for power trade
  – Maintain and provide information on plant structures, production costs, sales prices, profitability, market conditions, gather and analyse information, help develop bidding system for power generation projects in region
Tourism Services

• South Asia compares poorly with rest of world in tourism sector, negligible share of world tourism arrivals and receipts

• Region fares poorly on global competitiveness indicators for tourism infrastructure and regulatory and policy environment, better on cultural, historical, natural heritage parameters

• Tourism is an important contributor to GDP and employment in the region (over 5% for each), high growth in capital investment and government expenditures

• Receiving growing attention from South Asian governments, objective of increasing tourist arrivals, relieving infrastructure and transport bottlenecks, ensure environmental protection and cultural promotion but different approaches

• Liberal foreign investment policies, encouraged private players, several corporate players have emerged in region, but sector burdened by multiplicity of taxes, employment related conditions, licensing and authorization restrictions
### Share of tourists from South Asia in individual SAARC countries (% and numbers)

<table>
<thead>
<tr>
<th>% tourists from SA as a % of all international arrivals</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>46.69</td>
<td>45.27</td>
<td>46.90</td>
<td>41.75</td>
<td>36.64</td>
<td>47.68</td>
<td>99010</td>
</tr>
<tr>
<td>India</td>
<td>25.98</td>
<td>25.70</td>
<td>23.45</td>
<td>21.79</td>
<td></td>
<td>20.40</td>
<td>799253</td>
</tr>
<tr>
<td>Nepal</td>
<td>23.80</td>
<td>30.85</td>
<td>31.81</td>
<td>32.52</td>
<td>37.55</td>
<td>23.80</td>
<td>18633</td>
</tr>
<tr>
<td>Maldives</td>
<td>4.37</td>
<td>3.63</td>
<td>4.10</td>
<td>3.74</td>
<td>3.49</td>
<td>4.71</td>
<td>140965</td>
</tr>
<tr>
<td>Pakistan</td>
<td>13.47</td>
<td>14.11</td>
<td>2.33</td>
<td>3.73</td>
<td>20.76</td>
<td>9.01</td>
<td>71900</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>12.88</td>
<td>15.94</td>
<td>22.61</td>
<td>22.91</td>
<td>23.29</td>
<td>27.65</td>
<td>151877</td>
</tr>
</tbody>
</table>

Data suggest presence of sub-regional tourism circuit with India, Sri Lanka, Nepal. Bilateral flows between Bangladesh and India strong though not pure tourism. Maldives has very low dependence on South Asian countries for tourist arrivals, potential exists.
Intergovernmental cooperation

- Since 1986 Scheme for Promotion of Organized Tourism agreement to work together to promote tourism abroad and develop it at home
- Agreement on travel voucher system to promote regional tourism
- SAARC Working Group on Tourism since 2004
- SAARC Cox’s Bazaar Action Plan on Tourism with concrete suggestions
  - 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 National Driving License by SAARC Member States on a reciprocal basis
  - Rationalization or reduction of entrance fees for SAARC nationals for entry into archaeological sites and other public tourist attractions
  - Further simplification of visa formalities for SAARC citizens
- But still no identification of joint projects under SAARC, no joint initiatives, focus remains on tourism promotion at country level than at regional level
• Tourism focus area for other regional forums such as SASEC and BIMSTEC

• Little more progress in these forums than in the context of SAARC
  – SASEC Tourism Development Plan (TDP) of 2004 identifies 23 cross-border tourism projects to be developed within 7 key areas, largely covering the themes of eco-tourism and the Buddhist circuit
  – Focus on facilitating intra-regional travel with proposed measures to improve highways, develop new airports, ease border restrictions
  – Subject to lot of debate- absence of genuine community participation in the planning process, potential impact on region’s ecology and socio-cultural milieu

• Under BIMSTEC in August 2006 Kathmandu Declaration on Tourism Cooperation and Plan of Action adopted
  – joint promotion of heritage, cultural, adventure, and MICE tourism and development of joint packages, setting up of an information centre in India to disseminate tourism information about BIMSTEC member countries, setting up a Tourism Fund, meeting on an annual basis, and exploring synergies with SASEC
  – Discussion on related issues of transport infrastructure and improving rail, land, water, and air transport connectivity
  – But no concrete outcome, mostly political agreement to cooperate
**Private initiatives**

- Some leading players interested in investing in tourism within region
  - Joint ventures with local partners, management contracts, acquisitions, greenfield investments, entry into new business segments such as eco-tourism and wilderness travel, resorts
  - But often delays in investment authorizations, issues of employment also raised
  - Some chains looking at diversification opportunities within South Asia
  - Even companies from smaller countries interested in investing in larger markets in the region
  - Government s are supporting some of these private sector expansion plans.

- Taj Group, Oberoi, Leela Group, Aitken Spence Hotel Holdings, John Keells Hotels

- But challenges remain:
  - transport and connectivity (low flight frequencies between capitals/major cities, lack of direct connections
  - visa issues (duration, lack of multiple entry, fees, reporting requirements post entry)
  - domestic constraints of infrastructure, lack of integrated tourism policies, high transactions costs, uncertainties, instability, regulatory environment
Steps to promote regional tourism

• Sector where mutually beneficial outcomes possible and can be used to build confidence in overall regional integration process in South Asia

• Need to lower travel costs, improve transport connectivity especially air links, streamline visa procedures with longer duration and more flexible visa arrangements, streamline tax structure, joint marketing and development of tourism projects around selected themes

• Address sector specific and cross cutting issues of investment, transport, visa facilitation, environment

• Consider sub-regional themes and groups of countries around each
  – nature and adventure tourism- India, Nepal, Bhutan linking Bangladesh
  – Beach and coastal resort tourism- India, Maldives, Sri Lanka
  – Religious tourism- India, Nepal, Sri Lanka, and India, Pakistan, Maldives
  – Joint documentation, joint market campaigns, special airfares and tour packages for travel among circuit countries

• India common thread in developing regional tourism, better connectivity with others
• Cooperation on investments needed
  – Initiatives to provide preferential investment incentives to investors from SAARC countries for land acquisition, speedier clearances and approvals
  – Joint ventures with local players or with government could be encouraged, keep local interests, technology management and knowledge transfer
  – Investment facilitation would help in tourism infrastructure development, cross country learning

• Institutional collaboration required
  – Intergovernmental collaboration across ministries and concerned agencies
  – Discussions among hospitality groups in region, among industry associations, hospitality management training institutions, tour agencies, etc.
  – Need broad based multi-stakeholder forums for skill development, discussions on regulations and standards, environmental sustainability issues
Health services

- South Asia ranks very poorly on key human development indicators

- Among lowest on availability of physical and social infrastructure in health sector and on basic health indicators

- Low priority given to healthcare in most of the countries, share of health expenditures in GDP very low, government spending very low share of total healthcare expenditures in region, low effectiveness of government spending, role of private players has grown

- Low levels of insurance penetration, mostly out of pocket expenditures raising equity issues

- Existing data and health status indicators show growing private sector, scope for private investment and trade opportunities in region, need for more resources, bridge infrastructure gaps, and collaboration possibilities

- Policies generally liberal, FDI in hospitals permitted, not many conditions
Intraregional trade and collaboration

- SAARC Social Charter has various provisions related to health objectives, calls for sharing information, capacity building, coordinated approach to health issues

- Several leading Indian hospitals have entered other markets in region, mostly via JVs with local partners or management contracts (Apollo Group), others interested in establishing presence in region (KM Birla Heart Research Centre)

- Some running hospitals in other countries, under joint educational programmes where students can complete part of their qualifications in source country of investment

- Medical value travel
  - Some Indian hospitals get bulk of their foreign patients from South Asian countries, some targeting South Asian market with referral arrangements with hospitals and agents in source countries, tied up with travel operators to provide integrated set of services to medical tourists

- Telemedicine links between major hospitals in India and establishments in other countries, teleconsultation and telediagnostic services
• Several governmental initiatives and discussions regarding disease control, joint research, training programmes, traditional systems of medicine
  – SAARC Tuberculosis Centre for coordinating national efforts on TB
  – Regional consultations on TB, malaria, AIDS, other diseases

• SAARC countries entered into regional projects with multilateral agencies

• Opportunities seen in production, distribution, and testing of medical devices in region, pharmaceuticals, standards and certification procedures, exchange of health professionals, specific niche areas of research where common interest and expertise in region

• But constraints due to issues of:
  – patient mobility, visas, air connectivity, local infrastructure, lack of regional focus by main players, lack of clear government policies to facilitate medical value travel, problems of managing partnership, delays and uncertainties with investments, instability, staffing, differences in standards
Looking ahead

• Given mix of social and commercial objectives in this sector, need gradual approach

• Need pilot based initiatives and cooperation in selected segments
  – Medical tourism, Cross border investment, Capacity building and regulatory cooperation

• Medical tourism initiatives will need:
  – Insurance and cross border payment arrangements with discussions among governments, insurance companies, hospitals in region
  – A regional insurance product with an overseas package for treatment in other countries, agreed rates for treatment within region, supplementary financial arrangements
  – Regional insurance players to recognize payments in each other’s markets
  – Bank-bank guarantees for cross border payments
  – Could launch pilot schemes for specialized elective treatments and procedures which are not available in home country of patient
  – Address related issues of visa, transport, logistics, follow up, marketing
• Investments can be facilitated by:
  – Streamlining investment regulations and expediting approvals
  – Relax associated restrictions on movement of doctors from source country
  – More SAARC oriented policies, government sponsored investments, arrangements between governments and leading hospitals, understanding on staffing of establishments

• Intergovernmental dialogue on capacity building and regulation
  – scope for multicountry and multicentre studies focusing on common diseases afflicting region
  – data sharing and validation
  – Joint initiatives in public health for education, research, training around centres of excellence in region
  – regulatory cooperation on degree recognition, standards, accreditation to hep in brand building and marketing region as destination for medical value travel, for regional insurance product, movement of professionals, investments
  – PPP arrangements possible in telemedicine with government provision of satellite connectivity and private players providing services
  – Scope in clinical trials for common diseases
Way Forward for Services Integration in South Asia

• Four mutually interdependent drivers of services integration in South Asia where regional and national objectives can be aligned easily

• Infrastructure gaps in region
  – Deficiencies in telecom, power, transport, logistics, healthcare, education and resulting need for financial, technical, managerial resources which locally relevant

• Presence of a dynamic private sector
  – Opportunities for private investment via subsidiaries, JVs, tieups, PPs

• Social, cultural, historical ties
  – Common history, languages, boundaries, tastes and recreational pursuits creates commercial and non-commercial opportunities across many services

• Institutional and human resource capacity requirements in region
  – Need to develop soft skills, managerial, technical, and professional expertise, need to establish regulatory bodies, improve their functioning, design and adapt frameworks, establish and harmonize standards
• Two main channels for effecting services integration in region
  – Factor mobility through cross border investments and supporting mobility of persons key to addressing infrastructure gaps, promoting private participation, developing institutional and human resource capacity
  – Intraregional mobility of consumers important to leverage consumer base within region and for economies of scale in many services

• Possible approach to services integration in South Asia
  – Needs to be realistic and phased, focus on tangible economic cooperation and outcomes, prioritize key issues, identify less sensitive sectors for fast track
  – Set clear time tables for deliverables over short, medium, and long term varying with sectors and issues
  – Focus on cross cutting issues that affect consumer and factor mobility
  – Pilot based approach on plurilateral basis in fast track sectors to provide confidence and experience to engage in more complex regional projects
  – Phased approach to country participation, pursue those issues/sectors/subsectors where minimum core group of 3 or more countries interested, expand group over time, use learning by doing approach
  – Use existing bilateral and other plurilateral agreements as basis for SAFAS
• Investments

– Procedural and administrative issues, create fast track procedures for regional investors with prior collaboration or expertise in country or sector, fast track in selected services, provide regular and updated information on regulations, transparency on bidding and awards

– Regional investment treaty to address issues of investment facilitation, protection, disputes, contract enforcement, harmonize rules, tax issues

– Tax treaty among SAARC countries which goes beyond exchange of information and assistance on tax collections to cover withholding taxes, taxes deducted at source on various incomes

– But need to supplement with national efforts to improve country level business environment in terms of transparency, operationalization of investments, enforcement, investor protection
• Mobility of service suppliers and consumers
  – Streamline visa procedures and requirements for selected categories of persons in region
  – Business visitors, intracorporate transferees, professionals, academics against bonafide approved or prospective investment projects
  – Special visas for selected categories such as medical tourists, students, leisure and business travelers, transit passengers
  – Identify selected bilateral and sub regional projects to develop road and rail transport links and joint investments in these projects, open skies agreements, develop transit hubs in region

• Both investment and people mobility have to be supported by institutional and regulatory cooperation in specific services and generally

• Discussions needed among governments, regulatory bodies, associations, research institutions, civil society to share information, best practices, collect data, conduct joint studies, do impact analysis, identify priority areas, create regional templates


Architecture and negotiating modalities

- Adopt GATS scheduling framework with sectoral and horizontal schedules and positive list approach

- Progressive approach to scheduling with initial scheduling limited to few agreed services which identified for high priority and fast track negotiations

- Bind existing policies or at minimum WTO plus commitments under market access, remove discriminatory measures to extent possible unless specified grounds for them

- Special and differential treatment for LDCs with longer implementation periods for commitments, narrower coverage of sectors and subsectors

- Consider request offer approach to difficult issues like movement of natural persons with liberalization of select categories and in select sectors

- Need flexible and incremental agreement architecture with provisions for transparency, safeguards, review mechanisms
Concluding Thoughts

• Benefits of services integration apparent, costs of non cooperation high

• Complex political economy of region biggest challenge to integration

• Region characterized by mistrust, geopolitical asymmetry, political instability, fragility and lack of internal cohesion within member countries

• Belief in economic integration may be lacking

• Alongside governmental efforts need parallel efforts among industry, civil society, academics with continual dialogue and institutional cooperation to build confidence, remove distrust, develop will

• Multi-pronged, multi-layered, multi-stage, and multi-stakeholder approach
Thank You