

Trade in Services between India and Pakistan

by

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Annual Conference on
Normalizing India-Pakistan Trade

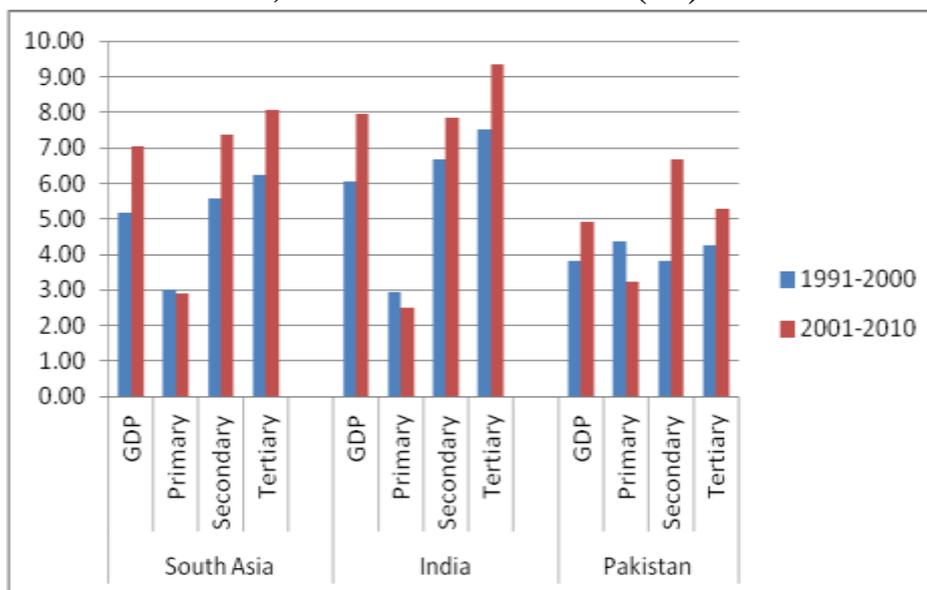
New Delhi

March 15, 2013

Background and Motivation

- Recent positive developments between India and Pakistan significant for longer term integration prospects in South Asia and for normalizing relations
- Most of the focus has been on merchandise trade and associated problems
- Need to examine prospects for bilateral services relations overall and in specific sectors
- Improved bilateral trade relations in services can help
 - diversify the trade basket
 - build confidence through people mobility, information flows
 - create synergies for merchandise trade through cooperation on transport, logistic, telecom and various infrastructure services
 - foster people-to-people ties

CAGR in GDP by sectors for South Asia, India and Pakistan, 1990s and 2000s (%)



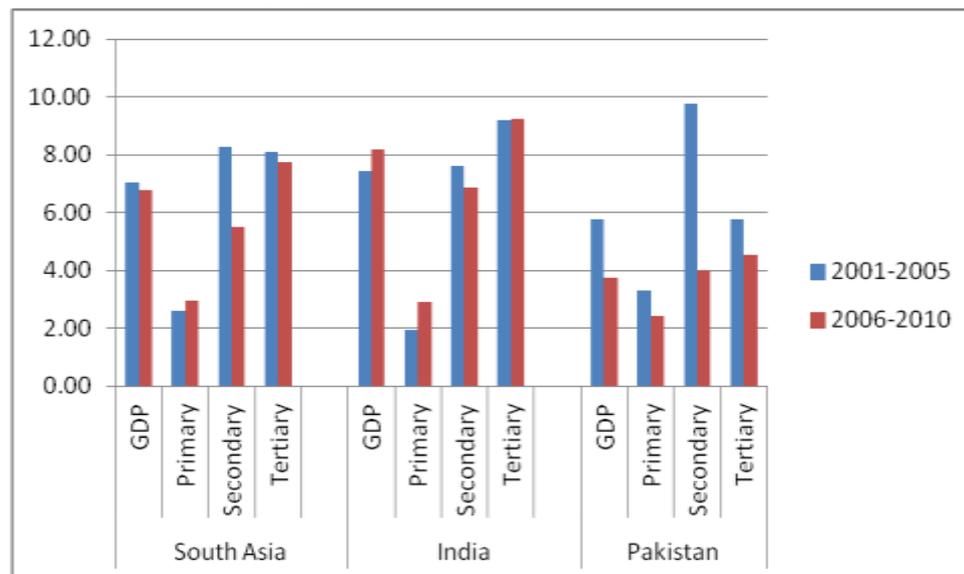
- Both countries show higher services growth in the 2000s compared to the 1990s

Source: Calculated using National Accounts Main Aggregates Database from <http://unstats.un.org/unsd/snaama/dnList.asp> (accessed on Dec 5, 2012)

Services Output

- Growing contribution of services to GDP in both countries (over 50%)
- India has exhibited much higher and consistent growth rates than Pakistan, overall and across subsectors

Average annual growth rate of GDP by sectors for South Asia, India and Pakistan, 2000s (%)



CAGR for services exports and imports for India, Pakistan and South Asia, 2001-11 (%)

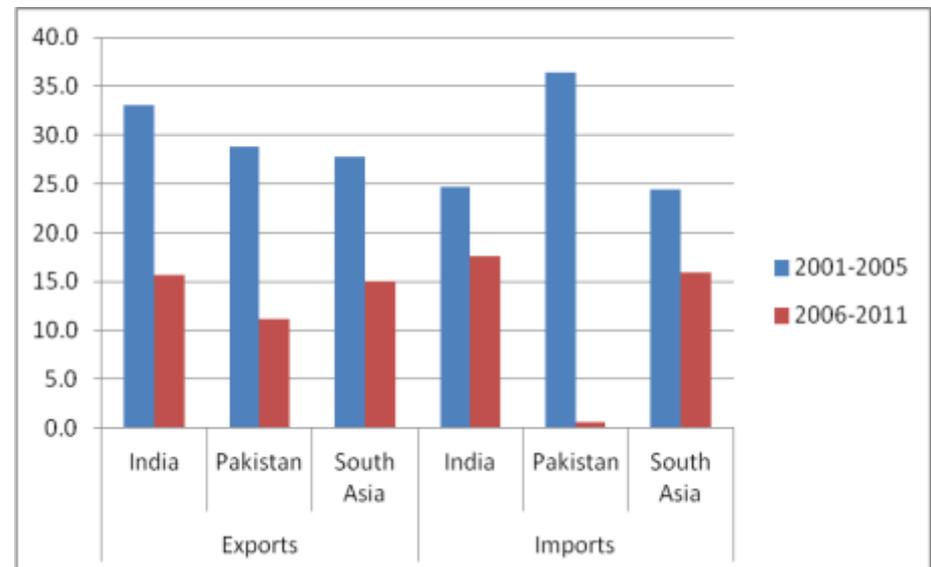


- Pakistan has shown greater volatility in its services trade performance

Services trade

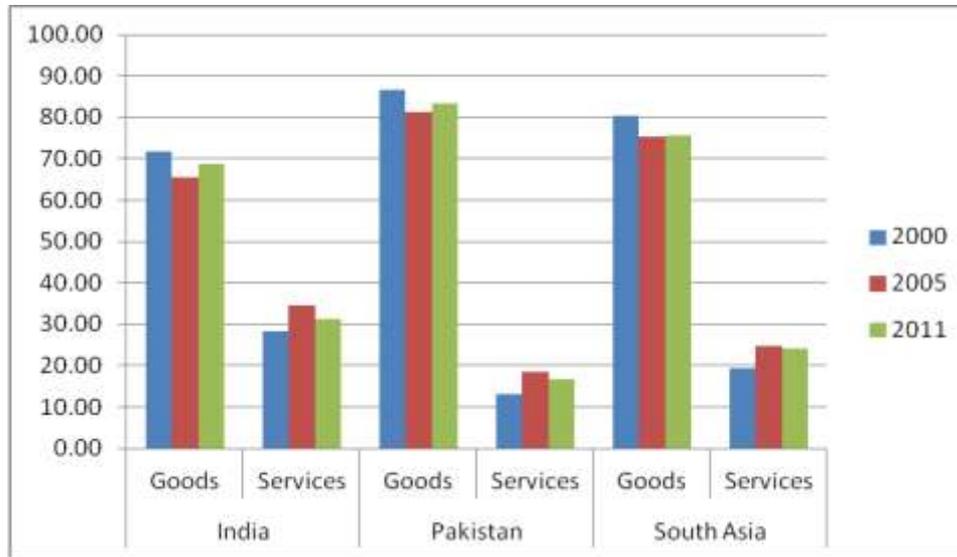
- India has experienced much higher growth rates for services exports and imports compared to Pakistan

Average annual growth rates of services exports and imports for India, Pakistan and South Asia, 2001-05 and 2006-11 (%)



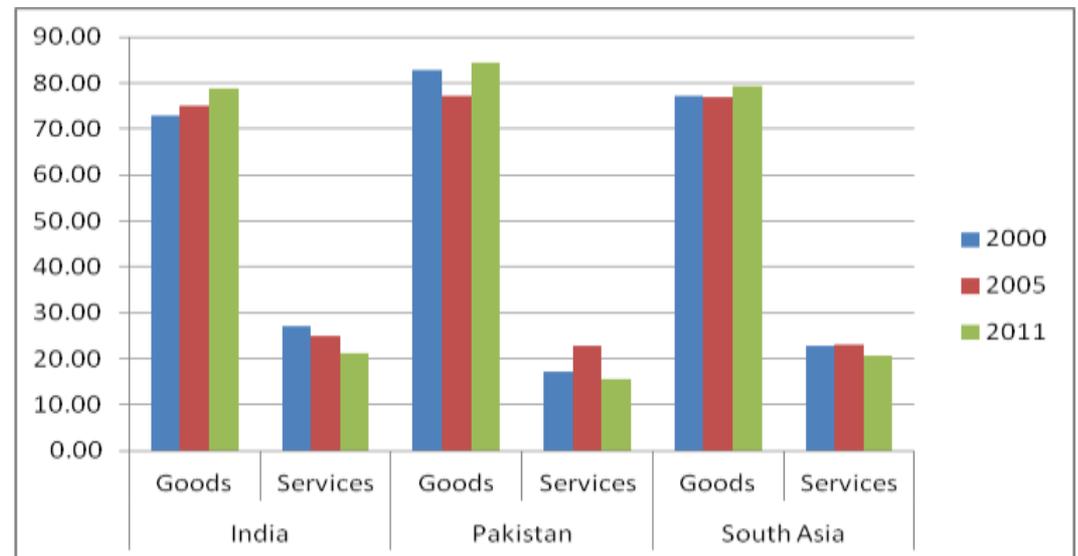
Source: Calculated using UNCTAD stats: International Trade in Services Report from <http://unctadstat.unctad.org/ReportFolders/reportFolders.aspx> (accessed on Dec 4, 2012)

Share of goods and services exports in total exports, 2000, 2005, 2011 (%)



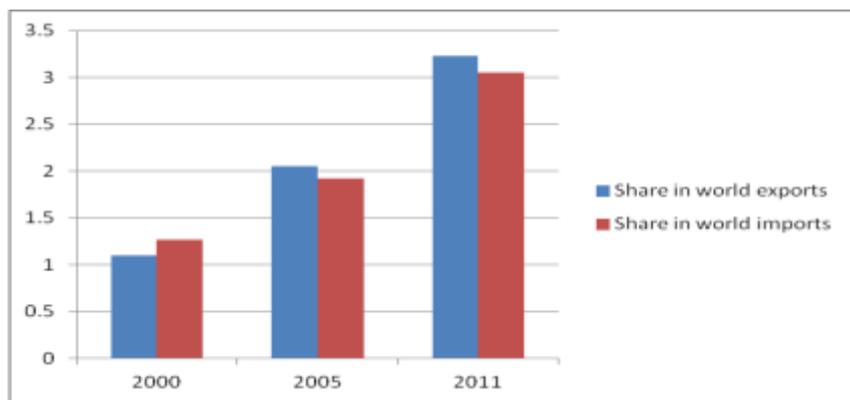
- Over 30% of India's total export basket compared to less than 20% for Pakistan

Share of goods and services imports in total imports, 2000, 2005, 2011 (%)

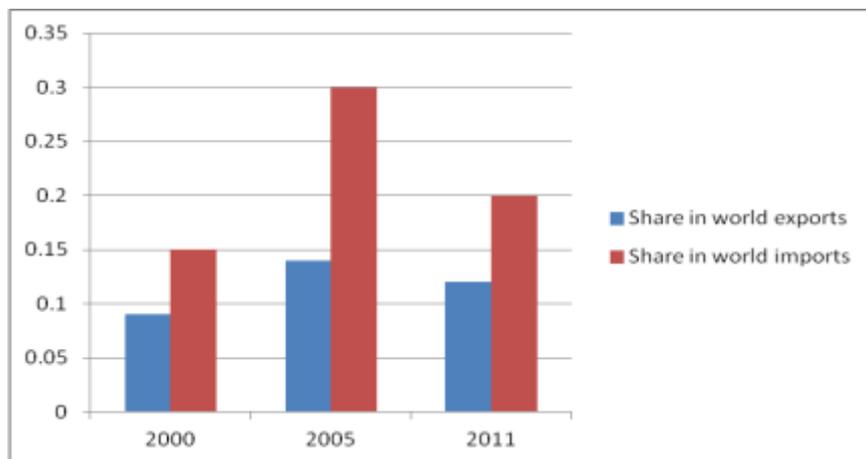


Source: Calculated using UNCTAD stats: International Trade in Goods and Services Report from <http://unctadstat.unctad.org/ReportFolders/reportFolders.aspx> (accessed on Dec 4, 2012)

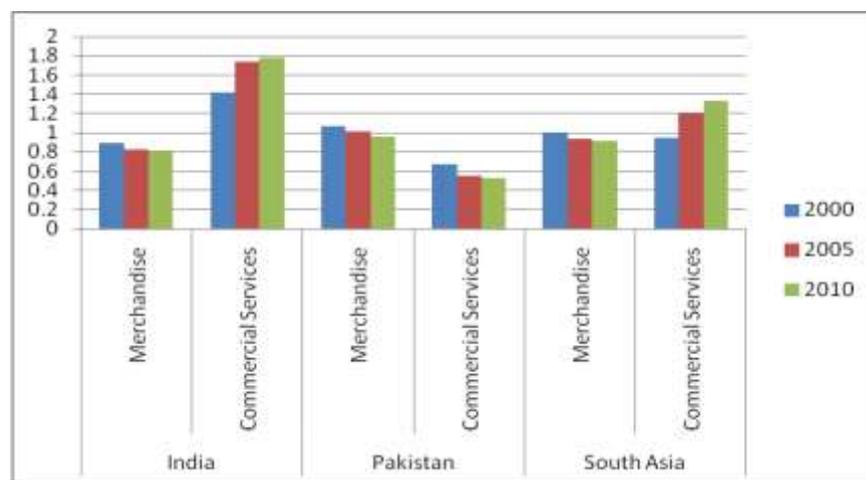
India's share in world services exports and imports-2000, 2005, 2011 (%)



Pakistan's share in world services exports and imports-2000, 2005, 2011 (%)



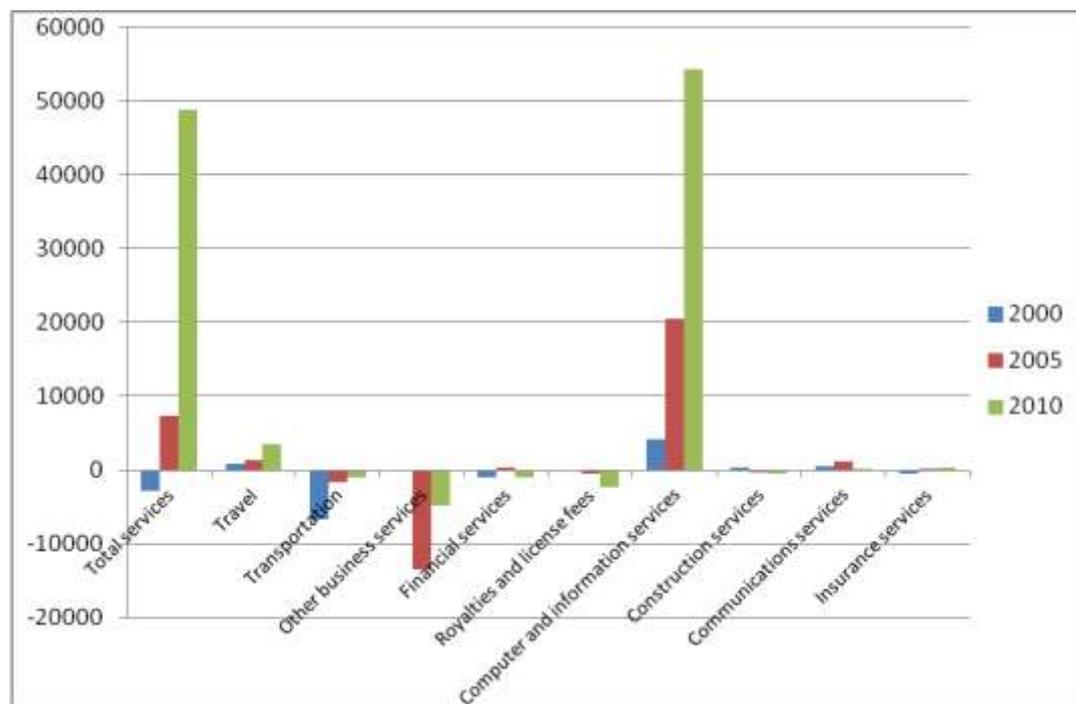
Revealed comparative advantage indices for India, Pakistan and South Asia, 2000, 2005, 2011



Source: Calculated using UNCTAD stats: International Trade in Services Report from <http://unctadstat.unctad.org/ReportFolders/reportFolders.aspx> (accessed on Dec 4, 2012)

Subsectoral features

- India's services basket shows shift from traditional towards emerging segments
 - Highest growth in ICT services exports for India (28% in 2000 to 49% in 2010)
- India's services import basket has diversified, rising contribution of emerging services
- India's overall services trade balance has moved from a slight deficit to a reasonably big surplus over the past decade, but mainly due to computer and information services



India's trade balance in services by subsector, 2000 and 2011 (US\$ mns)

Value and share of India's exports by subsectors (thousands of US\$ and %)

	Share in 2000	Share in 2007	Value in 2010	Share in 2010
Total services	100.0	100.0	116454000	100.0
Travel	20.7	12.3	14160000	12.2
Transportation	11.9	10.4	13248000	11.4
Other business services	24.9	23.8	21667000	18.6
Financial services	1.7	3.9	5834000	5.0
Royalties and license fees	0.5	0.2	128000	0.1
Computer and information services	28.3	43.1	56878000	48.8
Construction services	3.0	0.9	525000	0.5
Communications services	3.6	2.7	1412000	1.2
Insurance services	1.5	1.7	1782000	1.5
Personal, cultural and recreational services	0.0	0.6	335000	0.3
Government services, n.i.e.	3.9	0.4	485000	0.4

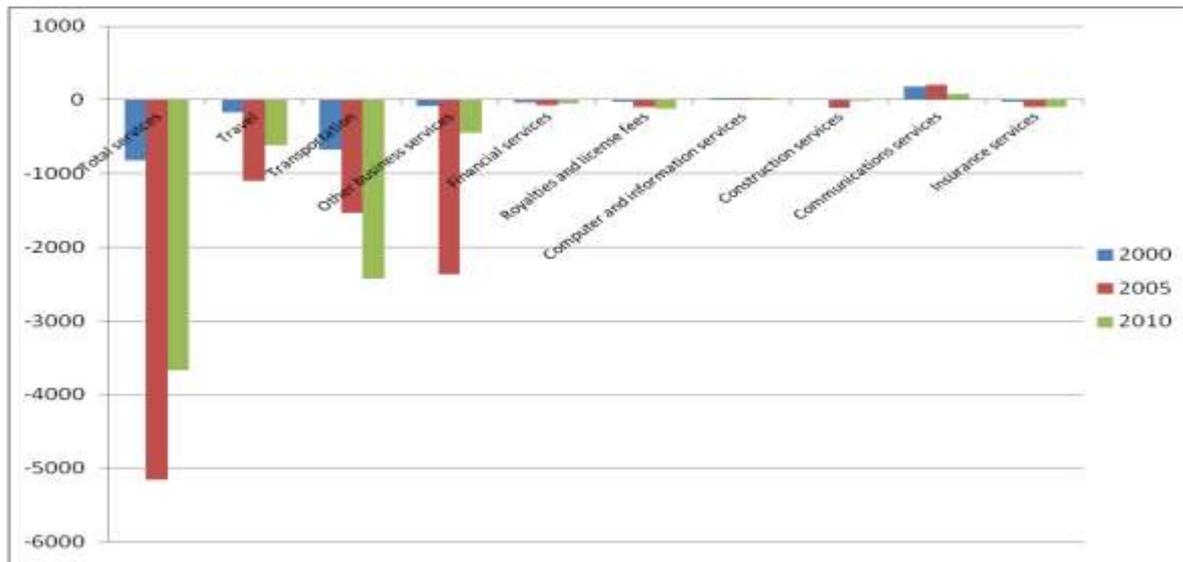
Source: Calculated using ITC stats from http://www.trademap.org/tm_light/Service_SelService_TS.aspx
(accessed on Dec 4, 2012)

Value and share of India's imports in different service subsectors (thousands of US\$ and %)

Service label	Share in 2000	Share in 2007	Value in 2010	Share in 2010
Total commercial services	100.0	100.0	67,171,000	100.0
Transportation	46.1	21.4	14,212,000	21.2
Travel	14.2	17.4	10,636,000	15.8
Other business services	22.9	38.6	26,490,000	39.4
Financial services	6.8	6.8	6787000	10.1
Royalties and license fees	1.5	2.4	2438000	3.6
Computer and information services	3.1	7.6	2531000	3.8
Construction services	0.7	1.5	991000	1.5
Communications services	0.6	1.8	1194000	1.8
Insurance services	4.3	1.9	1425000	2.1
Personal, cultural and recreational services	0.0	0.6	467000	0.7

Source: Calculated using ITC stats from http://www.trademap.org/tm_light/Service_SelService_TS.aspx

- Pakistan's services exports dominated by non-commercial services (govt services)
- Excluding non-commercial services, services exports consist mainly of transportation, other business, computer and information and communication services
- Trends indicate a gradual shift towards modern services- IT and other business services
- Commercial services imports concentrated in transport, travel, other business services
- Trade deficit across almost all commercial service segments



Pakistan's trade balance in services by subsector, 2000 and 2011 (US\$ thousands)

Value and share of Pakistan's commercial services exports by subsectors (mns of US\$ and %)

	Share in 2003	Share in 2007	Value in 2010	Share in 2010	Share in 2010 (Govt. services included)
Total services	100	100	2793	100	100
Travel	8.3	12.4	304	10.9	4.7
Transportation	56.6	48.0	1334	47.8	20.8
Other business services	16.7	18.8	599	21.4	9.3
Financial services	0.8	3.0	50	1.8	0.8
Royalties and license fees	0.5	1.7	3	0.1	0
Computer and information services	2.3	5.7	193	6.9	3
Construction services	0.3	3.0	20	0.7	0.3
Communications services	12.9	5.8	242	8.7	3.8
Insurance services	1.5	1.6	44	1.6	0.7
Personal, cultural and recreational services	0.1	0.1	4	0.1	0.1

Source: Calculated using ITC stats from

http://www.trademap.org/tm_light/Service_SelService_TS.aspx (accessed on Dec 4, 2012)

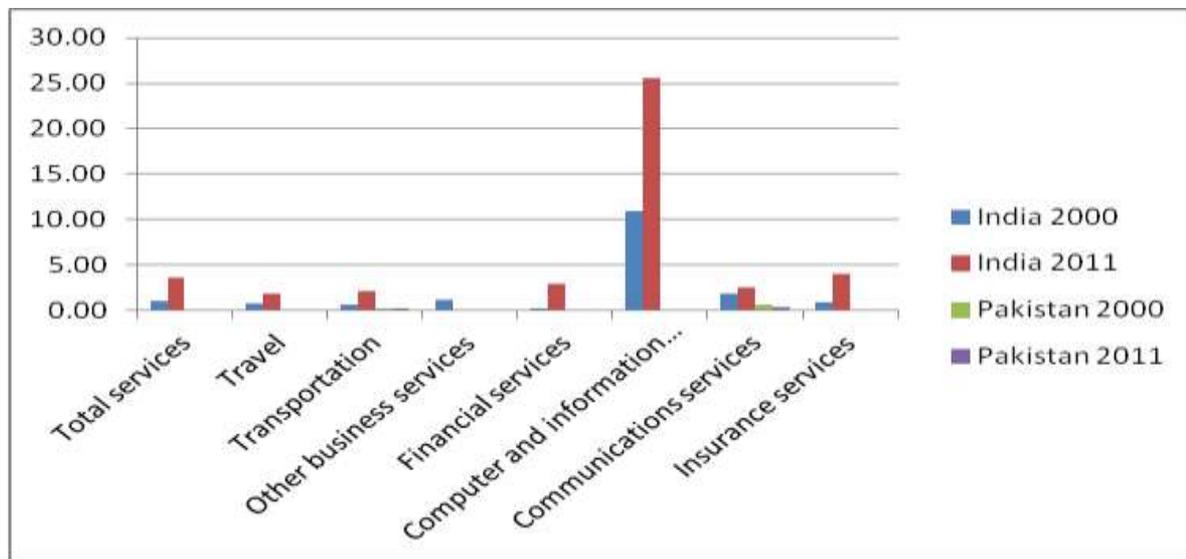
Value and share of Pakistan's commercial services imports by subsectors ('000s of US\$ and %)

Service label	Share in 2003	Share in 2007	Value in 2010	Share in 2010	Share in 2010 (Govt. services included)
Total commercial services	100.0	100.0	6467000	100.0	100.0
Transportation	51.1	38.9	3756000	58.1	53.0
Travel	29.8	18.9	925000	14.3	13.0
Other business services	11.2	34.7	1049000	16.2	14.8
Financial services	2.4	1.5	102000	1.6	1.4
Royalties and license fees	1.2	1.3	124000	1.9	1.7
Computer and information services	0.2	1.4	168000	2.6	2.4
Construction services	0.4	0.5	29000	0.4	0.4
Communications services	1.5	1.2	158000	2.4	2.2
Insurance services	2.4	1.7	143000	2.2	2.0
Personal, cultural and recreational services	0.0	0.0	13000	0.2	0.2

Source: Calculated using ITC stats from http://www.trademap.org/tm_light/Service_SelService_TS.aspx (accessed on Dec 4, 2012)

- India's strength in services exports is relatively concentrated in computer and information services
- No significant areas of commercial competitiveness for Pakistan, but computer and information services, communication services, other business services show some potential
- India's significance in the world market for computer and information services has risen over the past decade, other segments remain low

Share in world services exports by subsectors, India and Pakistan, 2000 and 2011 (%)



Subsectoral RCA indices for India and Pakistan, 2000, 2005, 2010

Service label	India		Pakistan	
	2000	2010	2000	2010
Total Commercial Services	1.42	1.78	0.67	0.53
Travel	0.67	0.48	0.20	0.43
Transportation	0.54	0.54	2.85	2.25
Other business services	1.15	0.75	0.47	0.86
Financial services	0.26	0.69	0.12	0.25
Royalties and license fees	0.09	0.02	0.00	0.02
Computer and information services	10.15	8.14	0.59	1.15
Construction services	1.55	0.18	0.00	0.28
Communications services	1.72	0.44	6.80	3.16
Insurance services	0.86	0.71	0.21	0.73
Personal, cultural and recreational services	0.00	0.36	0.00	0.18

Source: Calculated using ITC stats from

http://www.trademap.org/tm_light/Service_SelService_TS.aspx accessed on Dec 4, 2012

- Subsectoral RCA estimates indicate both countries have potential in computer and information services
- Pakistan's RCA estimates also indicate potential in communication and transport services
- Based on growth performance, RCA indices, contribution to the overall export basket, some of the potential areas for expanding bilateral services relations are computer and information services, communication services and other business services
- Travel and transportation services potentially areas for strengthening relations
- Trends indicate scope for complementarity and collaboration as opposed to competition between the two countries
- Nature of these services warrant engagement through all four GATS modes of supply

Bilateral trade in services

Value and Share of Pakistan's commercial services exports to selected partner countries ('000s of USD and %), 2011 and 2007

	2011		2007	
	Value	Share	Value	Share
Total commercial services exports to world	3374586	100.00	2286401	100.00
India	10305	0.31	3371	0.15
USA	974515	28.88	807379	35.31
UK	311878	9.24	219526	9.60
UAE	410502	12.16	229986	10.06
China	61753	1.83	28111	1.23
Canada	11287	0.33	9955	0.44
Singapore	269128	7.98	75935	3.32
Afghanistan	30004	0.89	3755	0.16
Malaysia	15827	0.47	12239	0.54
Sri Lanka	5064	0.15	1134	0.05
EU	840624	24.91	561676	24.57
Saudi Arabia	212060	6.28	176898	7.74

Source: Calculated using ITC stats from http://www.trademap.org/tm_light/Service_SelService_TS.aspx (accessed on Dec 4, 2012)

Value and Share of Pakistan's commercial services imports from selected partner countries ('000s of USD and %), 2011 and 2007

Partner Country	2011		2007	
	Value	Share	Value	Share
India	118865	1.7	107740	1.3
USA	918862	13.0	803018	10.1
UK	471436	6.7	516996	6.5
UAE	912489	12.9	784150	9.8
China	614362	8.7	833387	10.4
Canada	69475	1.0	114836	1.4
Singapore	328393	4.6	291901	3.7
Afghanistan	8305	0.1	1009	0.0
Malaysia	172844	2.4	123205	1.5
Sri Lanka	18418	0.3	17267	0.2
EU	1076806	15.2	1291269	16.2
Saudi Arabia	582096	8.2	498533	6.2

Source: Calculated using Publication on Imports of Goods and Services from State Bank of Pakistan, <http://www.sbp.org.pk/index.asp>, (accessed on Feb 12, 2013)

Bilateral services trade data indicate that India is not an important partner for Pakistan, very concentrated services trade basket between the two

Pakistan's services exports to India, values (in USD thousands) and shares (%), 2011, 2008, 2006

Service Category	2011		2008		2006	
	Value	Share	Value	Share	Value	Share
Total commercial services (excl government services)	10305	100.0	3743	100.0	2549	100.0
Transportation	443	4.3	726	19.4	375	14.7
Travel	36	0.3	463	12.4	630	24.7
Communication Services	5374	52.1	10	0.3	15	0.6
Construction Services	1083	10.5	1	0.0	0	0.0
Insurance Services	6	0.1	40	1.1	0	0.0
Financial Services	301	2.9	459	12.3	126	4.9
Computer & Information Services	242	2.3	114	3.0	19	0.7
Royalties & License fees	54	0.5	53	1.4	35	1.4
Other Business Services	2731	26.5	1821	48.7	1342	52.6
Personal, cultural & recreational Services	35	0.3	56	1.5	7	0.3

Pakistan's services imports from India (in USD thousands) and shares (%), 2011, 2008

	2011		2008	
	Value	Share	Value	Share
Total commercial services imports (excl government services)	118865	100.0	168620	100.0
Transportation	115135	96.9	114332	67.8
Travel	303	0.3	780	0.5
Communication Services	460	0.4	342	0.2
Construction Services	46	0.0	0	0.0
Insurance Services	0	0.0	28	0.0
Financial Services	556	0.5	506	0.3
Computer & Information Services	1620	1.4	397	0.2
Royalties & License fees	82	0.1	38	0.0
Other Business Services	622	0.5	52169	30.9
Personal, cultural & recreational Services	41	0.0	28	0.0

- Pakistan's services exports to India mostly consist of communication and other business services exports-around 80% of all commercial services exports to India
- Transport services make up the bulk of Pakistan's services imports from India
- Pattern of services trade between India and Pakistan is different from the composition of Pakistan's overall services exports and imports
 - Communication and other business services exports occupy a larger share in Pakistan's trade with India than in its overall services trade basket with the world
 - Other segments such as transport important in its overall services exports to the world, but occupy a small share in its exports to India
- Trade pattern with India does not correspond well with the relative competitiveness pattern for the two countries
 - Subsectors where Pakistan has much higher RCAs than India (transportation services) do not feature importantly in its exports to India
 - Subsectors where India is more competitive (computer and information services), do not feature significantly in Pakistan's imports from India

- Differences between the aggregate and the bilateral pattern of services trade may suggest that:
 - (a) there are barriers to services trade between India and Pakistan which adversely affect the potential for services flows in some areas
 - (b) there is scope to expand trade relations in services to leverage areas where the two countries are competitive
 - (c) there are likely to be competing interests in some subsectors where more than trade, collaboration and tie-ups may be more beneficial
 - (d) there may be lack of interest in each other's markets in areas where the two countries are competitive due to profitability and other considerations

Services exports from Pakistan to selected countries, FY 2011 (values in '000s USD and shares (%))

Type of service export	US		UK		China		UAE		EU		India	
	Value	Share	Value	Share	Value	Share	Value	Share	Value	Share	Value	Share
Total services	2285540		440678		62165		429,769		1021063		10957	
Total commercial services (excl government services)	974515	100.0	311652	100.0	61747	100.0	410,100	100.0	840056	100.0	10305	100.0
Transportation	212383	21.8	199426	64.0	13911	22.5	240374	58.6	560096	69.3	443	4.3
Travel	301447	30.9	1351	0.4	15	0.0	3,597	0.9	2311	0.5	36	0.3
Communication Services	153935	15.8	11247	3.6	423	0.7	17425	4.2	27609	1.9	5374	52.1
Construction Services	2064	0.2	768	0.2	80	0.1	8625	2.1	1617	4.3	1083	10.5
Insurance Services	8634	0.9	18177	5.8	4272	6.9	2,196	0.5	20401	0.4	6	0.1
Financial Services	35037	3.6	5711	1.8	14291	23.1	2582	0.6	10926	2.8	301	2.9
Computer & Information Services	104953	10.8	17946	5.8	8506	13.8	19,856	4.8	36628	1.0	242	2.3
Royalties & License fees	3710	0.4	255	0.1	14	0.0	27	0.0	971	0.0	54	0.5
Other Business Services	151877	15.6	56771	18.2	20235	32.8	115,418	28.1	179497	19.8	2731	26.5
Personal, cultural & recreational Services	475	0.0	226	0.1	6	0.0	402	0.1	568	0.1	35	0.3
Government Services	1311025		128800		413		19269		180439		652	

Services imports by Pakistan from selected countries, FY 2011 (values in '000s USD and shares %)

	US		UK		China		UAE		EU		India	
Type of service imports	Value	Share	Value	Share	Value	Share	Value	Share	Value	Share	Value	Share
Total services	953339		516751		662801		918063		1144657		118944	
Total commercial services (excl. government services)	918862	100.0	471436	100.0	614362	100.0	912489	100.0	1076806	100.0	118865	100.0
Transportation	178062	19.4	125386	26.6	378816	61.7	744635	81.6	486940	45.2	115135	96.9
Travel	154017	16.8	70954	15.1	2369	0.4	5986	0.7	96086	8.9	303	0.3
Communication Services	13617	1.5	14205	3.0	497	0.1	69986	7.7	44923	4.2	460	0.4
Construction Services	5024	0.5	3432	0.7	35687	5.8	1146	0.1	11272	1.0	46	0.0
Insurance Services	6894	0.8	64454	13.7	2988	0.5	9941	1.1	66806	6.2	0	0.0
Financial Services	53881	5.9	14530	3.1	1269	0.2	4143	0.5	23742	2.2	556	0.5
Computer & Information Services	17873	1.9	19808	4.2	600	0.1	18692	2.0	56104	5.2	1620	1.4
Royalties & License fees	17209	1.9	29299	6.2	2	0.0	356	0.0	49599	4.6	82	0.1
Other Business Services	472128	51.4	119429	25.3	192131	31.3	57570	6.3	231328	21.5	622	0.5
Personal, cultural & recreational Services	157	0.0	9939	2.1	3	0.0	34	0.0	10006	0.9	41	0.0
Government Services	34477		45315		48439		5574		67851		79	

- Some broad inferences can be drawn from the bilateral data on services
- Services trade basket between India and Pakistan is narrower than it is with other countries and there is scope for expanding this basket
- Cross border supply or mode 1 based trade in services done better than other modes of trade in services, so without facilitation of people, capital and service provider mobility, prospects for services trade likely to be limited
- India can potentially be a much more important services trade partner for Pakistan
- Overlap in terms of growing significance of certain regional markets such as Singapore and the UAE suggests potential for exploiting commercial opportunities through third countries if country-country direct trade linkages in services are difficult to establish

FDI flows

- Net FDI inflows into Pakistan have been important across a variety of services- communication, financial, construction and energy services
- Key source countries for Pakistan are the US, UK, certain countries in the Middle East
- Services account for over 60% of net FDI inflows into India- construction, financial, communication and business services
- Excluding Mauritius, important FDI source countries for India are the US, UK, the UAE and Singapore
- Growing outward investment by Indian companies, including in the service sector (business, IT)

- India has until recently restricted investment from companies or nationals of certain countries as Pakistani citizens or entities incorporated in Pakistan were not allowed to invest in India.
- But FDI trends indicate considerable overlap in composition and source countries implying commonality in sectoral interests and potential to attract investment in services from select regions and countries
- Growth in outward FDI by Indian companies in countries which are sources of investment for both India and Pakistan suggests potential for both countries to collaborate on FDI flows (IT, other business and energy services) through establishments based in 3rd countries if direct investment between the two is difficult
- Significance of bilateral tax treaties in shaping the outward and inward FDI flows in India suggests scope for stimulating investment flows between India and Pakistan through bilateral arrangements such as in investment or tax treaty

Bilateral prospects in selected services

IT services

- Both countries derive their comparative advantage in IT from their manpower base and lower labour costs
- Elements of competition present in terms of their markets and verticals
- Common challenges, though Pakistan's industry has additional challenges relating to branding and political instability
- From a bilateral perspective, scope to approach this sector strategically via collaboration and tie-ups between Indian and Pakistani firms
 - Address Pakistan's constraints in terms of scale, reputation, marketing and diversification
 - Address India's emerging challenges in terms of rising wages, need for quality manpower, growing competition from lower cost countries, diversification to new regional markets

Pakistan's exports of computer and information services, 2006-11 ('000s of US\$)

Country	FY11	FY10	FY09	FY08	FY07	FY06
India	242	41	90	114	44	19
USA	104953	94827	115749	91938	64910	42388
UK	17946	28183	17180	18140	10693	6022
UAE	19,856	14,288	13,899	8,234	3902	2058
China	8506	5135	1394	4859	3037	1419
Canada	4028	2270	1714	1308	1487	1803
Singapore	5463	2426	2090	743	825	676
Malaysia	602	135	103	441	201	354
EU	36628	40684	26500	26519	14045	8142
Sri Lanka	38	6	4	76	14	0
Saudi Arabia	6373	3861	2768	581	538	186

Source: Publication on Exports of Goods and Services from State Bank of Pakistan <http://www.sbp.org.pk/index.asp> (accessed on Feb 12, 2013)

Pakistan's imports of computer and information services, 2006-11 ('000s of US\$s)

Country	FY11	FY10	FY09	FY08	FY07
India	1620	928	504	397	252
USA	17873	16276	27034	24138	16521
UK	19808	22132	19169	19302	13598
UAE	18692	21648	11670	24940	10136
China	600	823	1029	3628	541
Canada	588	1155	57	107	109
Singapore	38491	27742	19135	17666	12140
Malaysia	7753	10174	6719	5588	3442
EU	56104	56428	31105	35907	23287
Sri Lanka	147	209	215	284	145
Saudi Arabia	53	0	0	1	40

Source: Publication on Imports of Goods and Services from State Bank of Pakistan, <http://www.sbp.org.pk/index.asp> , (accessed on Feb 12, 2013)

Scope for increasing trade in computer and information services and BPO services with India if one compares with the trade trends in these areas with developing countries such as Singapore, Malaysia and China

Prospects

- Potential to complement each other in terms of their mutual strengths in this sector
- Media reports indicate Pakistan and India can boost their mutual trade in the IT sector to as much as \$5 billion through JVs, investment and exchange of expertise
- Indian companies can invest in Pakistan's IT sector as they look to outsource their BPO businesses to other
- Indian companies could leverage niche areas of expertise in the Pakistani industry and expand their service offerings, benefiting both sides
 - Pakistani industry has gained reputation in areas such as gaming and animation, which could be combined with Indian industry's strength in IT-enabled services
 - Leverage call centre potential in Pakistan (neutral accent)

- P@SHA study suggests that Pakistan could provide a strategic offshore base for Indian companies to service Western and Central Asia, Indian investments would benefit Pakistan through increased access to technology and markets
- Experts indicate potential to jointly establish firms in 3rd countries in the Middle East, Central Asia, Africa, set up offices in a third country (Dubai or Singapore), through JVs, provide services from these offshore offices to other markets
- Exports of Indian software products to Pakistani banks/companies and vice versa
- Potential to use Indian expertise in the execution of contracts of Pakistani IT firms in 3rd countries

Constraints

- Very low magnitude of bilateral IT and BPO services trade due to various barriers between India and Pakistan
- Although some of the larger IT companies in the two countries are working together , sharing of mutual expertise and IT-based applications has been constrained by a host of restrictions
 - Absence of MFN status by Pakistan’s government to India
 - Restrictions on investment by Indian IT companies in Pakistan
 - Lack of a supportive visa policy which constrains mobility of IT professionals
- Pakistani and Indian companies have not been able to invest in each other’s countries or to merge to form larger companies or to enter into partnerships

- People mobility, working in teams and investment flows essential for collaboration in this industry-so need to facilitate investment and people flows to boost bilateral relations in IT-BPO services
- Indian experts said difficulties under current regulatory environment for companies in the two countries to work together-problems in obtaining visas
- Not so positive about engagement with Pakistan in the immediate future as:
 - (a) Pakistan is still much lower in IT rankings compared to other potential markets where Indian firms could invest;
 - (b) Pakistan's scale of engineering talent and manpower not that large
 - (c) Concerns about safety and stability in Pakistan
- Indian industry respondents noted nothing specific that the Pakistani industry can add to the portfolio of Indian IT companies in terms of service offerings, lower costs, vertical specialization or quality for serving Western markets, other countries offer better options

Steps needed

- To promote bilateral ties both governments need to look into the following
 - Sign an agreement to cooperate in IT-BPO services, provide official sanction to business initiatives in the IT sector
 - Promote travel between companies such as through an easy visa for companies and service providers who meet specified entry conditions
 - Promote more trade in products, including IT products
 - Remove investment restrictions
 - Enable exchange of students, interns, executives and contractual service providers to boost confidence
- Need facilitative regulatory environment and confidence building measures on visas and investment rules, or prospects will remain limited

Health services

Medical tourism

- Media reports about potential for bilateral medical tourism trade
- Hospital chains such as Apollo, Max, Medanta and Ganga Ram attract Pakistani patients- organ transplants (liver and kidney), oncology related treatments, cardiac and orthopaedic surgeries
- Pakistani patients account for 15-20% of total international patient inflows to India
 - On average Apollo receives around 50-60 patients from Pakistan per month, accounting for around 3% of its total revenues from international patients
 - Apollo performed 130 liver transplants on Pakistani patients in 2012
 - Ganga Ram gets some 30-40 Pakistani patients per month
 - Medanta receives around 8-10 Pakistani patients per month

- Experts note potential for medical tourism in the areas of paediatric cardiac surgery, liver transplants, fertility treatment for Pakistani patients, in nephrology and oncology for Indian patients
- Media reports of life saving treatment received in Indian hospitals have helped spread good will between the two countries, led to more patients traveling from Lahore and Karachi to Delhi, Mumbai and Bangalore
- Some commercial initiatives- Asiahealth a health tourism service provider in India puts together list of Indian medical providers to inform Pakistani patients about various specialties and services they provide
- Mumbai Obstretic Gynaecological Society Society planning to collaborate with Pakistani doctors to help Pakistani couples with cutting edge fertility treatments

Telemedicine

- Seen as holding most promise as least affected by political instability and does not require people mobility
- Apollo group's telemedicine arm, ATNF has set up over 120 telemedicine centres ,7 outside India, including in Pakistan
- In October 2004, the Apollo Group set up a telemedicine link between its Indraprastha Apollo Hospital in Delhi and Apollo Information Centre in Lahore for videoconferencing based medical programmes to provide continuing medical education to local doctors in Lahore
- Companies such as GE are present in these countries and are making telemedicine equipment and could provide telehealth services

Other areas

- Scope to provide health services on a charitable basis across the two countries through establishments such as the Aga Khan Hospital
- Liver care forum created for the people of both countries to help subsidize treatment for liver transplants
- Recently, Pakistan's government has mooted the idea of developing doctor to doctor contacts between the two countries
- ICT for health care delivery, through telemedicine arrangements between establishments in the two countries
- Clinical trials
- Intraregional trade in health products, such as pharmaceuticals and medical equipment

Constraints

- Telemedicine trade constrained by technology, telecom infrastructure, privacy concerns, still not cost effective given the high cost of equipment
- Prospects for medical tourism affected by:
 - lack of health financing arrangements and regional insurance products
 - poor airline connectivity and disruption in transport services
 - lack of supporting infrastructure for patients and their families
 - difficulties with pre and post consultations
 - Border tensions and resulting visa hurdles
 - Inability to register for an Indian SIM as a Pakistani national
 - Requirement to register with the FRRO
- FDI flows constrained by political instability
- Cross border mobility of health professionals constrained by visa policies affecting exchange of ideas, participation in seminars and collaboration efforts

Steps needed

- To foster bilateral ties in this sector between India and Pakistan, three segments could be targeted
 - Medical tourism to facilitate bilateral mobility of patients between the two countries;
 - Consider regional insurance and cross border payment arrangements to spur medical tourism
 - Cross-border investments in hospitals and telemedicine centres;
 - Streamline regulations to support private investment in health care and enable collaboration between players in the 2 countries

- Capacity building and regulatory cooperation by initiating joint efforts in research, training, and capacity building through education and research tie-ups between selected centres and establishments.
 - research and development with multicentre and multi-country studies focusing on common diseases that afflict the region, public health issues, and emerging areas
 - joint initiatives in public health for education, research, training, and awareness raising purposes, by identifying public and private centres of excellence
 - increase interaction among the members of the medical community in both countries, through the exchange of health professionals and students across identified research centres and training institutions, sharing of knowledge and best practices, and capacity building in specific domains
 - Link educational and research institutions through government and private sector scholarships to promote medical studies in the region
 - Joint training in areas such as nursing and paramedical services.

Tourism services

- Possibilities for expanding intraregional tourism in South Asia with spinoff benefits for regional infrastructure development, employment creation and improvement in bilateral relations
- Prospects in several segments including religious and cultural tourism, sports and recreational tourism, adventure and eco-tourism and medical tourism
- But potential remains unrealized due to constraints of infrastructure, connectivity and politics
- India-Pakistan tourism flows very small despite facilitating factors such as language, culture, religion, common history, social and family ties and geographic proximity
- Neither country features among the top source markets for foreign tourist arrivals for the other

Tourist arrivals into Pakistan by nationality, 2000-08 ('000s)

Nationality	2000	2005	2009
Grand Total	556.8	798.3	854.9
Europe	257.5	356.8	378.6
America	89.8	146.6	162.5
South Asia	108.6	158.6	178.2
Pacific & East Asia	50	83.6	89.1
Middle East	33.1	31.9	28
Africa	16.5	14.7	14.7
Others	1.2	6.1	3.9
U.K.	179.7	248.6	275.4
U.S.A.	71.5	121.6	117.5
Afghanistan	28.2	77.6	96.6
India	66.1	59.6	42.7
Iran	5.4	9.1	26.6
Bangladesh	1.4	6	6.9
Sri Lanka	4.1	4.1	3.6
Japan	12.8	14.1	6.7
Malaysia	4.3	8.2	5
China	6.2	29.6	30.1
U.A.E.	7.5	4.6	4
Saudi Arabia	6.3	8.1	4.5
Oman	6.2	7.8	7.3

Source: Pakistan Bureau of Statistics (2011), <http://www.pbs.gov.pk/content/pakistan-statistical-year-book-2011> (accessed on Feb 12, 2013)

Top 10 source countries for foreign tourist arrivals in India, 2011

S.No	Source Country	FTAs (in million) (P)	Percentage (%) Share
1	USA	1.004	15.97
2	UK	0.791	12.57
3	Bangladesh	0.399	6.34
4	Sri Lanka	0.305	4.85
5	Canada	0.255	4.05
6	Germany	0.253	4.02
7	France	0.237	3.76
8	Malaysia	0.218	3.46
9	Japan	0.189	3.01
10	Australia	0.186	2.96
	Total of top 10 countries	3.837	60.98
	Others	2.453	39.02
	All Countries	6.290	100.00

Source: Ministry of Tourism, Government of India Report, (2011) *'India Tourism Statistics at a Glance'*

- Main tourism source countries are the US and the UK, Bangladesh is the third most important source country, accounting for around 6% of all foreign tourist arrivals
- Factors driving inflows from Bangladesh not working in the case of Pakistan indicating political, visa and security challenges specific to this bilateral relationship
- Indian inflows into Pakistan reflect impact of political relations
 - declined from around 98,000 in 2000 to 42,000 in 2009, peaking at around 120,000 in 2004
 - Reflect ups and downs in political relations, sharpest declines when political tensions peaked (Kargil), sharpest increases when relations were improving and steps to facilitate transport (surface) connectivity between the two countries
- Main mode of tourist arrivals into Pakistan, at present, is air, with land arrivals accounting for only around 10% of total, so geographic proximity has not been an important contributor till date to Pakistan's tourism industry
- Data indicate a visible downward trend in tourism flows for Pakistan, with India and with other countries over the 2007-11 period, sluggishness in its tourism services trade

Exports of travel services by Pakistan to selected countries, 2006-11 ('000s US \$s)

Country	FY11	FY07
India	36	614
USA	301447	255841
UK	1351	3255
UAE	3,597	1243
China	15	114
Canada	44	1584
Singapore	1483	345
Afghanistan	171	46
Sri Lanka	3	161
EU	2311	5641
Saudi Arabia	2525	2548

Imports of travel services by Pakistan from selected countries, 2006-11 ('000s US \$s)

Country	FY11	FY07
India	303	1494
USA	154017	73211
UK	70954	68296
UAE	5986	32118
China	2369	23697
Canada	8170	20598
Singapore	1706	5036
Afghanistan	88	28
Sri Lanka	2163	233
EU	96086	99865
Saudi Arabia	24658	45950

Source: Publication on Exports and Imports of Goods and Services from State Bank of Pakistan <http://www.sbp.org.pk/index.asp> (accessed on Feb 12, 2013)

Insignificant contribution of India to Pakistan's travel services exports

India is not an important destination for Pakistani tourists, less significant than other developing countries in Asia such as Singapore, Sri Lanka and China

Prospects

- Scope to expand bilateral tourism recognized
- Both countries can leverage their cultural, historical, religious and linguistic ties
- Can make bilateral tourism part of a larger tourism diversification strategy where both countries can focus on new markets, especially in South Asia and build goodwill
- Diversification important for Pakistan to counter the fall in tourism inflows from the West
- Currently tourists between the two countries go for religious purpose or to see their place of birth or to visit relatives
- Potential segment of religious and cultural tourism
 - Sikh pilgrims and Hindu pilgrims from India
 - Muslim pilgrims and minority Hindus from Pakistan

- Pakistan Tourism Development Corporation has identified 32 temples, gurdwaras and Sufi shrines as places of worship that could be of interest to pilgrim groups from India
- Renovating important Sikh and Hindu shrines and is improving accommodation facilities at these places
- Sikh pilgrimage tourism is increasingly being seen as an important potential source of foreign exchange earnings for Pakistan
 - In 2011 over 8,000 Sikh pilgrims from India and other countries visited Pakistan to celebrate Guru Nanak's birthday at Nanakana Sahib
 - Sikh pilgrims also visit religious sites in Pakistan on other occasions
 - Sikh yatrees amongst the largest groups of tourists visiting Pakistan
- Plan to build the Baba Guru Nanak International University in Pakistan , award degrees in Sikhism
- Pakistani tourism authorities plan to promote other historical and architectural sites (Buddhist stupas and monasteries) to religious tourists from India
- Other opportunity segments are sports tourism around cricket and family tourism

Constraints

- Visas and poor connectivity main challenges to promoting bilateral tourism trade

(a) Visa and security issues

- Criticism that the Indian government has been restrictive about the issuance of visas and that it applies strict regulations such as reporting requirements on Pakistani tourists who visit religious sites in India, especially post Mumbai attacks
- Lack of consular facilities, need to travel long distances to apply for visas (longer than the actual distance to the desired destination in the other country).
- Lack of a religious corridor between shrines which are very closely located across the two countries
- Hassles of security clearances and other formalities

- Recent steps to ease visa restrictions on select categories of travelers between the two countries an important step
 - Single entry visitor visa for upto 6 months, for no more than 3 months at a time, for five places (up from 3) for visiting relatives, friends, for business or other legitimate purposes
 - Visa issue for upto a year if needed
 - Visitor visa for a maximum of 5 specified places may be issued for upto 2 years, with multiple entries in the case of senior citizens (65+), spouse of a national of one country married to a national of the other country and children below 12 years accompanying parents
 - Faster issuance of transit visas
 - Discussions to allow people to cross the LoC for pilgrimage and cultural reasons
- But fragile initiatives as all cross border trade and travel services suspended following border clashes recently
 - Visa on arrival facility for senior citizens put on hold on account of perceived unequal treatment of Indians, problems with reciprocity

(b) Transport links

- Poor transport connectivity and infrastructure and restrictive bilateral air services agreements (BASAs)
- Absence of an integrated transport infrastructure in South Asia in terms of cross-border road and rail links, poor air connectivity and transit facilities
- Road links have not been successful due mainly to security hassles and visa limitations
- Rail links have run into problems of attacks and disruption of services
- Air links are limited between major cities, capitals of the two countries

Steps needed

- Must lower travel costs between the two countries, improve transport connectivity-surface and air, streamline visa procedures, provide longer duration and more flexible visa arrangements for cross-border travel
- Build on existing intergovernmental tourism initiatives in the region to frame bilateral agreements to promote the joint development of hospitality projects, increase flight frequency, enable cross-border cooperation between travel agents
- Joint marketing and of developing tourism projects around selected themes such as religion, heritage, nature, and geography
- Facilitate investment by hospitality groups in each other's markets
- Intangible benefits in terms of goodwill and confidence building can be large and can provide the stepping stones for further liberalization of trade, investment and people mobility between the two countries

Broader challenges to bilateral services trade

- Overall regulatory and business environment in each country will play a key role in shaping bilateral relations in services as investment presence, movement of factors, “behind the border” domestic regulations critical for services trade
- Doing Business Indicators, Global Competitiveness Report show low rankings for both India and Pakistan
 - Access to electricity, payment of taxes, enforcement of contracts and bankruptcy procedures
- Implies that even if market access in services is provided between the two countries, regulatory and infrastructural factors will limit the actual extent of market entry and operating conditions for investors between the two countries
- Weak regulatory frameworks, lack of institutional capacity are issues must be addressed nationally if bilateral relations are to improve

Services Trade Restrictiveness Indices in India and Pakistan

Country	Label	Overall	Mode 1	Mode 3	Mode 4
India	Overall	65.7	70.75	69.34	
India	Financial	48.1	53.23	50	
India	Telecommunications	50		50	
India	Retail	75		75	
India	Transportation	62.4	50	65.28	
India	Professional	87.5	100	100	70
Pakistan	Overall	28.3	38.54	26.68	
Pakistan	Financial	48.7	59.69	50	
Pakistan	Telecommunications	12.5		12.5	
Pakistan	Retail	0		0	
Pakistan	Transportation	25.3	50	19.44	
Pakistan	Professional	48	8.33	45	55

Source: <http://iresearch.worldbank.org/service/trade/> (accessed Feb 7, 2013)

GATS commitments restrictiveness index

Indicators	India		Pakistan		South Asia
	Time Period	2005-2008	2006-09 Latest	2005-2008	2006-09 Latest
Services Policy					
All service sectors	6.69	6.69	8.97	8.97	10.06
Market access	5.46	5.46	8.90	8.90	8.78
National treatment	7.91	7.91	9.05	9.05	11.33
Business services	2.52	2.52	7.32	7.32	8.03
Communication services	12.08	12.08	16.42	16.42	12.84
Construction/engineering services	4.02	4.02	4.02	4.02	3.80
Distribution services	0.00	0.00	0.00	0.00	9.08
Educational services	0.00	0.00	0.00	0.00	6.79
Environmental services	0.00	0.00	0.00	0.00	11.46
Financial services	6.19	6.19	6.57	6.57	12.88
Health/social services	6.38	6.38	14.89	14.89	7.80
Tourism/travel services	18.20	18.20	24.26	24.26	30.15
Recreational/cultural services	0.00	0.00	0.00	0.00	4.78
Transport services	0.00	0.00	0.00	0.00	2.21
Other services	0.00	0.00	0.00	0.00	0.00
Ease of Doing Business - Rank	126	133	79.50	85	117.3

Source: <http://info.worldbank.org/etools/wti/3a.asp> (accessed on Feb 7, 2013)

Important takeaways

- While initiatives may be undertaken at the bilateral level to promote relations, these will not bear fruit unless regulatory and business environment related constraints within the countries are addressed
 - As long as the business environment within the countries remains difficult due to the lack of infrastructure in basic areas such as transport and power, labour productivity problems, cross border investment is unlikely to take off even if it is liberalized
- Most of the challenges are cross-cutting in nature and have far-reaching implications across goods and services
 - Supply side constraints in the transport and logistics sector constrain the flow of goods and services, investments and people
 - Lack of trade facilitation measures and missing infrastructural linkages between the countries constrain the scope for sub-regional projects
- So, important to address “behind the border” restrictions as these can undermine bilateral initiatives to promote relations

Way Forward

- Two players critical for progress in bilateral relations
- The private sector can provide an impetus by:
 - highlighting the opportunities and benefits of cooperation
 - highlighting costs of non-cooperation
 - building production networks and supply chains
 - pushing for the removal of many non-tariff and regulatory barriers
 - building confidence through initiatives and outcomes
- The governments must show political leadership and vision at the highest level
- But these negotiating frameworks and initiatives must be backed by adequate regulatory, institutional, infrastructural and human resource capacity, by a business friendly environment, and a favourable policy orientation and mindset at the individual country level

- Need an incremental and progressive approach
 - set up working groups on issues and services of common interest and gradually expand ambit of liberalization to cover more services
 - launch pilot projects
 - address cross-cutting issues of investment, regulatory harmonization, labour mobility and connectivity

(i) *Investments*

- Bilateral discussions could specifically focus on:
 - speedier clearances and approval procedures in general; fast track procedures; fast track clearances in selected services
 - provision of regular and updated information on the regulatory framework governing investment in different services
 - information on bidding processes and award of contracts
 - Consider a bilateral investment treaty and double taxation treaties between the countries

(ii) People Mobility

- Bilateral efforts will also need to focus on:
 - facilitating cross country mobility of persons for service delivery and services consumption
 - Simplifying visa procedures and expedite visa approvals for categories such as business visitors, intra-corporate transferees, professionals and academics for bonafide purposes
 - Streamlined processes and speedier approvals for special categories of services consumers, such as medical tourists, students, leisure travelers, and transit travelers
 - Identifying selected bilateral and sub-regional projects to develop road and rail transport links and joint investments in these projects to facilitate connectivity

(iii)Regulatory cooperation

- Institutional and regulatory cooperation required between the two countries at the level of :
 - Governments
 - Regulatory bodies
 - Professional associations
 - Industry associations
 - Research institutions
 - Civil society
- Need to share information, exchange best practices, collect data, conduct joint feasibility and impact analysis studies, identify priority areas for services, develop soft skills, create templates for investment or immigration related initiatives

Phased strategy

- Better to follow an incremental, phased and prioritized approach
- Start with the least contentious services where success is more likely and where there are fewer regulatory complexities that could delay efforts
- Launch pilot projects in these services and address related issues of mobility, infrastructure, etc.
- Successful outcomes in some areas could have a positive demonstration effect
- Use these bilateral arrangements to build confidence and provide practical experience to engage in other areas and on other issues

Thank You