

# **PROMOTING REGIONAL INTEGRATION THROUGH SERVICES SECTOR IN SOUTH AND SOUTH EAST ASIA *TAKING CASE OF INDIA-THAILAND COMPREHENSIVE ECONOMIC COOPERATION AGREEMENT***


**Arpita Mukherjee  
Tanu M. Goyal**



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# Layout of the Presentation

- 
- ▣ Rationale and Objective of the Study
  - ▣ Methodology
  - ▣ Approach the Target
    - Trends
    - Analysis
    - Findings
  - ▣ Conclusion and Takeaways

# Layout of the Presentation

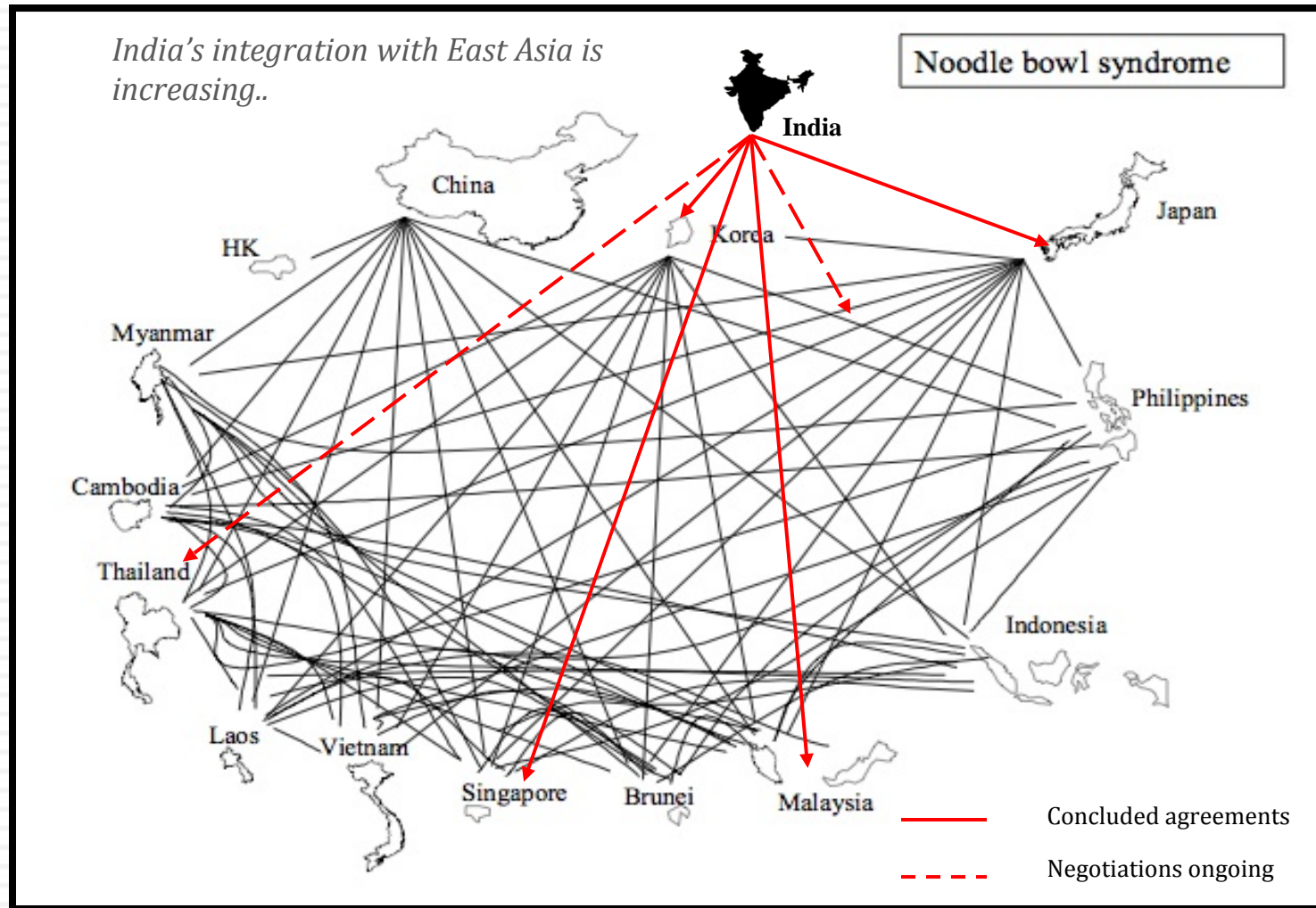
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Why are we looking at services and why are we looking at India and Thailand?  
What do we intend to achieve by looking at them?

# Why Services?

- ❑ Services is an important component of GDP of South and South East Asia (over 50% in 2012)
- ❑ It is a growing component of trade
  - ▣ Growth in South Asia's share in world's services export and import increased from 1% in 1990 to around 4% in 2010
  - ▣ For East Asia, the share in world services export increased from 8% in 1990 to 12.8% in 2010 and share in world services import increased from 7.7% in 1990 to 11.7% in 2010
- ❑ South and East Asia have trade complementarities in services
  - ▣ South Asia has advantage in knowledge-based services while East Asia in infrastructure and travel services
  - ▣ With global slowdown, countries in the region are exploring new markets and diversifying export basket

# *Services is a key component of trade agreements in South and East Asia – SATIS, AFAS, RCEP, TPP...*



Source: Extracted by authors from Baldwin (2007), Fig. 1, page 5 (with modifications)

# Objective of the Study

The **objective** of this study is to understand the prospects of enhancing services trade, investment and co-operation between South and South East Asia, taking the example of two countries from each region—India and Thailand

## Why India and Thailand?

- Services are a growing component of GDP in both India and Thailand
- Thailand is a key player in global value chain in goods, why not in services? India has competitiveness in computer services and trade is with limited countries of the West
- The two countries have trade barriers in services. Thailand more restrictive than India (49% FDI cap) – opens on bilateral basis
- Both India and Thailand has strong Mode 4 interest, but categories differ
- India and Thailand are currently negotiating a trade agreement

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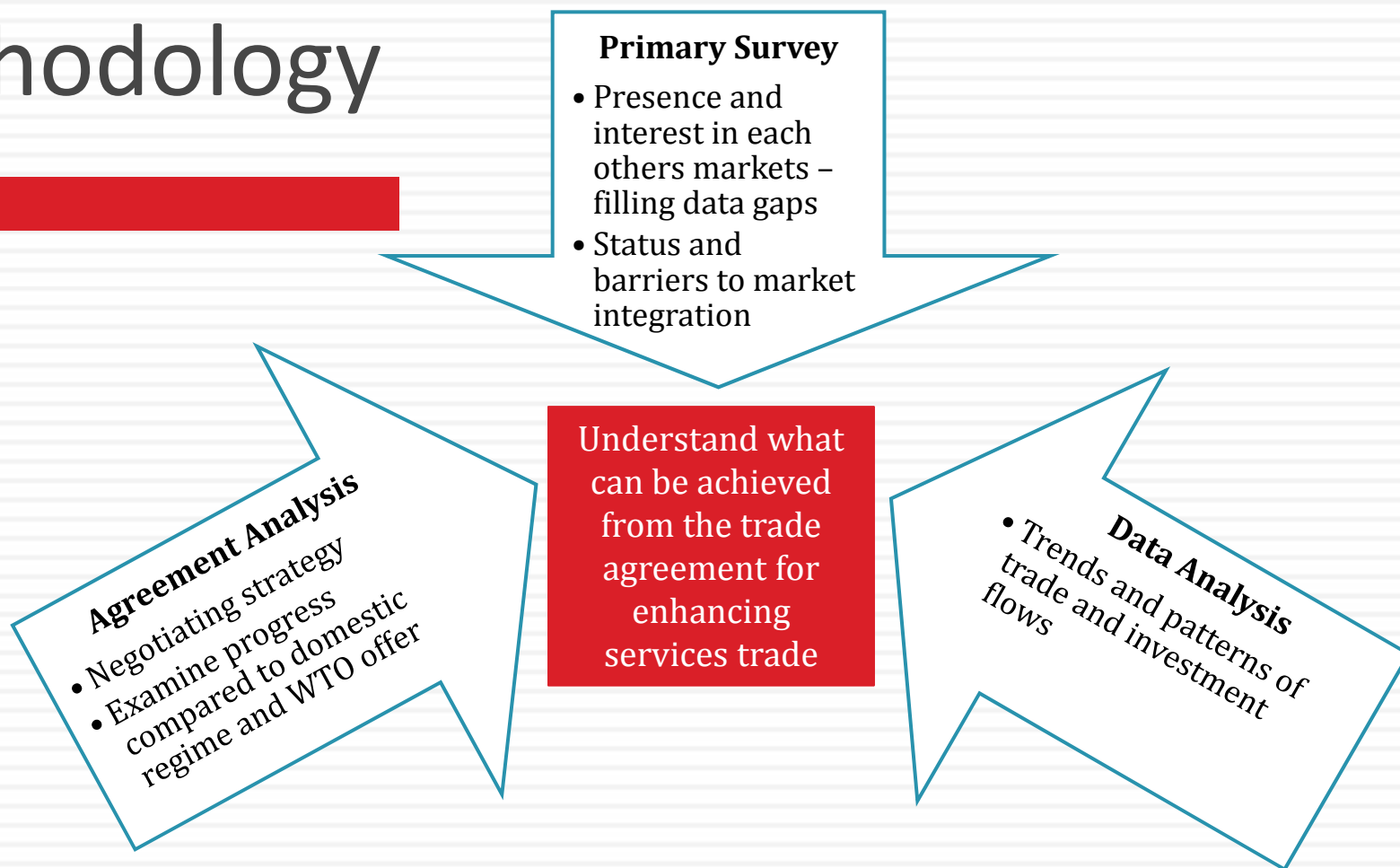
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How do we approach the objective? What we have and what we look for?



# Methodology

- **Agreement Analysis:** for analysing and comparing the architectural elements of Thailand and India's agreements, we will use Fink and Molinuevo (2008)



Scheduling Approach	Positive List, Negative List, Hybrid Approach
Investment	Coverage , Relationship between Services and Investment Chapter, Relationships with Investment Agreements
Other Issues	Government Procurement, Mutual Recognition Agreement,

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Understanding the present trend of trade in services, interests and barriers  
and analysing the strategies in trade negotiations

# Services Sector Reforms

## India

- Reforms started in 1991 after balance of payment crisis
- Liberalisation and removal of FDI restrictions in a number of services
- Dismantling of public monopoly
- Encouraging public private partnership in a number of sector

## Thailand

- Reforms started in 1997 after Asian Financial Crisis
- Liberal trade and investment regime as a part of IMF aid requirement
- Master Plan for State Enterprise Sector – state enterprises reduced from 100 to 59
- New regulations in place – the Bankruptcy Law (1940) and Foreign Business Act (1999)

The services sector reform path and trigger has been similar



# Trends and Patterns

- ✓ Trade and Investment Trends – Secondary Analysis
- ✓ Need for a Survey

# Trends in Trade in Services

Year	India				Thailand			
	Export	Imports	Total Trade	Trade Balance	Export	Imports	Total Trade	Trade Balance
<i>Value (in US\$ Billion)</i>								
1990	4.6	6.1	10.7	-1.5	6.4	6.3	12.7	0.1
2000	16.7	19.2	35.9	-2.5	13.9	15.5	29.3	-1.6
2005	52.5	47.3	99.8	5.2	19.9	26.8	46.7	-6.9
2011	149	131	280	18	41.1	51.1	92.2	-9.9
<i>Percentage Share*</i>								
1990	20.5	20.5	20.5		21.8	16	18.5	
2000	28.2	27.1	27.6		16.7	20	18.3	
2005	34.5	24.9	29.2		15.3	18.5	17	
2011	33.3	22.6	27.3		15.4	22.2	18.5	

Source: Compiled and calculated by the authors from UNCTAD Statistics,

<http://unctadstat.unctad.org/>

\*In case of percentage share, share in total trade is calculated at a percentage of trade in goods and services

# Comparative Advantages in Services

**RCAs of India and Thailand in Services Trade**

Service Sectors	INDIA			THAILAND		
	2001	2010	2012	2001	2010	2012
Communications	2.79	0.51	0.51	0.37	0.55	0.41
Computers and Information	9.72	5.81	5.38	0.00	0.01	0.02
Construction	0.18	0.17	0.24	1.10	0.54	0.36
Financial	0.29	0.65	0.58	0.00	0.04	0.08
Government services	1.46	0.23	0.20	0.33	0.41	0.39
Insurance	0.85	0.58	0.78	0.35	0.08	0.35
Other business services	0.61	1.10	1.25	0.79	0.75	0.59
Personal, cultural and recreational	0.00	0.33	0.47	0.00	0.29	0.22
Royalties and Licence fees	0.04	0.02	0.03	0.01	0.07	0.07
Transportation	0.60	0.47	0.50	1.05	0.84	0.60
Travel	0.60	0.47	0.50	1.77	2.41	2.72

*Source:* Calculated by authors using Balance of Payments (BoP) database of the IMF

# Service-Wise Exports and Imports of Services from Thailand to India in 2010

Service	Exports (in \$ million)	Per cent Share	Service	Imports (in \$ million)	Per cent Share
Travel	307	79.2	Travel	40	30.2
Transportation	12	3.0	Transportation	16	11.9
Other Services	68	17.5	Other Services	73	55.1
Legal	34	8.7	Legal	26	19.4
Government service	1	0.3	Government Service	4	2.8
			Fees and other commissions	18	3.5
			Royalties and licence fees	2	1.6
Total	388	100	Total	132	100

Source: Data provided by the Bank of Thailand during the survey

Overall, Thailand has a positive trade balance in services with India, which is different from both Thailand and India's global trade pattern in services. Thailand is a net exporter of travel services while a net importer of transportation and other services



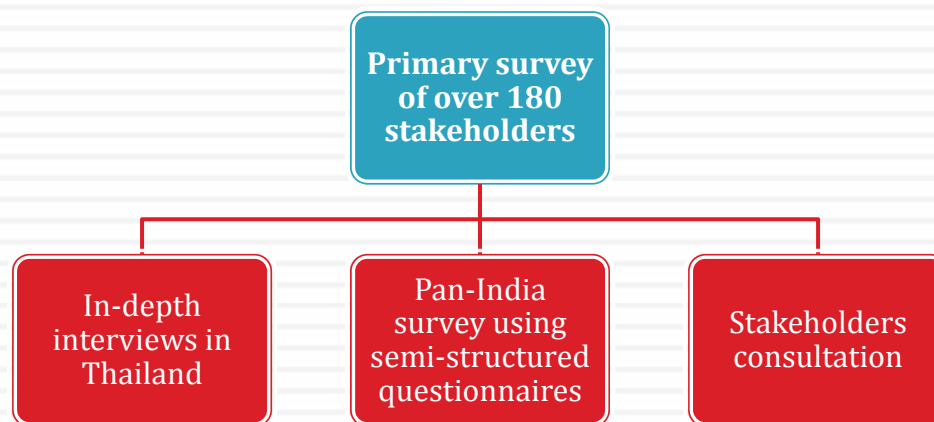
# Bilateral Investments in Services: India and Thailand

- ❑ In 2012, FDI contributed around 2.4 percent to the GDP of both countries
  - ❑ In India, the services sector has a large share in FDI inflows (64%)
  - ❑ In Thailand the manufacturing sector is a large recipient though the share of services has increased
- ❑ India and Thailand do not have major investments in each other's market
- ❑ From April 2000 to July 2013, the cumulative FDI inflow from Thailand was \$128.62 million (ranked 38th, 0.06% share)
- ❑ Services sector received the highest FDI
- ❑ India is among top-20 investors in Thailand – invested \$60 million in 2010 alone
- ❑ Manufacturing sector received a majority of FDI

**Both countries have FDI restrictions**

# The Survey

- ❑ There are several service sector data related issues– difficult to get bilateral trade data, Mode-wise data and disaggregated data
- ❑ Therefore there is a need for a primary survey
- ❑ Care was taken to cover companies across different services
- ❑ Sample selection was based on information provided by Indian and Thai embassies
- ❑ Understand the presence in each others market and the status and barriers to market integration



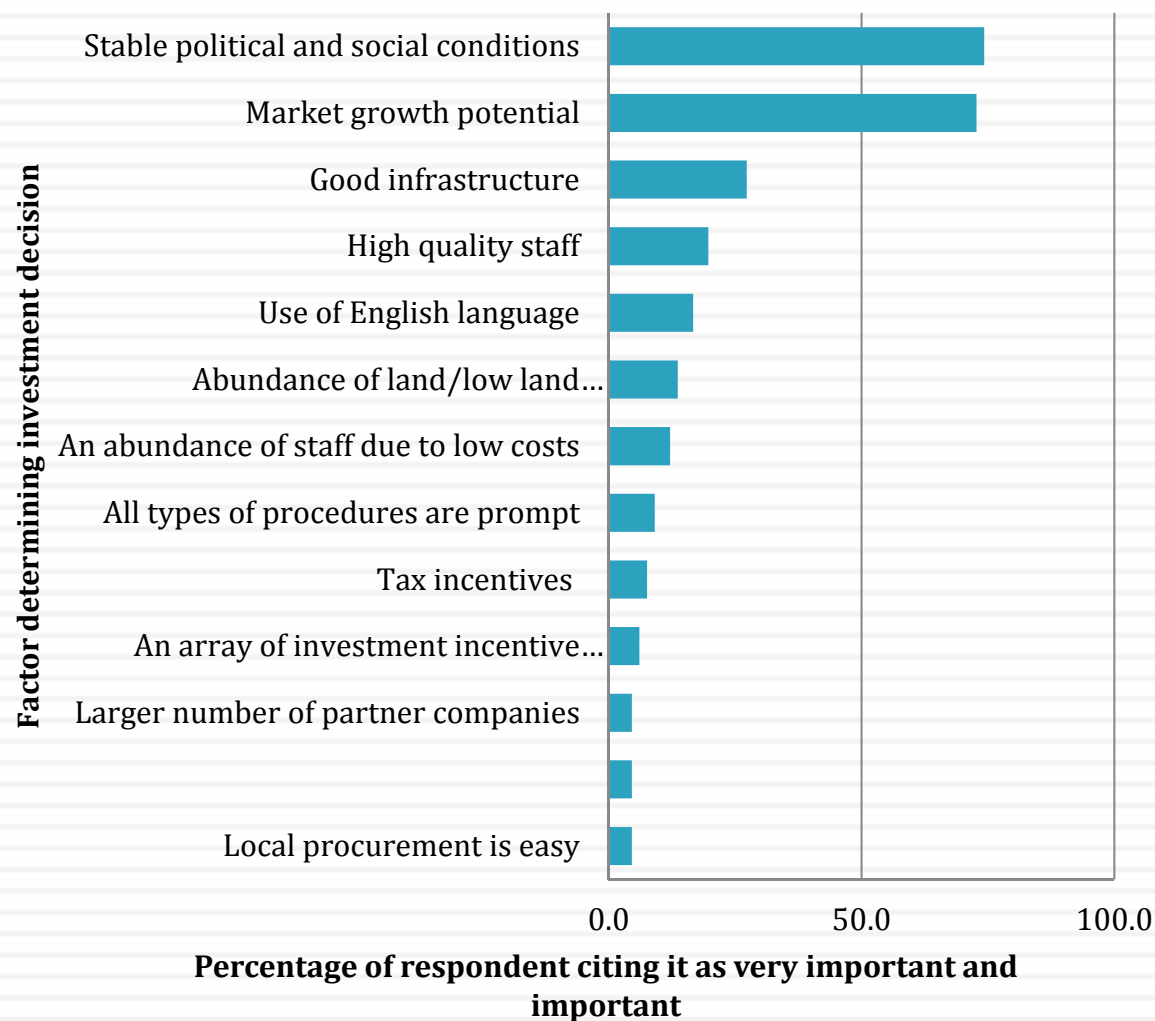
## Sampling Frame

Profile of Respondents	Number of Respondents
Indian Companies in Thailand	59
Indian Associations	17
Indian Professional Bodies	15
Thai Companies in India	6
Thai associations and professional bodies (Thai spa association, Association of Thai Travel Agents, etc.)	9
Academics and Sectoral Expertise	20
In-Depth Interviews in Thailand	20
In-Depth Interviews in India	25
Central ministries/state governments/local bodies	5
Embassy in Thailand	4
Total Number	180

# Preliminary Survey Findings – Indian Companies

- 51% of the Indian companies in Thailand operate through agents and distributors - only 34% have wholly owned subsidiaries
- Around 40 % of the companies are present on project-basis of which a majority of companies get projects through agents and of these, 83% provide computer and related services
- 82% of Indian companies in Thailand also have presence in other ASEAN countries – a majority in Singapore and Malaysia
- Some of the potential areas of cooperation include tourism and Thai spa services and a majority felt that CECA will be beneficial

Factors determining Investment Decision – Indian companies in Thailand



# Preliminary Survey Finding – Thai Companies

- ❑ Compared to Indian companies in Thailand, there are very few Thai companies in India, some companies in construction
- ❑ Most of the Thai companies in India are present as wholly-owned subsidiaries
- ❑ Like most other foreign companies, Thai companies also pointed out that market potential and availability of high skilled personnel are important factors determining investment decision
- ❑ Most Thai companies feel that a CECA including services will be beneficial for Thai companies



## Scope for Enhancing Trade in Services and Market Integration

### Status and Barrier

- ✓ How integrated are the two markets?
- ✓ What are the barriers to integration?

# Status of Integration in Services – India and Thailand

- ❑ **Three forms of integration - Institutional connectivity, Physical connectivity and People-to-people connectivity**
- ❑ Better connectivity or integration of services sector may help enhancing trade and investment between the two markets
- ❑ Based on this, certain services are chosen – these are also services crucial for India-Thailand trade agreement

**Choice of Services and their Role in Connectivity and Trade Agreement**

<b>Sector</b>	<b>Type of Connectivity</b>	<b>Role in Bilateral Agreement</b>
Banking	Physical or infrastructural	Crucial sector for any CECA negotiations
Telecommunication	Physical or infrastructural	Crucial sector for CECA negotiations
Transport and Logistics	Physical or infrastructural	Crucial sector for regional integration
Professional Services	People-to-people	Sector of export interest to India
Information Technology	Physical or infrastructural and people-to-people	Sector of export interest to India
Tourism	People-to-people	Sector of export interest to Thailand
Other Services – spa and chef services	People-to-people	Sector of export interest to Thailand and is included in all Thailand trade agreements

*Source:* Compiled by authors from the survey and secondary research

**Institutional connectivity is an overarching mechanism that cuts across all sectors**

# Institutional Connectivity

## □ Status

- Complementary Policy: India's Look East and Thailand's Look West
- Both are actively engaged in trade agreements – within ASEAN and with each other
- Concluded Early Harvest Scheme covering 82 product categories and negotiating services under ASEAN
- Negotiations are on-going under India-Thailand CECA- **several issues in CECA negotiations which also adversely impact market integration**

## □ Barriers

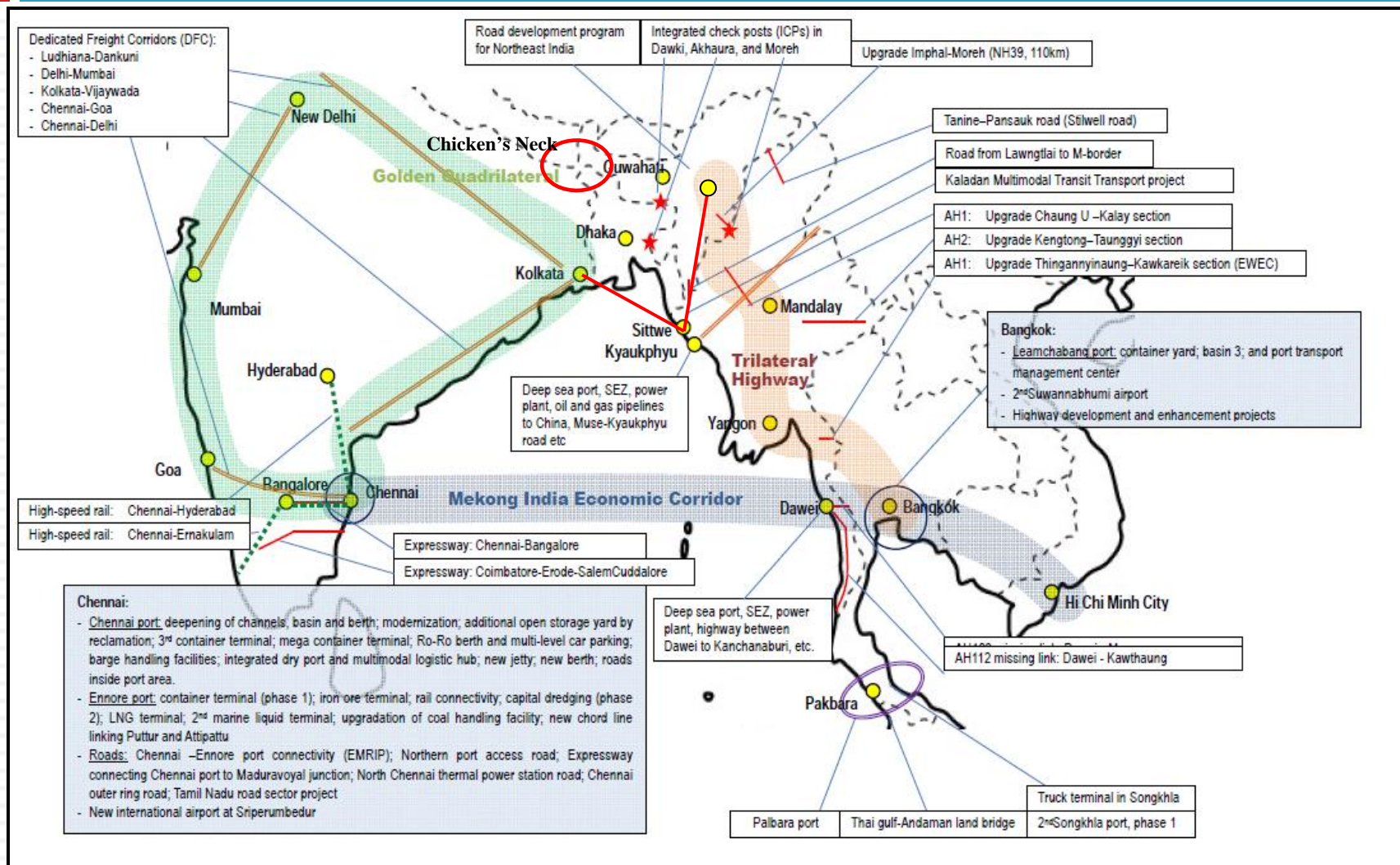
- Limited knowledge about each other's markets, requirements and regulations
- Weak regulatory structure in certain sectors – evolving regulations making it difficult to take commitments
- FDI limitations
- Foreigners are granted case-by-case approval and high incidence of corruption
- Non-transparent project bidding process
- Low involvement of stakeholders and industry in policymaking
- In Thailand, foreign nationals are not allowed representation on company's board or top-level-management – unlike Singapore, Thailand does not follow nominee structure for shareholding
- Board of Investment Route in Thailand has high minimum capital requirement
- State specific issues in India – services quasi federal regulations

# Physical Connectivity – (a) Transport and Logistics Sector

- Thailand is India's entry point in ASEAN through land connectivity – (a) strategic reasons (b) lower logistics costs to increase competitiveness
- Both countries need to exploit several land and sea routes that can be beneficial
  - Myanmar has a key role in physical connectivity
- India-Myanmar-Thailand Trilateral Highway linking Moreh (in Manipur, India) with Mae Sot (in Tak, Thailand) through Bagan (in Mandalay, Myanmar)
- Mekong-India Economic Corridor Chennai (India) with Bangkok (Thailand) through the Dawai (Myanmar) port
- Scope for developing domestic transport infrastructure and collaborating with each other
  - Connect North-East of India with the rest - Kaladan Multimodal Transit Transport project
  - Dedicated Freight Corridor on the Golden Quadrilateral
  - Development of Chennai-Bangalore-Mumbai Industrial Corridor and Delhi-Mumbai Industrial Corridor



# Selected Infrastructure Projects for Transport Connectivity



Source: Extracted from Kimura et. al. (2011), Figure 5, page 52, with inputs from survey conducted by authors

# Physical Connectivity – (b)

## Telecommunications

- ❑ Domestic markets are very different – while India has competition comparatively Thailand has monopolistic situation
- ❑ Thailand regulatory regime is evolving – independent regulator?
- ❑ There is scope for collaboration to bring down both domestic and international call rates
- ❑ Internet penetration is low in both countries, Internet charges are high in Thailand landing rights are with the government
- ❑ Companies have limited knowledge and presence in each others market
- ❑ Scope for fostering integration through trade agreement – add security and predictability to investment
- ❑ Scope for Indian companies in Thailand - largely one way trade flow
  - ▣ Land connectivity through North East India
  - ▣ India can invest in developing under-sea cable through Myanmar or directly from Andaman and Nicobar Islands
  - ▣ Undertake R&D investments and software development
  - ▣ Indian service providers can establish presence in Thailand and invest in setting up telecommunication infrastructure

# Physical Connectivity – (c) Banking

- With growing commercial connectivity there is a need for greater financial connectivity
- At present the level of banking integration is low – there are restrictions on foreign bank branches and subsidiaries in Thailand
- Indian banks are keen to establish presence but there are market access restrictions – licenses
- RBI prefer Banking through reciprocity in trade agreements
- Limited knowledge about each others regulatory regime

# Physical Connectivity – (d) Information Technology

- India is one of the largest exporter of IT services while Thailand is one of the largest markets in Southeast Asian region
- India's FDI regime is open while Thailand has a restrictive market
- Post India-Singapore CECA, most Indian companies operate in Thailand through Singapore on project-by-project basis
- Shortage of technical skills in Thailand and scope for Indian companies/service providers to operate directly in the market
- Can provide IT services to sectors such as logistics and supply chain, financial sector and content for telecommunications sector
- Scope for inter-governmental agreement in areas like e-governance

# Barriers to Physical Connectivity

- ❑ Bottlenecks in transport network
  - For land links, there is first need to develop better roads in India linking North-East to the rest of the country
  - Even if sea-links are built, there is need to streamline custom procedures in India – shipments are often not delivered on time to destination
  - Inter-state links are poor in India and there is no guarantee of cargo clearance
  - In Thailand, foreign service providers cannot provide integrated logistics services – fragmented supply chain
- ❑ Telecommunication infrastructure is not well developed, landline, mobile, internet and broadband
- ❑ Inadequate financial infrastructure
  - Banking sector is most restrictive in Thailand – foreign ownership allowed up to 49% and require prior approval from Bank of Thailand
  - Banking regulations change randomly – increased minimum capital requirement from 5 to 12 million Baht
  - An Indian bank pointed out that it took 6 years to get a license and there are severe branch restrictions – ATMs are also treated as branch in Thailand
  - In India, RBI imposes a limit of the number of overseas branch an Indian bank can have and therefore, most Indian banks are not keen to open branches in Thailand when compare with countries with higher Return on Investment
- ❑ Thai government use price schemes to prohibit private players from entering and setting up their own infrastructure in the IT sector

# People-to-People Connectivity – (a)

## Tourism Service

- Significant bilateral trade between India and Thailand– largely one way flow from India to Thailand, one of the largest foreign exchange earners in Thailand
- Categories of tourist include leisure, medical, pilgrims and MICE related - majority of tourists from India to Thailand visit on leisure tourism while from Thailand to India it is on pilgrimage
- Complementarity to the tourism industry is the hospitality industry – scope for Indian hoteliers to open chains in Thailand and for Thailand to invest in budget hotels in India – have supported growth of air transport facilities
- Scope for joint tourism promotion for attracting third country tourists through digital marketing and undertaking joint programmes for medical tourism – development of services value chain

**Indian Tourist Arrivals in Thailand (2008-2011)**

Year	Number (in Millions)	Per cent share in Total Foreign Tourists Arrived in Thailand
2008	0.54	3.69
2009	0.61	4.23
2010	0.79	5.44
2011	0.55	3.80

*Source:* Information provided by the Tourism Authority of Thailand during the survey

## People-to-People Connectivity – (b) Specialty Services: Spa and Ayurveda

- ❑ Specialized skills - Spa services are of key importance to Thailand – covered in all trade agreements
- ❑ Spa and Ayurveda can together be a part of global value chain in medical tourism - complementary services and India and Thailand can have joint packages for third country nationals
- ❑ There is a demand for Thai spa workers in India however, the knowledge is low and misleading perceptions about the service
- ❑ There is scope for an MRA between India Spa and Wellness Association and Thai Spa Association for easier movement of people and skill recognition

## People-to-People Connectivity – (c) Professional Services

- India has large educated English-speaking workforce - Mode 1 and 4 are of key importance to India in trade agreements (WTO and bilateral)
- Thailand has limited interest in the sector
- For any trade to happen, there is a need for mutual recognition of qualifications between professional associations
- The survey revealed that there is reluctance on both sides to collaborate in the sector – sensitive for both countries



# Barriers to People-to-People Connectivity

- ❑ Mode 4 is sensitive in trade negotiations: Both India and Thailand are demandeur of Mode 4 in WTO and FTAs – However, while India demands movement of high skilled professionals, Thailand demands specialized skills
- ❑ A number of services are closed for foreign nationals – legal, accountancy, etc.
- ❑ Conditions on foreign service providers: a number of professions are reserved for Thai nationals while in India there are registration requirements
- ❑ Mutual recognition is an issue in certain professions and services
- ❑ Problems related to visa and work permit: India imposes minimum salary requirement while Thailand has restrictions on citizenship
- ❑ Thailand has an economic needs test and compulsory local employment condition (1:4 ratio) - in some sectors like banking, difficult to meet local hiring conditions
- ❑ Language is a major barrier: knowledge of English language is low in Thailand
- ❑ Quality of Indian workforce is deteriorating and work attitude is not considered good by Thai employers
- ❑ India does not give visa on arrival- business visitors
- ❑ Lack of social security arrangement leading to a much lower take-home income for expatriates



# Analysis of Trade Agreements

- ✓ Approach in the WTO
- ✓ Bilateral Agreements – how far do they go?



# WTO Offer of India and Thailand

- Both have made an offer below the autonomous regime
- India offered to make commitment in 11 sectors, Thailand in 10
- Both India and Thailand impose market access and national treatment restrictions in Modes 3 and 4
- While Thailand restricts foreign investments to 49% in all sectors, India imposed national treatment restriction – preferential access with technology transfer
- In Mode 4, differences in definition of service suppliers (managers and specialists)
- India's offer in Mode 4 better than Thailand (broader definition, longer duration of stay)
- Both India and Thailand are demandeurs in Modes 1 and 4 – however, India demands high-skilled people while Thailand's skill requirements are very specific and specialized
- In sector-specific offer, Thailand offered market access in only certain sub-sectors, limiting the ability to provide end-to-end services
- Sectors sensitive to Thailand: integrated engineering services, medical and dental services, services provided by midwives, nurses, physiotherapists and para-medical personnel, R&D services in social sciences and humanities, services related to management consulting services, tourist guide services, among others
- Sectors sensitive to India: education, retail , postal services, railways
- Overall, Thailand's Revised Offer is more restrictive than India's


# Commitments in FTAs

- Both India and Thailand have comprehensive agreements – India with Singapore, Japan, Malaysia and Korea and Thailand with Australia and Japan
- India follows a fixed pattern across all FTAs while Thailand customize its agreements to the requirements of a trading partner
- In Mode 3 Thailand has gone beyond autonomous – increased investment limits and made commitments in sectors otherwise restricted - Thailand undertakes forward-looking commitments
- India does not undertake forward looking commitments but try to bind the existing autonomous regime – since India has been liberalising the domestic market, the extent of commitments have improved over the WTO Revised Offer
- Mode 4, India committed under all four categories of service suppliers, Thailand did not cover IP but gives preferential treatment - Provision of APEC Australian Business Travel card under its agreement with Australia
- Thailand has the India tries to secure liberalisation commitments in Modes 1 and 4
- India is also a proponent of developing disciplines on domestic regulations
- Both have chapters on cooperation and recognise the importance of mutual recognition agreement

# Comparison of Design and Coverage of Bilateral Agreements

Parameters	India–Korea CEPA	India–Japan CEPA	Thailand–Japan EPA	Thailand–Australia FTA
Sectors covered	India has taken commitments in all 11 broad services sectors covered under the W/120	India has taken commitments in all 11 broad services sectors covered under the W/120	Thailand has taken commitments in 10 broad sectors. The excluded sector is health and social services.	Thailand has undertaken commitments in 8 broad sectors identified in W/120. The three excluded sectors are environmental, financial and health and social services.
Scheduling	GATS-style hybrid approach - positive listing of sectors and negative listing of barriers	GATS-style hybrid	GATS-style hybrid	Negative list
Sectoral carve-outs	Air transport services	Air transport services and cabotage in maritime transport services	Air transport services and cabotage in maritime transport services	-
Coverage	Dual coverage for investments (under investment chapter and under Mode 3 in trade in services chapter) and movement of people	Dual coverage for investments and movement of people	Dual coverage for investments and movement of people	Single schedule
Has separate chapters on	Telecommunication, movement of natural persons and investments	Movement of natural persons and investments	Movement of natural persons and investments	Movement of natural persons, investments and e-commerce
Types of service suppliers covered	BV, CSS, ICT, IP	BV, CSS, ICT, IP	BV, CSS, ICT	BV, CSS, ICT

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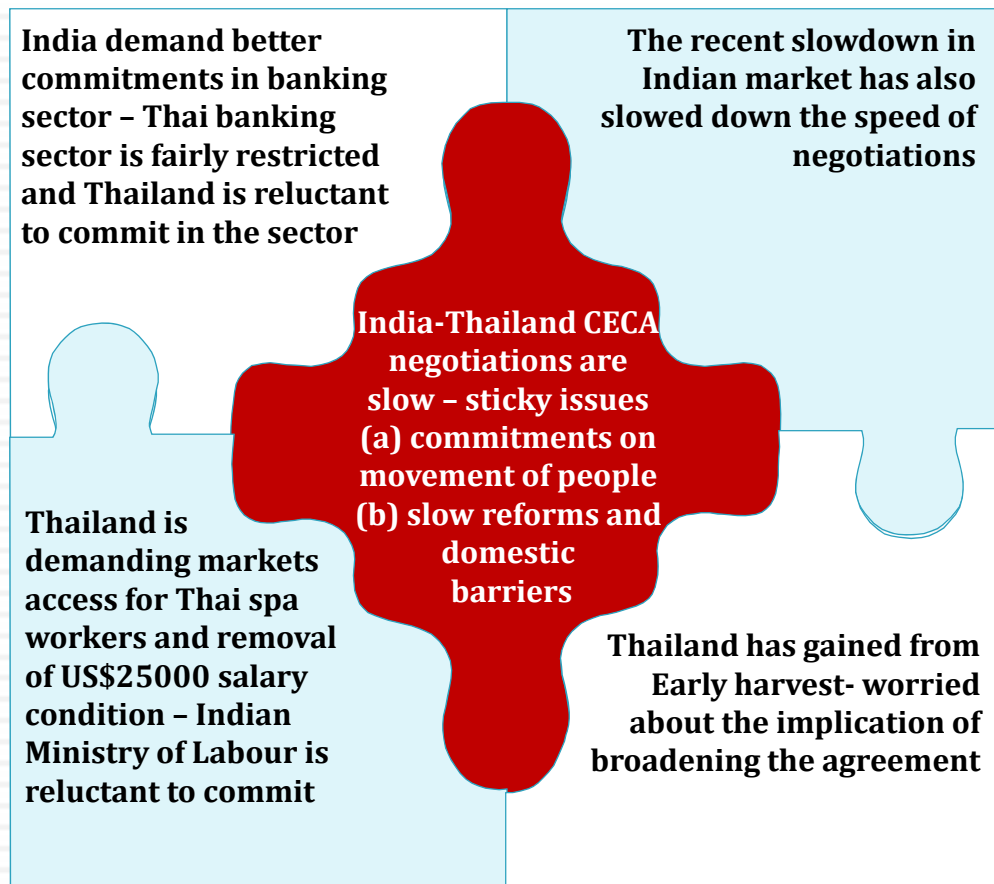
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# The Way Forward – Enhancing Trade in Services through Negotiations

- Prime reason for Thailand to enter into an agreement with India is proliferation of FTAs in ASEAN and India's growing integration with ASEAN member states
- Bilateral trade in services at present is low however, there is scope for enhancing trade and investment
- A number of barriers are related to market access that can be addressed through negotiations
- Thailand is a net exporter of services to India – primarily due to large export of travel services – so it should not worry about services agreement
- Regulatory barriers with strong domestic reforms and clear implementation strategy
- Knowledge sharing is important and greater cooperation is required in this regard
- Scope for collaboration in specific sectors

# Key Takeaways



- Both India and Thailand have restrictive FDI regime and evolving regulations – affects transparency
- Integration in physical infrastructure and easing movement of people will help in enhancing trade in services
- Business facilitating instruments such as bank should be encouraged
- Sound institutional framework and greater cooperation and interactions – government to government, industry associations and business
- Reciprocity – visa on arrival and accommodation of each others interest
- Thailand customizes its agreement as per trading partners request and offers – India should utilize the flexibility on each others interest
- Focus of commitments rather than only cooperation

# Thank You

For details contact:

Arpita Mukherjee

Professor, ICRIER

[arpita@icrier.res.in](mailto:arpita@icrier.res.in)

Tanu M. Goyal,

Research Associate, ICRIER

[tgoyal@icrier.res.in](mailto:tgoyal@icrier.res.in)