

South Asia's Services Trade: Barriers and Prospects for Integration

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Abstract

Services trade has gained significance in the globalized world as the volume and its impacts on growth have increased. South Asian countries are also engaging in exports of services which are vital for their respective economies. However, the regional integration is yet to be promoted as hurdles including high transportation costs, lack of cross border infrastructure and lack of regional transit existed. For services trade integration, effective utilization of regional platform, easing in movement of professionals and minimizing the investment barriers can be useful measures. South Asian economies have prospects of integration in specific sectors such as tourism and Information and Communication Technology (ICT) which can be used to enhance regional services trade ties.

Keywords: Services trade, ICT, Tourism, Regional integration, SAARC

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Introduction

The growth for economies now majorly rests upon services sector due to its share in employment and GDP (Hoekman and Mattoo, 2008). Along with this, developments in field of information and communication technologies also intensified growth of services activities as cross border trade in labor intensive services increases. In fact, ICT enabled services make export diversification possible for countries with underdeveloped physical trade infrastructure (Roy, 2017). Therefore, the gains of services trade are not only limited to services sector but it also provide basis for growth of other sectors of economy (Beverelli *et al.*, 2017). The most significant aspect of services trade is that it provides

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stability to the economy which is critical particularly for developing countries. This can be observed from last recession which created less effect on trade of those countries which were having higher exports in services (Ariu, 2016).

Regionalism is defined as inter-governmental cooperation to attain common interests through socialization and institutionalization process (Sridharan, 2007). Although South Asian countries have established several institutional frameworks for developing regional economic integration, however intraregional trade share in total trade of South Asian economies is merely about 5% as compared to more than 20% of South East Asia (UNESCAP, 2017). Economic growth of member countries can be increased through regional integration which will help in promoting trade, technology and investment prospects (Javed, 2019). For promoting regional economic integration through services trade liberalization, SAARC Agreement on Trade in Services (SATIS) was signed in 2010 and enforced in 2012. However, the real objectives are not achieved due to slow finalization of schedules of specific commitments. Banik and Bhaumik (2014) pointed out that due to high barriers to trade including domestic regulations, mainly services trade is occurring informally. Nevertheless, it is difficult to measure the restrictions as these are unlike the tariff restrictions in case of goods trade. On the other hand for services trade, restrictions are imposed in the form of government regulations (McGuire, 2008). Impediments in the form of high transportation costs, lack of regional transit trade agreements and lack of cross border infrastructure are also affecting the trade volume for goods and services in South Asian region (Manzoor *et al*, 2019). In this backdrop, the main focus of the study is to highlight the significance of services trade for South Asian countries and the promotion of regional integration in services trade. The study also discusses the restrictions which are impeding the regional integration and prospects in this regard.

Table 1: Trade in services (% of GDP)

Country	2013	2014	2015	2016	2017
Afghanistan	11.75	13.22	9.27	7.36	7.74
Bangladesh	6.38	6.31	5.61	5.12	5.25
Bhutan	16.72	16.03	15.56	15.91	14.70
India	12.27	11.69	11.36	11.33	11.33
Maldives	99.35	102.55	91.98	90.50	91.43
Nepal	11.28	12.93	12.29	12.30	12.91
Pakistan	5.57	5.85	5.43	5.10	5.31
Srilanka	11.02	11.76	12.99	13.93	13.94

Source: WITS

Being large economies of South Asia, India and Pakistan have minimal share of services trade as percentage of GDP. In 2013, trade in services as percentage of GDP of India was 12.27% which decreased to 11.33% in 2017 (Table 1). Similarly, the share also decreased in case of Pakistan. On the other hand, developed countries like France (20.21%), Germany (17.43%) and United Kingdom (21.83%) have higher trade in

services as percentage of GDP. Maldives is heavily dependent upon services trade with having 90% share in GDP.

Table 2: Exports of Services of SAARC Countries (US \$ Million)

Country	2014	2015	2016	2017	2018	Growth%
India	157196	156278	161819	185294	205108	30.5
Sri Lanka	5605	6397	7138	7760	8412	50.1
Bangladesh	3133	3233	3541	3859	5501	75.6
Pakistan	5823	5897	4991	5755	5256	-9.7
Maldives	2998	2905	2891	2972	3290	9.7
Nepal	1389	1431	1354	1595	2101	51.3
Afghanistan	1345	835	509	364	681	-49.4
Bhutan	125	125	146	162	185	48.4

Source: ITC

It is evident from table 2 that India is the leading exporter of services trade in South Asia. From \$ 157196 million exports in 2014, the services exports grew to \$ 205108 million showing increase of 30.5%. In terms of growth, largest increase was observed in case of Nepal whose exports growth was 51.3%. This is significant for a country which is landlocked and is depended upon services sector for its growth. Apart from Afghanistan and Pakistan, exports of services for all countries show positive growth.

Table 3: Imports of Services from SAARC Countries (US \$ Million)

Country	2014	2015	2016	2017	2018	Growth%
India	128362	123567	133532	154595	176583	37.6
Bangladesh	7770	7720	7802	9263	10830	39.4
Pakistan	8466	8807	9219	10576	10123	19.6
Sri Lanka	5667	5965	6177	6519	6831	20.6
Nepal	1197	1201	1251	1617	2323	94.0
Maldives	793	875	1103	1288	1372	72.9
Afghanistan	1389	1043	933	1101	1257	-9.6
Bhutan	190	195	207	210	237	24.9

Source: ITC

Indian and Bangladesh are top importers of services in South Asian region (Table 3) and apart from Afghanistan, imports of services grew for every country. This is significant in a sense that imports termed having foreign expertise in a country which is beneficial for domestic human resource.

Table 4: Services Trade at Region Level (US \$ Billion)

Trade	Region Aggregation	2014	2015	2016	2017	2018	Growth %
Exports	SAARC	177.6	177.1	182.4	207.8	230.5	29.8
	ASEAN	321.7	324.2	336.6	368.4	400.6	24.5
Imports	SAARC	153.8	149.4	160.2	185.2	209.6	36.3
	ASEAN	335.7	323.8	322.5	354.4	376.9	12.3

Source: ITC

Table 4 presents a comparison of South Asian Association for Regional Cooperation (SAARC) countries with Association of Southeast Asian Nations (ASEAN). It can be observed that ASEAN group have higher exports as compared to SAARC countries as in 2018, total services exports from ASEAN group were \$ 400.6 billion whereas SAARC group's exports were \$ 230.5 billion. Similarly, imports of ASEAN were also higher as that of SAARC. South Asia proves to be least integrated in Asia-Pacific region as intraregional trade in 2015 was merely 6.1% as compared to 27.4% for ASEAN (UNESCAP, 2018).

State of Services Trade Engagement in South Asia

Blouin *et al* (2003) stated that through engaging in health services developing countries can earn foreign exchange earnings and incremental incomes and improvement in quality of services. However, it is important that how governments put in practice the policies (Chanda, 2001), as liberalization of trade in health services may put pressure on market for health professional and generates disequilibrium among public and private sector (Achouri and Achour, 2002). Nevertheless, benefits of promoting health services trade are enormous as Gupta *et al* (1998) discussed the case of India which can gain through health services trade in improving quality and quantity of curative health care availability in the country. Zarrilli (1998) discussed that health sector liberalization offers new learning prospects for health professional. Taneja *et al* (2004) pointed out that India is major destination for patients and students of Srilanka. Bangladesh has highest number of visa documents required for medical visa followed by Pakistan and Srilanka (ICRIER, 2016). Manzoor *et al.* (2017) pointed out that bilateral health services trade between India and Pakistan is limited due to cross-border movement of health professionals which is restricted by domestic regulations and city specific visa.

Madurawala (2011) discussed that lack of qualified human resources, issues in visa and airline connectivity, lack of joint ventures, and lack of measures to promote intra-regional movement of health professionals are major constraints in regional health services integration. The study by Chanda (2007) also highlighted the immigration and labor market regulations as main hurdles in regional services trade in South Asia. Tourism trade is also limited among South Asian countries and in case of India and Pakistan, there is a lack of religious corridor among shrines that are located closely across both countries (Chanda, 2013). Trade in services between Bangladesh and India is quite negligible where the main trade is occurring in the field of information technology (Basher, 2013).

The study by Banik and Bhaumik (2014) pointed out that travel and tourism sector in Pakistan, maritime sector in India and banking sector in Srilanka is restricted among South Asian countries. The study suggested that countries should liberalize FDI policy along with transparent domestic regulations to address barriers in services trade. Trade in services and cross-border investment in South Asia is restricted due to lack of own-country's bank branches in other member states within South Asian region while lack of agreement on double taxation also proves to be a troublesome for investors (Ahmed *et al*, 2015). UNESCAP (2017) stated that South Asian countries must focus on investment in supply infrastructure to develop broadband connectivity and promoting technology components. The report further emphasized on regional cooperation platforms to tackle policy challenges, sharing experience and promoting technology and knowledge exchanges. Moreover, there are also restrictions on partnerships among firms as in case of India and Pakistan (Chanda, 2013).

Manzoor *et al* (2019) emphasized on transport connectivity and stated that due to poor transport infrastructure trade among India and Pakistan is expensive as compared to their trade with partners in other regions. ICT connectivity among South Asian countries is lower as compared to other regions, nevertheless digital divide can be overcome through regional cooperation which will promote trade and opens new prospects for goods and services trade along with improving business services and health and education sectors (UNESCAP, 2018).

Above mentioned discussion can be further explained by the 'Services Trade Restrictiveness Index' of World Bank which indicates the restrictiveness and openness of a market where a value of 0 indicates completely open and 100 points out completely close. The index also focuses on the policies and regulations which differentiate against foreign services and overall regulatory environment that affects trade in services.

Table 5: Services Trade Restrictiveness Index

Country	Overall	Financial	Telecommunication	Retail	Transportation	Professional
Bangladesh	44.2	46.3	62.9	25	62.9	35
India	65.7	48.1	50	75	62.4	87.5
Nepal	42.9	23.2	50	25	56	76
Pakistan	28.3	48.7	12.5	0	25.3	48
Srilanka	38.2	24.4	50	25	45.6	57

Source: World Bank TC data 360, 2018

Overall, Pakistan is the least restrictive economy for foreign investors while India is the most restrictive. As far as specific sectors are concerned, transportation and professional services are most restricted in South Asia. In terms of sector wise telecommunication and transportation in Bangladesh, professional services in India, Nepal and Srilanka and financial services in Pakistan are most restrictive sectors in each country.

Prospects for Integration

Regional integration cannot be achieved without developing strong regional connectivity through land, rail, ports and aviation networks. It is for this reason that the decade from 2010-2020 is termed as intra-regional connectivity in South Asia. Services enhance the connectivity through provision of basic infrastructure on which goods trade is dependent. On the other hand, higher services trade restrictiveness in logistics, road and maritime delays the overall trade process (Nordas and Rouzet, 2016). South Asian countries can follow the example of ASEAN regional aviation cooperation which implemented Multilateral Agreement on Full Liberalization of Air Travel Services (Manzoor *et al.* 2019). Action plan of ASEAN Air Transport and Integration and Liberalization 2005-2015 is based on the notion of liberalization of air services to enhance economic integration. Fewer restrictions on the connectivity modes will ease the trade process and member countries in South Asia which can then benefit from knowledge of each other and it will also increase intra-regional trade in services. Professionals and skilled workers can migrate to other countries in the region to get better jobs in urban areas.

Information and Communication Technology (ICT) is the basis of growth in digital era which defines competitive advantage of a country. The broadband connectivity among SAARC region can be developed through discussions among policymakers, private sector and academia (Agarwal, 2019). This will assist in reducing digital divide among the member states. Taneja *et al.* (2004) discussed that Srilanka can benefit from technology and skill transfer from India. Chanda (2013) mentioned that Pakistan and India can increase their bilateral IT trade by forming joint ventures, exchange of professionals and investment. Similarly, gaming and animation industry of Pakistan can take benefit from engaging with Indian IT industry which has strength in IT enabled services. The increase in IT based startups in Pakistan is an emblem that the country can offer expert services in the field², whereas the startups are also providing services in health and education³.

Apart from that, potential existed in religious and cultural tourism under which Sikh, Buddhist & Hindu pilgrims from India can visit Pakistan⁴ whereas Muslim pilgrims and Hindus from Pakistan can visit India. Bangladesh and India are discussing free trade agreement which will enhance the goods, services and investment cooperation among two countries⁵. Tourism sector is playing important party in Nepal's economy and exports and the country is focusing on the sector along with labor services exports (Richter, 2017). Better connectivity has increased the inflow of Buddhist tourists from Srilanka to India while India is the top source of tourists to Srilanka (Kelegama, 2014).

PLATFORMS FOR SERVICES TRADE PROMOTION

² 'The services sector and export growth' in Daily Times dated 13th May, 2018, <https://dailytimes.com.pk/239197/the-services-sector-and-export-growth/>

³ 'The startup culture in Pakistan' in Daily times dated 9th September, 2018, <https://dailytimes.com.pk/295049/the-startup-culture-in-pakistan/>

⁴ 'Potential and need of promoting tourism in Pakistan' in Daily Times dated 03rd October, 2019, <https://dailytimes.com.pk/477232/potential-and-need-of-promoting-tourism-in-pakistan/>

⁵ 'India proposes free trade agreement with Bangladesh' in The Economic Times, dated 26th September, 2018, <https://economictimes.indiatimes.com/news/economy/foreign-trade/india-proposes-free-trade-agreement-with-bangladesh/articleshow/65965232.cms>

South Asian Telecommunication Regulator's Council (SATRC) was formed in 1997 which deals with regulations in telecommunication and ICT. The council also works in identification and promotion of potential cooperation areas among South Asian countries in telecommunication and facilitates the information exchange by seminars, workshops and trainings. The latest meeting was held in August 2019 in Bhutan where the discussion revolves around aspects including ensuring broadband connectivity, data security, digital financial services and role of telecom service providers and cost and market condition for investment on broadband infrastructure. SAARC Agreement on Trade in Services (SATIS) was signed in 2010 in order to engage member states in progressive liberalization of services in the region through extensive coverage of majority of services sectors and sub sectors.

Working Group on Telecommunications and ICT was established in 24th Session of the Council of Ministers. During its meeting in 2015, the group agreed to promote connectivity across the region, establish regional connectivity hub and increasing the telecommunication linkages to decrease call rates and telecommunication tariffs. The need of cooperation in the sector is vital as liberalization of telecommunications and financial services enhances the growth (Mattoo *et al*, 2006). Asian Clearing Union (ACU) was established for intra-regional transactions among central banks of member states which include banks of Bangladesh, Bhutan, Iran, India, Maldives, Nepal, Pakistan, Srilanka and Myanmar. The union focuses on increasing trade and economic activity and facilitates payments among the countries. This is an important platform in a sense that financial systems help in decreasing transactions cost and enhance the allocation of real resources along with promoting use of innovative financial instruments and agility in exchange of goods and services (Levine, 1997). A platform for promoting tourism also initiated under SAARC which also stressed upon private sector role for tourism development at both intra-regional and international level.

Conclusion & Recommendations

The promotion of regional integration in South Asian countries in services trade require extensive efforts for which certain measures can be taken. The platforms exist for services trade integration, however they are now being efficiently utilized. An effect progress on SATIS negotiations in major services sectors is required to promote regional integration in services trade. Certain challenges for labor movement existed which can be curbed through trade agreements that allows easy movement of labor across the region. High skilled medical staff should have access to easy visa services and there should be ease in process of visa requirements for patients. South Asian lags behind in investment in each other's country for which restrictions should be minimized along with simplification in regulations. A double taxation treaties and regional investment treaty can resolve impediments to investment among member states.

Tourism is termed as least controversial measure to increase regional integration and it can be observed from example of Southeast Asian economies which are promoting regional cooperation in tourism as governments are major actors whereas development partners and private sector are key supports of the projects related to tourism. Such practices can be followed by South Asian countries which possesses immense potential in cultural, religious and other forms of tourism. Tourism working group can be created

as a platform to link tourism with economic, social, cultural and environmental wellbeing of the member countries (Chheang, 2013). There is immense potential for ICT sector in South Asian and India and Pakistan show remarkable progress in the sector. Regional integration in ICT sector will help in overcoming digital divide and its spillovers will also provide basis for growth in other sectors.

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