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## Integrating south and southeast Asia through services value chain: The case of India and Thailand

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# **Working Paper 301**

## **Integrating South and Southeast Asia through Services Value Chain: The Case of India and Thailand**

**Arpita Mukherjee**

**Tanu M. Goyal**

**June 2015**



**INDIAN COUNCIL FOR RESEARCH ON INTERNATIONAL ECONOMIC RELATIONS**

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## Abstract

Liberalisation and technological developments have led to the fragmentation of production and the emergence of the concept of global value chains. This has ushered in the role of services for linking the production network, resulting in a greater composition of services in the value of tradable. Consequently, liberalisation of the entire value chain is being addressed through trade agreements for efficient cross-country delivery of goods and services. This has also been the case with South and Southeast Asian Free Trade Agreements. The objective of this paper is to understand the prospects of enhancing services trade, investment and co-operation between South and Southeast Asia, taking the example of India and Thailand, by focusing on the development of services value chains through services sector liberalisation. Based on a primary survey and an analysis of the trade agreements involving India and Thailand, the paper finds that the present level of physical and people-to-people integration is low. This is due to the presence of certain market access barriers and regulatory bottlenecks in the two markets. The evidence suggests that these barriers can be addressed at the institutional level by means of a comprehensive trade agreement. India and Thailand have singularly liberalised key services sectors in their concluded bilateral and regional trade agreements, thereby fostering greater integration and leveraging the development of a global value chain.

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# **Integrating South and Southeast Asia through Services Value Chain: The Case of India and Thailand**

Arpita Mukherjee and Tanu M. Goyal<sup>1</sup>

Traditionally, production of goods was divided in two stages—raw materials and finished goods (Ohlin, 1933). With technological developments and the liberalisation of world economies, production is being fragmented and the concept of global value chains has emerged (De Backer and Miroudot, 2013). This has led to the development of distinct services activities within the global value chain of goods (Brockman and Stephenson, 2012; López *et al.*, 2011).

The composition of services in the value of tradable has been increasing over time. According to World Bank International Trade Statistics, 2014, *“trade in value added show that services take a more pronounced role in international trade. This is because services are increasingly embodied in the production of manufactures; they play a key role in defining the competitiveness of a country’s exports. Additionally, services can be instrumental in helping countries to upgrade to higher value-added tasks in global value chains.”*<sup>2</sup> Services such as logistics services help to increase the global competitiveness of manufacturing through faster end-to-end reliable transportation of goods. In addition, with increasing use of information technology (IT), the rise in outsourcing of services and the development of new business models, the services value chain has evolved to complement the global production networks (Rubalcaba *et al.*, 2011; World Economic Forum, 2012).

One facilitator of production networks and global value chains is the regulatory policies that affect cross-border trade and investment. Realising the importance of these, liberalisation of the entire value chain is now being addressed through trade agreements for efficient cross-country delivery of both goods and services. The most recent trade agreements are comprehensive, covering goods, services, investments, e-commerce and trade facilitation, among others to ensure easier movement of goods and services and to facilitate the creation of a value chain. In the past two decades, South and Southeast Asian countries have signed several comprehensive free trade agreements (FTAs) and they are in the process of negotiating regional trade agreements such as Regional Comprehensive Economic Partnership Agreements (RCEP). The services sector is a key component of these agreements and it is expected that this will lead to integration of the services market and the creation of a services value chain in the region.

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<sup>1</sup> Arpita Mukherjee is a Professor and Tanu M Goyal is a Consultant at ICRIER. Views expressed are personal.

<sup>2</sup> For details see World Trade Organization’s International Trade Statistics, 2014 (p. 3) accessible at [https://www.wto.org/english/res\\_e/statis\\_e/its2014\\_e/its2014\\_e.pdf](https://www.wto.org/english/res_e/statis_e/its2014_e/its2014_e.pdf) (last accessed on May 20, 2015).

Studies have highlighted that fostering connectivity between India and countries in Southeast Asia will not only reduce the service-linked cost of trading goods but also accelerate the development of manufacturing, production networks and value chains. There are broadly three types of connectivity—institutional connectivity, people-to-people connectivity and physical connectivity (Kimura *et al.*, 2011). Studies have also highlighted that cross-country connectivity can be fostered through liberalisation of services trade, either autonomously or through trade agreements (United Nations, 2014).

Given this background, the *objective of this chapter is to understand the prospects of enhancing services trade, investment and co-operation between South and Southeast Asia, taking the example of one country from each region—India and Thailand. It also focuses on development of services value chains through services sector liberalisation.* This chapter introduces the scope of services in creation of global value chains and production networks in the region. India and Thailand have been selected because the two countries are members of the WTO and have concluded or are currently engaged in negotiations of multiple trade agreements that include liberalisation of services. They are also negotiating a comprehensive economic cooperation agreement with each other and have several similarities and complementarities in terms of the services sector.

Bilateral data on trade in services is not readily available for most countries, including India and Thailand. The study is therefore based on a primary survey and an analysis of the literature. The primary survey was conducted in 2012–2013 and covered 180 stakeholders in India and Thailand. These included Indian companies that have operations or are interested in operating in Thailand, Thai companies operating in India or those trying to establish a presence in India, and government officials, sector regulators, associations, professional bodies and sector experts in both India and Thailand. The companies were selected through information provided by the Indian and Thai embassies and industry associations and an Internet search. The survey was based on a semi-structured questionnaire, with some open-ended questions to gather more information. Detailed questions were included to understand the services value chain, prospects for export of new services, the extent of integration of services in the two markets, barriers to services exports and market integration and expectations of the two governments and trade agreements.

## **1. Overview, Composition and Trends in Trade in Services – India and Thailand**

Trade in services is a growing component of global trade. World trade in commercial services has increased manifold—from \$2,905 billion in 2001 to \$9,025 billion in 2013.<sup>3</sup> The share of

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<sup>3</sup> World Trade Organization, International Trade Statistics, 2014 available at [https://www.wto.org/english/res\\_e/statis\\_e/its2014\\_e/its2014\\_e.pdf](https://www.wto.org/english/res_e/statis_e/its2014_e/its2014_e.pdf) and 2012 available at [https://www.wto.org/english/res\\_e/statis\\_e/its2002\\_e/its2002\\_e.pdf](https://www.wto.org/english/res_e/statis_e/its2002_e/its2002_e.pdf) (last accessed on May 18, 2015).

trade in services in world trade was around 33 percent in 2013. Both India and Thailand are key exporters and importers of trade in services. In 2013, India was ranked the 6<sup>th</sup> largest exporter of services with a share of 3.2 percent in world export of commercial services and the 9<sup>th</sup> largest importer with a share of 2.8 percent. In the same year, Thailand was ranked 23<sup>rd</sup> in terms of both export and import with a share of 1.3 percent in each. In 2014, both India and Thailand had a positive trade balance in trade in services; however, the balance for India was higher than for Thailand (Table 1).

**Table 1: India and Thailand Global Trade in Service in 2014 (in US\$ million)**

Sector	India		Thailand	
	Exports	Imports	Exports	Imports
Services	154643.6	-124971.7	55360.0	-53286.7
Goods-related services	320.3	-285.5	..	..
Manufacturing services on physical inputs owned by others	142.8	-15.6	..	..
Maintenance and repair services n.i.e.	177.5	-269.9	..	..
Transport	17955.2	-56032.0	5757.3	-26716.6
Travel	18602.3	-12679.3	38447.4	-6951.9
Other services	115401.8	-48626.0	11155.3	-19618.2
Construction	1524.6	-1171.5	613.1	-761.5
Insurance and pension services	2181.9	-5695.0	81.7	-2708.2
Financial services	6530.1	-4833.6	178.4	-170.0
Charges for the use of intellectual property n.i.e.	697.8	-4278.5	212.1	-3971.4
Telecommunications, computer and information services	55398.0	-3911.9	531.6	-707.9
Other business services	47269.1	-26824.1	9125.2	-10967.4
Personal, cultural, and recreational services	1291.4	-996.9	61.2	-19.3
Government goods and services n.i.e.	509.0	-914.5	351.9	-312.7
Services not allocated	2364.1	-7348.9	..	..
Memo item: Commercial services	154134.7	-124057.2	55008.1	-52974.1
Memo item: Other commercial services	114892.8	-47711.5	10803.5	-19305.6

Source: Extracted from UNCTAD statistics accessible at <http://unctad.org/en/Pages/Statistics.aspx> (last accessed on May 20, 2015).

To evaluate the global competitiveness of India and Thailand in specific services sectors, their Revealed Comparative Advantage (RCA) was calculated.<sup>4</sup> The RCAs for three different years as

<sup>4</sup> Revealed Comparative Advantage (RCA) is used to examine and assess the pattern and specialisation of a country and therefore its global competitiveness in a particular sector *vis-à-vis* the rest of the world. To analyse the export competitiveness of different services of India and Thailand *vis-à-vis* the rest of the world, we used the Balassa index. The formula is:

$$RCA_{ij}^4 = (x_{ij}/X_{it}) / (x_{wj}/X_{wt})$$



given in Table 2 shows that in 2012, India had a comparative advantage in computer services and other business services *vis-à-vis* the rest of the world, whereas Thailand had a comparative advantage in travel services. Since the two countries have comparative advantages in different services sectors, there is scope for enhancing bilateral trade.

**Table 2: RCAs of India and Thailand in Exports of Services**

Service Sectors	India					Thailand				
	2001	2005	2010	2011	2012	2001	2005	2010	2011	2012
Communications	2.79	1.27	0.51	0.50	0.51	0.37	0.40	0.55	0.51	0.41
Computers and Information	9.72	6.88	5.81	5.52	5.38	0.00	0.02	0.01	0.01	0.02
Construction	0.18	0.38	0.17	0.25	0.24	1.10	0.59	0.54	0.43	0.36
Financial	0.29	0.44	0.65	0.63	0.58	0.00	0.04	0.04	0.06	0.08
Government services	1.46	0.18	0.23	0.25	0.20	0.33	0.35	0.41	0.41	0.39
Insurance	0.85	0.76	0.58	0.84	0.78	0.35	0.00	0.08	0.17	0.35
Other business services	0.61	1.51	1.10	1.11	1.25	0.79	0.82	0.75	0.61	0.59
Personal, cultural and recreational	0.00	0.53	0.33	0.30	0.47	0.00	0.29	0.29	0.36	0.22
Royalties and Licence fees	0.04	0.01	0.02	0.03	0.03	0.01	0.03	0.07	0.06	0.07
Transportation	0.60	0.47	0.47	0.52	0.50	1.05	1.00	0.84	0.70	0.60
Travel	0.60	0.47	0.47	0.52	0.50	1.77	2.09	2.41	2.67	2.72

Source: Calculated by the authors from various tables extracted from ‘International Trade: Services’, UNCTADSTAT available at

<http://unctadstat.unctad.org/ReportFolders/reportFolders.aspx> (last accessed on October 8, 2013).

Note: N.A.= ‘data is not available’.

### ***1.1 Bilateral Trade in Services: India and Thailand***

India does not have disaggregated data on India–Thailand bilateral trade on services. The data provided by the Bank of Thailand was only for two years (2009 and 2010) and is outdated. Nevertheless, it shows that bilateral trade is declining. In 2009 bilateral services trade was valued at \$692 million, but in 2010 it declined to \$520 million. However, Thai services imports from India have increased—from \$127 million in 2009 to \$132 million in 2010. Over the years, the

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where  $x_{ij}$  and  $x_{wj}$  are the values of a country’s exports of services sector  $j$  and the world’s exports of services sector  $j$ , and  $X_{it}$  and  $X_{wt}$  refer to the country’s total exports and world total exports.

trend in bilateral trade in services between India and Thailand has changed. In 1990 and in 2000, Thailand had a negative trade balance with India, but this was reversed in 2010. The bilateral trade data for only two years does not allow us to draw conclusions. The Indian government has recently started a survey for bilateral trade data collection and is trying to design a regulatory framework for collecting bilateral trade data.

## ***1.2 Investment Flows***

Over the years, the FDI inflows and outflows of India and Thailand have increased. In 2012, FDI contributed around 2.4 percent to the GDP of both countries.<sup>5</sup> In India, the services sector has a large share in FDI inflows (64 percent between 2000 and 2012), while in Thailand the manufacturing sector is a large recipient of FDI. In Thailand, the percentage of services in FDI inflows in services was 20.4 percent in December 2000 and it increased to 31.2 percent in June 2011.<sup>6</sup>

The major investors in India are Mauritius, Singapore, the US, the UK and Japan. Between April 2000 and July 2013, FDI inflows from these five countries was valued at \$141 billion and contributed 70.4 percent to India's total FDI inflows.<sup>7</sup> Japan, the Netherlands, the US, Hong Kong China and Singapore are the major investing countries in Thailand. In June 2011, these countries contributed 56.6 percent to Thailand's net FDI inflows.<sup>8</sup>

In July 2000, India and Thailand signed the Bilateral Investment Promotion and Protection Agreement (BIPA),<sup>9</sup> which came into force on July 13, 2011. Its objective is to promote and protect the interests of investors and to create conditions that foster greater investment by investors of one country in the territory of the other country. The two countries also signed a Double Taxation Avoidance Agreement (DTAA)<sup>10</sup> on March 22, 1985, which came into force on June 27, 1986.

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<sup>5</sup> World Bank (2013).

<sup>6</sup> Calculated by the authors from Table EC\_XT\_027: Net Flow of Foreign Direct Investment Classified by Sectors 1/2/3 (From 2010 to 2011), Bank of Thailand, available at <http://www2.bot.or.th/statistics/BOTWEBSTAT.aspx?reportID=77&language=ENG>

<sup>7</sup> DIPP FDI Factsheet, July 2013.

[http://dipp.nic.in/English/Publications/FDI\\_Statistics/2013/india\\_FDI\\_July2013.pdf](http://dipp.nic.in/English/Publications/FDI_Statistics/2013/india_FDI_July2013.pdf)

<sup>8</sup> Calculated by the authors from Table EC-XT\_25: Net Flow of Foreign Direct Investment by Country 1/2/3, Bank of Thailand, <http://www2.bot.or.th/statistics/ReportPage.aspx?reportID=74&language=eng> (last accessed on October 9, 2013).

<sup>9</sup> For details, see [http://finmin.nic.in/bipa/bipa\\_index.asp](http://finmin.nic.in/bipa/bipa_index.asp) (last accessed on December 8, 2011).

<sup>10</sup> The agreement covers taxes on income proposed on behalf of each contracting state. It also provides reduced tax rates on dividends, interest, royalties, technical service fees, etc. received by residents of one country from those in the other.

Despite these agreements, both 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. During this period, Thailand was the 38<sup>th</sup> country in terms of investment inflows into India, accounting for 0.06 percent of the total FDI inflows.<sup>11</sup> The services sector (including construction, telecommunications, information, trading and hotel and tourism) accounted for the major share of FDI inflows.

In recent years, India's FDI outflow to Thailand has increased. India is now among the top-20 investors in Thailand. From 1970 to 2010, the total investment from India to Thailand was \$702 million<sup>12</sup> (22,443 million Baht).<sup>13</sup> In 2010, India invested \$60 million (1,906 million Baht), which accounted for 0.66 percent of total FDI inflows into Thailand.<sup>14</sup> Since 1970, cumulative approved FDI from India to Thailand was over \$1.5 billion.<sup>15</sup> Most of the Indian investment in Thailand has been concentrated in the manufacturing sector, and since 2007 the services sector has accounted for only around 9 percent of the total FDI from India to Thailand.

Overall, the analysis of the secondary data shows that bilateral trade and investment in services between India and Thailand is small but growing and there are trade complementarities.

### ***1.3 Reforms in the Services Sector and Creation of Value Chains***

The services sector has the major share in the value added to the GDP in both India and Thailand. In the case of India, with a share of 51.3 percent in 2013, services accounted for more than 50 percent of the value added in GDP. Compared to this, in Thailand services accounted for 45 percent of the value added in GDP in the same year.<sup>16</sup> The growth of the services sector in the two countries is linked to reforms and liberalisation that the countries initiated in the 1990s. In India service sector reforms have been part of the overall economic reform process that began in the early nineties due to the balance of payments crisis. India took assistance from the International Monetary Fund (IMF) and, as part of the conditions, it embarked on an ambitious reform process. The core features of the reform were dismantling public monopoly in sectors such as air transport, telecommunications and financial services and allowing private and foreign investment. Most services have been liberalised in a phased manner. Except for a few services sectors such as multi-brand retail, legal, postal, banking, insurance and railways where there are full or partial FDI restrictions, almost all the other services sectors have been opened up for

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<sup>11</sup> DIPP FDI Factsheet, July 2013.

[http://dipp.nic.in/English/Publications/FDI\\_Statistics/2013/india\\_FDI\\_July2013.pdf](http://dipp.nic.in/English/Publications/FDI_Statistics/2013/india_FDI_July2013.pdf)

<sup>12</sup> Exchange rate for 2010, 1 Thai Baht = \$0.313 (average), <http://www.oanda.com/currency/historical-rates/>

<sup>13</sup> BOI (2010).

<sup>14</sup> BOI (2010) and information provided by the Indian Embassy in Thailand.

<sup>15</sup> Information provided by the Indian Embassy in Thailand.

<sup>16</sup> World Bank, World Development Indicators Database available at <http://databank.worldbank.org/data/> (last accessed on May 18, 2015).

foreign investment. Public-private partnerships have been encouraged in several sectors, especially infrastructure services, to improve efficiency, productivity, quality of services and global competitiveness. The government is in the process of streamlining rules and regulations in the services sector to facilitate foreign and domestic investment. Despite the liberalisation, services continue to face FDI and other regulatory restrictions in India.

Thailand also started liberalising its services sector in the 1990s when it faced the Asian financial crisis in 1997. To tackle the crisis, the Thai government implemented a comprehensive economic reform programme that was part of its IMF loan conditions and focused on macro-economic stabilisation and structural reforms in the corporate and financial sectors. As part of the IMF package requisites, the government opened up the financial sector (with full ownership of 100 percent) to foreign nationals for 10 years. The retail sector was also opened up for foreign investment. Several laws such as the Bankruptcy Law (1940) and the Foreign Business Act, B.E. 2542 (A.D.1999) were amended or passed in 1999. The government also started deregulation of state-owned enterprises in state-dominated utilities such as telecommunications, transportation, water and energy.

Even after a decade of reforms and autonomous liberalisation, both India and Thailand have restrictive FDI regimes in services. Compared to India, Thailand has a more restrictive regime for foreign investment in services.<sup>17</sup> Foreign investment is governed by the Foreign Business Act, B.E. 2542 (A.D.1999), which gives a negative list of sectors for investment and allows up to 49 percent foreign ownership.

Services sector reforms in both countries have enhanced the role of services in their global value chain and production networks. The OECD gives data on value added<sup>18</sup> by other countries in the exports of a particular country. In 2009, countries in East and Southeast Asia contributed to about 4.6 percent of the value added embodied in India's exports. Among ASEAN countries, Thailand is the third largest in terms of value addition, with about \$24.41 million or 20 percent of the value added by ASEAN member states (Table 3).

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<sup>17</sup> Sally (2005).

<sup>18</sup> Trade in value-added is a statistical approach used to estimate the source(s) of value (by country and industry) that is added in producing goods and services for export (and import). It recognises that growing global value chains mean that a country's exports increasingly rely on significant intermediate imports (and, so, value added by industries in upstream countries). For example, a motor vehicle exported by country A may require significant parts, such as engines and seats, produced in other countries. In turn, these countries will use intermediate inputs imported from other countries, such as steel and rubber, to produce the parts exported to A. The Trade in value-added approach traces the value added by each industry and country in the production chain and allocates the value added to these source industries and countries.

**Table 3: Value Added Embodied in Exports of India by Select Countries in 2009**

Source Country/Region	Value Added in US\$ Million
Europe	689.429
United States	239.672
East and Southeast Asia	433.315
East Asia	310.427
ASEAN	122.888
Singapore	38.748
Indonesia	25.215
Thailand	24.414
Malaysia	21.59
Viet Nam	4.975
Philippines	4.861
Brunei Darussalam	2.795
Cambodia	0.291
<b>Total</b>	<b>9387.274</b>

Source: Extracted from OECD Database on Global Value Chain Indicators available at <http://stats.oecd.org/Index.aspx?DataSetCode=TIVAORIGINVA#> (last accessed on May 19, 2015)

Thailand's value added in India's exports has been the highest in wholesale and retail trade, hotels and restaurant services and the manufacturing sector (Table 4). This suggests the possibilities of creating a global value chain in certain services sectors between India and Thailand such as hotel and restaurant services.

**Table 4: Sector-wise Value Added by Thailand in India's Exports in 2009**

Sector	Value Added (US\$ million)
Wholesale and retail trade; hotels and restaurants	8.457
Manufacturing nec; recycling	4.678
Basic metals and fabricated metal products	2.611
Chemicals and non-metallic mineral products	2.023
Transport and storage, post and telecommunication	1.41
Electrical and optical equipment	1.307
Agriculture, hunting, forestry and fishing	0.745
Electricity, gas and water supply	0.509
Textiles, textile products, leather and footwear	0.481
Wood, paper, paper products, printing and publishing	0.431
Mining and quarrying	0.406
Financial intermediation	0.358

Sector	Value Added (US\$ million)
Transport equipment	0.345
Business services	0.26
Food products, beverages and tobacco	0.223
Machinery and equipment, not elsewhere classified (nec)	0.135
Other services	0.026
Construction	0.01
<b>Total</b>	<b>24.415</b>

*Note:* Services sectors are shaded in grey.

*Source:* Extracted from OECD Database on Global Value Chain Indicators available at <http://stats.oecd.org/Index.aspx?DataSetCode=TIVAORIGINVA#> (last accessed on May 19, 2015).

Within ASEAN, Singapore is one of the largest contributors to the value added in India's exports, and India already has a comprehensive agreement with the country. India is now negotiating trade agreements with Thailand, which is also a key contributor to global value added in India's exports. It is likely that bilateral agreement can facilitate trade and investment in both intermediate and finished goods and services between the two countries and help in creation of value chain. This helps in the creation of global value chains. Since data on bilateral trade in services is not available for the two countries, a primary survey was conducted to understand the trade patterns and barriers to integrating the services sectors in the two countries. The findings are discussed in the following section.

## 2. Primary Survey: Key Findings

A primary survey was conducted in both India and Thailand to understand the trends and potential for enhancing bilateral trade and investment. Participants were asked detailed questions on their modes of entry and operation in each other's market, the market potential they visualise and the barriers they face. Participants were also asked for their views on market integration and the role of trade agreements in achieving the same.

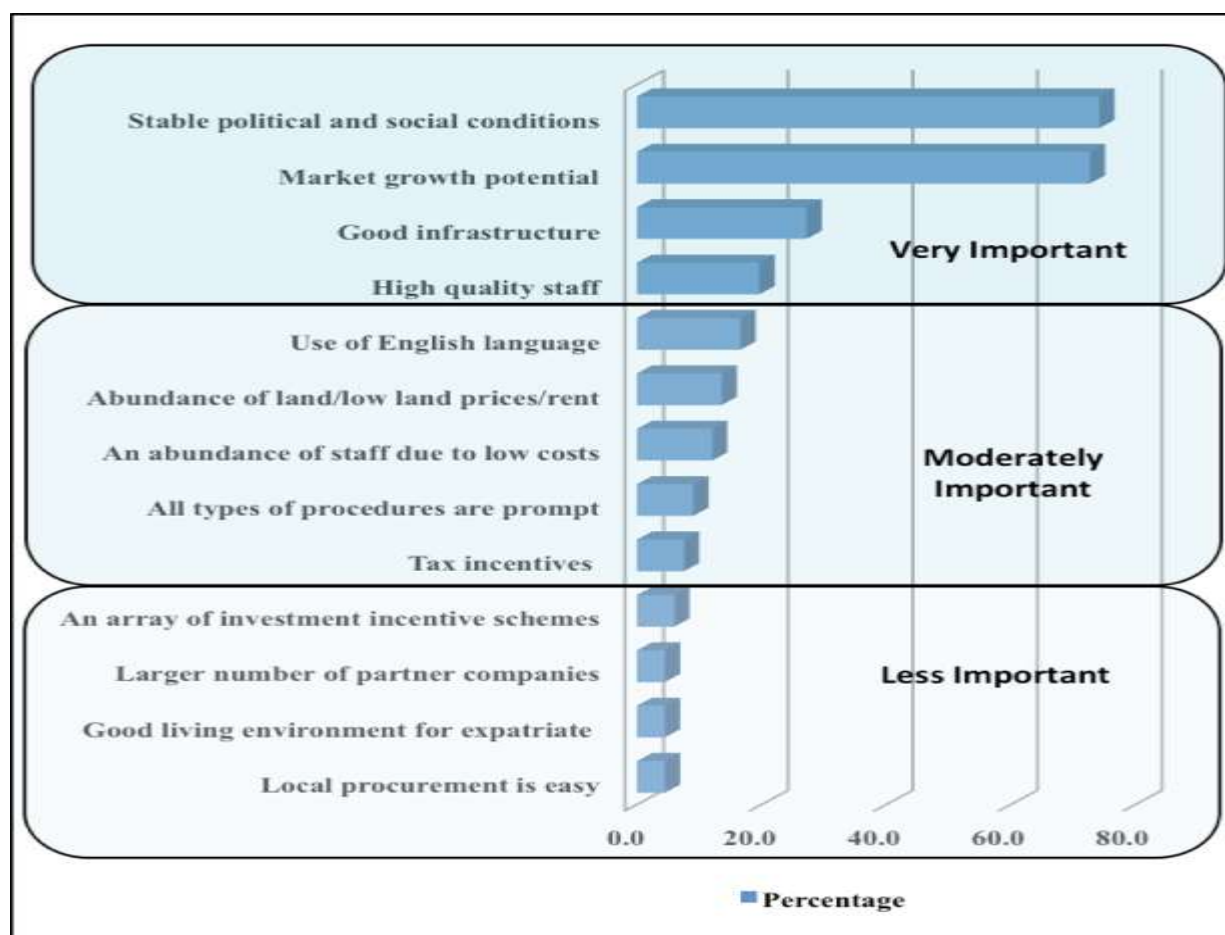
The survey found that Indian companies have a greater presence in Thailand in the services sector than Thai companies in India. In general, Thai companies operating in the services sector are less globalised than Indian companies and they prefer to operate within the ASEAN region. Indian companies in Thailand largely concentrate on services sectors such as construction services, while Thai companies in India are in sectors such as hotels and restaurants.

### 2.1 Broad Survey Findings

In terms of the nature of enterprise, of the 59 Indian companies interviewed, about 51 percent operates in Thailand through agents and distributors, 34 percent has wholly-owned subsidiaries and the remainder have joint ventures. Only 10 Thai companies responded to the survey, of which 8 have wholly owned subsidiaries.

When asked about the factors determining their decision to invest, Indian companies emphasised stable political and social conditions and market growth potential (Figure 1). Investment incentives/ FDI regime is ranked lower, since there are no major investment incentives in services and there are FDI restrictions in Thailand. It is difficult for expatriates to own land, get citizenship, etc., in Thailand and this is reflected in the survey rankings. The Thai companies in India also gave preference to stable political and social conditions as very important factors in determining investment decisions in India. India's large domestic market, growing consumer base and high-quality staff are other important factors.

**Figure 1: Factors Determining Investment Decisions for Indian Companies in Thailand**



Source: Authors' analysis from the survey.

Of the 59 Indian companies, about 48 percent gets projects in Thailand through agents, 14 percent through international competitive bidding, 10 percent through their joint venture partner, 7 percent through advertisements and the remaining companies through their networks. Fifty-one percent of Indian companies pointed out that registration from the government of Thailand has been the most important requirement for entering/operating in Thailand. About 17 percent of the companies said that other licences such as export licences and sector-specific licences for sectors

such as banking, freight forwarding, health and construction services are required to operate in Thailand. These are key supporting services for production networks.

A large percentage of Indian companies (82 percent) that operate in Thailand have a presence in other ASEAN countries. Of these, about 33 percent (19) have operations only in Singapore, 17 percent (10 companies) have operations in two ASEAN countries—Singapore and Malaysia—and 9 percent (5 companies) have operations in three other ASEAN countries—Singapore, Malaysia and the Philippines. Thus, entry and presence in Thailand is part of the companies' overall strategy to expand in the ASEAN region.

When asked about the workforce and employees, the majority of the Indian and Thai companies were satisfied with the each other's skilled workforce. Around 68 percent of Indian companies said they were fully satisfied with the skill level of Thai workers, 18 companies said that they face difficulties due to their lack of knowledge of English, and the rest did not comment. More than 70 percent of Indian companies send employees to Thailand, and the majority of them apply for work permits.<sup>19</sup> All the Thai companies interviewed were fully satisfied with Indian workers and their skills.

When asked about the scope for collaboration in third-country markets, about 30 percent pointed out that there is scope for India–Thai collaboration in European countries, the US, Australia, Canada and ASEAN countries, such as Singapore, Malaysia and the Philippines, through joint ventures. Companies agreed that joint ventures and collaboration could lead to wider market integration and enable companies to complement each other's strengths. The participants further pointed out that India's services trade agreement with ASEAN (signed in September 2014) and ASEAN market integration in 2015 are likely to increase India–Thailand services trade and India's trade with ASEAN. However, for this to happen barriers to market entry, operations and regulatory hurdles have to be addressed. Both Indian and Thai companies felt that the present agreement in services between India and ASEAN is not very comprehensive and therefore the India–Thailand CECA will be beneficial only if it has substantial services sector coverage and can go beyond the autonomous level of liberalisation. This is a key input, as it will support the development of the value chain within ASEAN and in other markets where both Thai and Indian companies have a presence.

## ***2.2 In-depth Survey of Select Services Sectors***

This section focuses on services sectors where there is scope for enhanced trade, investment and collaboration. These are infrastructure services such as transport and logistics,

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<sup>19</sup> According to statistics shared by Thailand, few Indian professionals received Thai work permits in 2010: 176 in engineering; 13 for medical services (doctors, nurses, physiotherapists); 2–3 for architects; and 2–3 for accountants/ auditors/ tax specialists, etc.



telecommunications, banking and IT and ITeS services (where India has emerged as a global leader); movement of professionals; and specialised skills such as spa workers.

To enhance trade in services and investment flows and to encourage market integration and the development of value chains, there are three types of connectivity—physical connectivity, people-to-people connectivity and institutional connectivity (Kimura *et al.*, 2011).

**2.2.1 Physical Connectivity** is crucial for integrating the South and Southeast Asian markets and developing production networks and service value chains. In the specific case of India and Thailand, there has been a significant amount of research and policy papers on transport and logistics connectivity, the establishment of communications networks and financial linkages (ADB, 2008, 2009; De, 2011; Kimura *et al.*, 2011). At the 11<sup>th</sup> India–ASEAN Summit in Brunei Darussalam on October 10, 2013, the Indian Prime Minister pointed out that **transport connectivity** is a strategic priority for the India–ASEAN relationship. The land route from India to ASEAN is through Thailand where Myanmar plays an important role. The two main links connecting India and Thailand are:

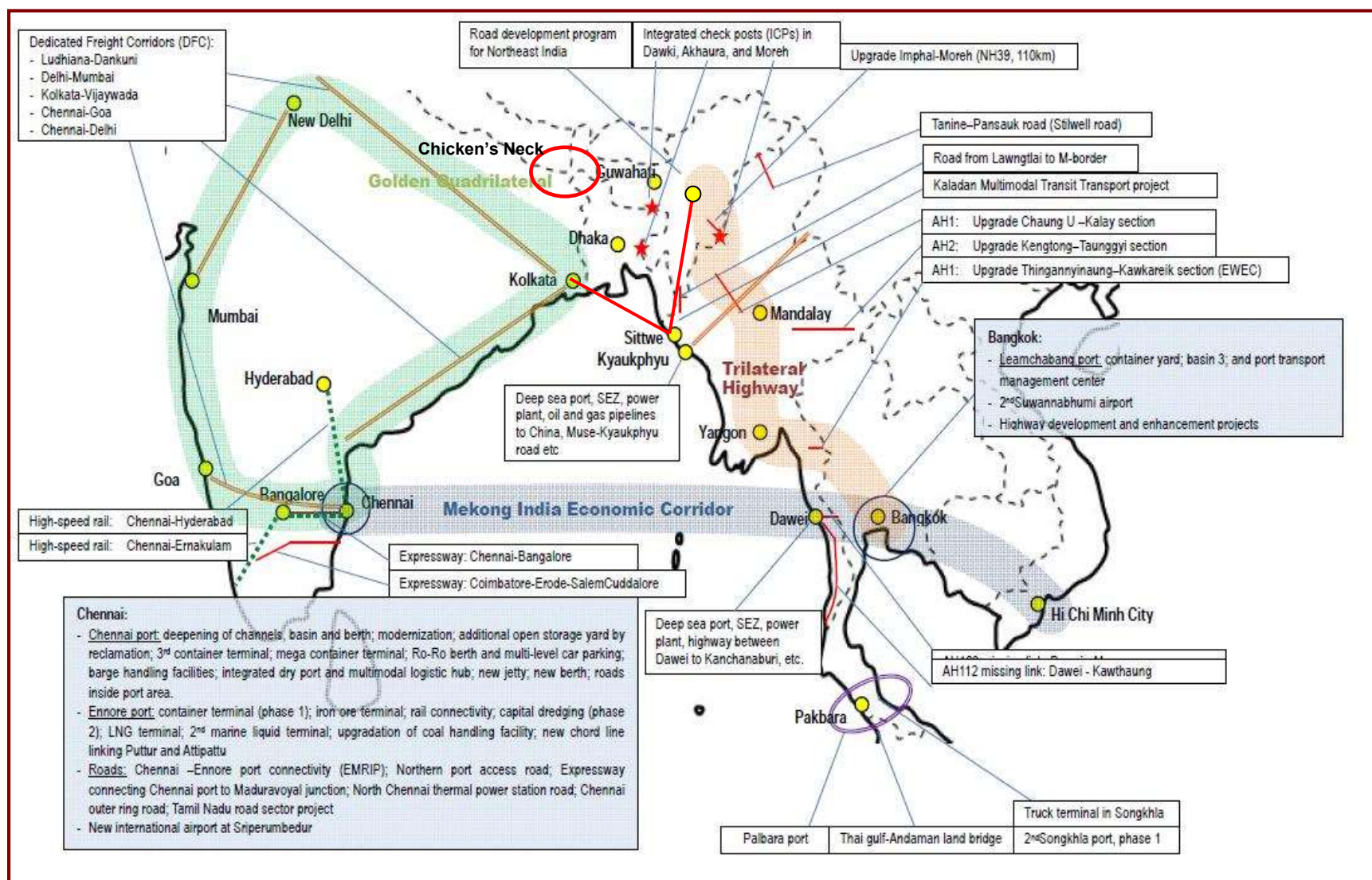
- a. India–Myanmar–Thailand Trilateral Highway (IMTTH): India can be connected to Thailand by road from the northeast of India through Myanmar. The IMTTH is a cross-border transportation network being financed by the governments of India, Myanmar and Thailand. It links Moreh (in Manipur, India) with Mae Sot (in Tak, Thailand) through Bagan (in Mandalay, Myanmar).
- b. Mekong–India Economic Corridor (MIEC): The corridor will link Chennai (India) with Bangkok (Thailand) through Dawai port (Myanmar) (Figure 2). MIEC will be an extension of the Southern Economic Corridor from Myanmar and Thailand to other ASEAN countries such as Cambodia and Vietnam.

The survey found that India and Thailand have to develop their domestic transport and logistics infrastructure to benefit from these two projects. Specifically, for the trilateral highway, there is a need for greater connectivity between the northeast regions in India with the rest of the country. At present, northeast India is connected with the rest of India through a 26-kilometre road from Siliguri that is called Chicken’s Neck (Figure 2). Development of this highway faces problems such as land acquisition and state government clearances. If India has to integrate with the ASEAN market, it should develop dedicated freight corridors, especially the Chennai–Kolkata Corridor. The Delhi–Mumbai industrial corridor is under construction and the proposed Chennai–Bangalore–Mumbai corridor will provide seamless connectivity. Survey participants said that India should focus on developing two hub ports—one on the west coast and the other on the east coast—and link them through dedicated freight corridors if the country wants to be part of the global production network. The Chennai port is one of the most active ports in India and is the gateway to ASEAN countries. Therefore, there is a need to develop the infrastructure of this port. However, the capacity of the Chennai port is limited, which may constrain future

development. Similarly, the Thai ports have to be developed and connected to industrial corridors.

The survey found that there is potential for India–Thai joint ventures in transport and logistics projects through a public-private partnership (PPP) model. Thailand is strategically located to become a trans-shipment hub between South Asia, Southeast Asia and East Asia. If the country can be connected with Myanmar through the land route, it can become an important channel of transportation between China, India and the CMLV countries (Cambodia, Myanmar, Laos and Vietnam) as well as with Malaysia and Singapore. The survey found that there is strong support from both the Indian and Thai governments for transport and logistics development. The first meeting between India and the ASEAN Connectivity Co-ordinating Committee was held in December 2012. The Indian Prime Minister also proposed an ASEAN–India Transit Transport Agreement by 2015 that will facilitate trade and transport. The numerous bottlenecks to transport connectivity are discussed in Section 3.

**Figure 2: Select Infrastructure Projects for ASEAN–India Connectivity**



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

**Telecommunications** is another key sector for market integration. India and ASEAN are already co-operating in several communication projects including satellite tracking and broadband connectivity. The survey found that the telecommunications sectors in India and Thailand are at different levels of development. In both countries, telecommunications used to be a government monopoly, but the privatisation process has been much faster in India. Unlike India, a telecommunications regulator has only recently been constituted in Thailand. In both countries, the role of the regulator is limited—it can give recommendations but such recommendations need not be implemented. In Thailand, the majority of the infrastructure is still owned and controlled by the government and the telecommunications sector works on a build-transfer-operate (BTO) model where the infrastructure is created by the private sector and then transferred to the government. In India, mobile telecommunications has a strong private presence and, compared to Thailand, the foreign investment and regulatory regime is more open.

At present, there is limited presence of Thai and Indian companies in each other's market. Indian companies such as Matrix Cellular International Service Private Limited and IDEA Cellular Limited are investing in telecommunications infrastructure in Thailand through joint ventures. Bharti Enterprises has a wholly owned subsidiary in Thailand that provides data services. The Thai telecommunications market is quite saturated and Indian companies feel that investment opportunities are limited. There are no Thai companies in India in the telecommunications sector.

Survey participants pointed out that call rates between India and Thailand are high, Internet penetration in the two markets is low, broadband connectivity is poor and both countries have not subscribed fully to the WTO Reference Paper on Telecommunications that aims to establish a sound regulatory regime. They felt that there is scope for developing telecommunications infrastructure connecting the two markets. Specifically, they referred to the scope for broadband connectivity through Myanmar or an undersea cable from India connecting the Andaman and Nicobar Islands to the southern Islands in Thailand, such as Phuket and Krabi. It was also pointed out that Indian companies have potential in software development and could jointly work with Thai telecommunications companies in telecommunications-related R&D software programming and maintenance.

The **banking and financial services** value chain is closely linked to the production value chain (Brockman and Stephenson, 2012). The survey showed that with the growing commercial integration between the two markets, there is a need for greater financial integration for easier flow of funds.

Thailand is undergoing financial sector reforms. In 2002, after the Asian financial crisis the Bank of Thailand (BoT) and the Ministry of Finance structured the Financial Sector Master Plan (FSMP), which was divided into three phases. In the first phase, foreign banks were allowed to open two branches; subsidiaries established between 2004 and 2008 under the first phase are

entitled to open up to five bank branches, including a headquarter office. At present, Thailand is in the second phase of the FSMP (2010–14). In 2010, the BoT allowed foreign banks to open 20 more branches in Thailand, and in 2012 it allowed foreign banks to go through the subsidiary route and open 20 branches with a minimum capital requirement of 10 billion Baht. Up to 49 percent foreign participation is allowed in the Thai banking sector.

The Indian banking sector is more open than in Thailand. The aggregate foreign investment from all sources in a private bank is a maximum of 74 percent of the paid-up capital of the bank. In public sector banks, the overall statutory limit on FDI and portfolio investment is 20 percent through the Foreign Investment Promotion Board (FIPB) route. A foreign bank is allowed to operate in India through one of the three channels: (i) branches, (ii) a wholly owned subsidiary and (iii) a subsidiary with aggregate foreign investment up to a maximum of 74 percent in a private bank.

Indian Overseas Bank has a branch in Thailand, while ICICI Bank and the Bank of Baroda have representative offices there. The Bank of Baroda has been trying (since August 2005) to get a licence for a subsidiary office but has not been successful. Only one Thai bank—Krung Thai Bank—is present in India.<sup>20</sup>

According to the rules of the Reserve Bank of India (RBI), Indian banks have to maintain a ratio between national and foreign branches. An Indian bank can allow five countries to open joint ventures and subsidiaries and, therefore, Indian banks have to carefully select their foreign destinations. The return on investment in Thailand is low and therefore, several Indian banks are not keen on establishing operations in Thailand.

With the growing inter-Asia trade, the idea of a common Asian currency has been mooted. However, survey participants felt that a common currency would not be feasible in the near future. Financial market integration happens in a phased manner and in the first phase there is a need to share information about the banking and financial systems and regulatory co-operation between the Indian and Thai central banks. They pointed out that the ASEAN Financial Integration Plan for 2015 is likely to lead to greater integration in the ASEAN region.

**IT and ITeS** is the most important component of India's services sector growth and accounted for over 33 percent of services exports and around 18.5 per cent of India's total trade in services in 2012.<sup>21</sup> Indian companies are moving up the value chain and are focusing on market diversification and expansion of their products and services. After India signed the CECA with Singapore, several Indian IT companies have established their base in Singapore to cater to

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<sup>20</sup> As on September 30, 2013 as per the RBI list accessible at <http://rbidocs.rbi.org.in/rdocs/Content/pdfs/71207.pdf> (last accessed on May 28<sup>th</sup> 2015)

<sup>21</sup> Calculated from UNCTAD Statistics.

ASEAN countries including Thailand on a project basis. Thailand is not a major IT/ITeS services exporter, but the domestic market is large and less saturated than other ASEAN countries.

In both India and Thailand, the IT/ITeS sector is projected to grow at a rapid pace. In India it is projected to grow at a compound annual growth rate of 13–15 per cent during 2014 and the projection for Thailand is 13 per cent for 2010–2014 (NASSCOM, 2014). Thai companies use international products such as Microsoft and Oracle and the associated software is imported from developed countries such as the US. Often, an Indian company's entry in Thailand is due to the presence of its global client in Thailand.

In India, 100 percent FDI is allowed in the IT/ITeS sector, while Thailand allows only 49 percent FDI. Due to the FDI restrictions and language issues, the survey found that only a few Indian companies operate in Thailand. Some companies operate through agents and provide services to sectors such as banking and telecommunications. Indian companies mainly do software project implementation, training and maintenance. They pointed out that there is scope for Indian companies to diversify their industry and services base and provide IT/ITeS services in Thailand in sectors such as logistics and supply chain management and content for telecommunications. A large number of second or third generation Thai of Indian descent provide low-end IT/ITeS services.

Participants pointed out that since the Thai government plays a major role in the IT sector, an inter-government agreement between India and Thailand in areas such as e-governance could benefit Indian companies. In 2009, Thailand's government outlined several projects to help close the digital divide. For software development, the Thai government has announced a series of measures to support the local software industry. The Software Industry Promotion Agency (SIPA) has led 'Buy Thai First' campaigns to persuade local SMEs to buy Thai-developed software and has lobbied with the government to give tax incentives to local developers. Similarly, the Indian government has initiated a policy of 30 percent local content for the hardware and electronics sector. This will link services delivery with local manufacturing and, thereby, impact trade patterns. However, survey participants were not sure whether such impacts would be positive or negative for service providers.

**2.2.1 People-to-people Connectivity** in terms of easier movement of professionals and workers facilitates bilateral trade and market integration. The movement of professionals is a key component of India's trade agreements, while Thailand seeks market access for certain specialised skills under its trade agreements. These two types of movements are examined below.

**Professional services** has become an important component of India's services exports and it has the second largest share in India's export basket after IT/ITeS services. The country has a large educated workforce that can provide services at competitive rates. The supply of professionals in

Thailand is much lower. Both India and Thailand are defensive about opening up their respective domestic markets to foreign professionals and have imposed several restrictions, such as nationality and residency requirements and requirements to register with professional bodies. The domestic market is virtually closed to foreign professionals in India and Thailand in sectors such as legal and accountancy services.

The survey found that the movement of professionals between the two countries is limited. Survey participants pointed out that although the skill levels in professions such as engineering, and management consultancy are higher in India and there is a demand in Thailand for these skills, bilateral trade will not increase unless market access and regulatory barriers to trade are addressed. In the past eight years, citizenship has not been given to any Indian applicant in Thailand. Thai professional bodies fear that a large inflow of professionals from India may adversely impact the employment prospects of the local workforce. Some Indian professional bodies such as the Bar Council of India and the Council of Architecture have expressed a similar fear. Thus, professional bodies in both countries lobby against the removal of entry barriers for foreign professionals. Participants also pointed out that since the qualification requirements and standards in the two countries differ and they have limited knowledge about each other's market, there is a need for greater interaction and sharing of knowledge among professional bodies. For instance, the Institute Chartered Accountants of India can share information with the Institute of Certified Accountants and Auditors of Thailand. There is a shortage of management professionals in Thailand and the Institute of Management Consultants of India has expressed an interest in collaborating with the Institute of Management Consultants, Thailand for easier movement of professionals. The Dental Council of India also pointed out that there is scope for mutual recognition agreements (MRAs) between the professional bodies of the two countries for recognition of each other's qualifications in the areas of dentistry and nursing.

Workers with specialised skills such as cooks, spa workers and yoga instructors are covered under 'other categories' in services trade agreements. India and Thailand have developed competence in alternative medicine (for example, *ayurveda*) and beauty treatments. In Thailand, traditional spa, massage, etc. are an important contributor to revenue and employment, while India is globally recognised in yoga. The two countries share complementary skills and are keen to export such specialised skills to foreign markets. These skills are closely linked to the cultural, tourism and healthcare services sectors.

Thailand is known as the 'Spa Capital of Asia' and after establishing their presence in the ASEAN region, the Middle East and developed country markets, Thai companies and spa workers are keen to explore the Indian market. There is significant scope for collaboration in this sector. For example, yoga instructors can combine with spa service providers to set up integrated wellness centres not only in India and Thailand but also in third countries. Companies from the two countries can jointly offer medical treatment packages linking the two markets.

The survey found that there is a demand for Thai spa specialists in India. Indian companies pointed out that Thai products are of good quality and Thai therapists have a good customer interface. There is also a shortage of spa therapists and experts in India due to which Indian companies such as Kaya Skin Clinic and VLCC get trainers from Thailand to train their staff. However, due to the minimum salary requirements of US\$2500 in India, it is not profitable to employ spa specialists from Thailand on work permits, so they usually come on tourist visas for 6 months, which impacts the continuity of their services. It is also a misuse of market entry regulations. The survey participants pointed out that to enhance bilateral trade there should be collaboration between the Indian Spa and Wellness Association and the Thai Spa Association and between the Association of Beauty Therapy and Cosmetology, India (which has around 82 Thai members) and the Siamese Association of Beauty Therapy, Thailand.

**2.2.3 Institutional connectivity** through sharing of knowledge, regulatory synergies, etc., is key to the success of a trade agreement. Such connectivity can be at different levels—government-to-government, between professional bodies of the two countries, between industry associations, between government and businesses and between businesses and businesses. It can be bilateral—between India and Thailand—and regional—between South Asia and ASEAN or India and ASEAN. The Indian and Thai governments share some policies. Both are proponents of multilateral liberalisation and have now focused on bilateral trade agreements since the Doha Round of WTO negotiations has not progressed. India’s ‘Look East’ policy complements Thailand’s ‘Look West’ policy. The governments of the two countries are engaged in trade negotiations in different forums and signed an Early Harvest Scheme in goods in 2004 that covered 82 product categories, aiming to reduce tariffs. The two countries have engaged in the India ASEAN services agreement, which was signed in September 2014. The two countries are engaged in the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Co-operation (BIMSTEC) and are currently negotiating the India–Thailand CECA. While there is strong intent among the policymakers of the two countries to enhance bilateral trade and investment flows, there are several barriers to trade and investment in services, which are discussed in the next section.

### **3. Barriers to Bilateral Trade and Investments**

The survey found several barriers to bilateral trade and investment; most of them are common to both countries and can be addressed at the *institutional* level. First, both India and Thailand have a restrictive FDI regime in services. While the two countries have liberalised the manufacturing sector, the lack of liberalisation in allied services such as logistics and banking is limiting the establishment of global value chains that can support production networks and efficient product deliveries. Second, the reform process in the two countries is slow and their regulatory frameworks are still weak. There is lack of inter-ministerial co-ordination. In several cases (such as the case of telecommunications in Thailand) foreigners are granted approvals on a case-by-case basis, making the procedure non-transparent. Multiple documents are required, which



creates delays and causes operational uncertainty. Third, there is limited knowledge about each other's market—at the government, industry association and company levels. Fourth, there is limited involvement by different stakeholders, industry bodies and sector experts in the reform process and trade negotiations. Fifth, both India and Thailand have similar interests in gaining greater market access for service providers or Mode 4 in their respective trade negotiations. However, within Mode 4, Thailand wants greater market access for specialised skills, while Indian seeks easier entry for professionals. However, with respect to opening up of their domestic markets, both countries have a defensive approach towards liberalising the movement of people.

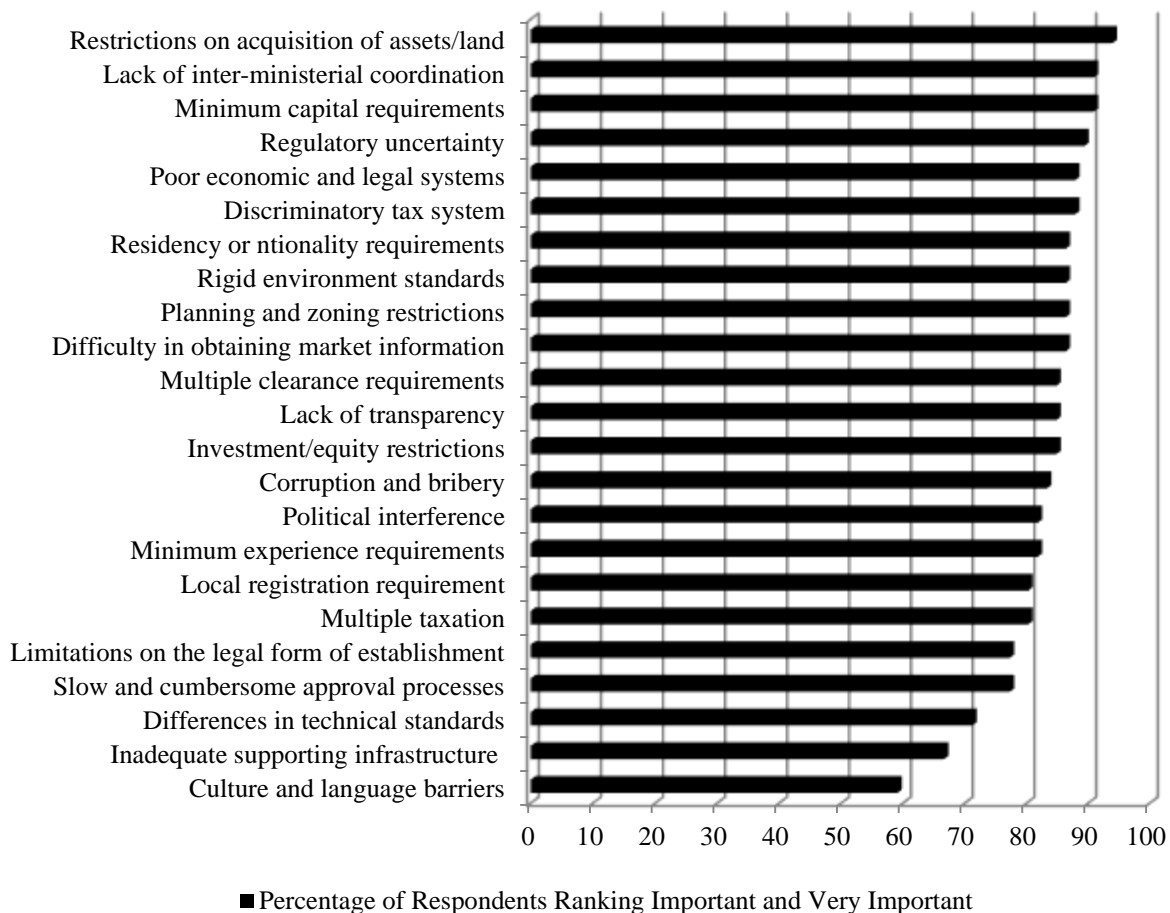
### ***3.1 Barriers Related to Investment and Movement of People in Thailand***

On market-specific barriers, the Indian companies were asked to rank the barriers faced while investing in the Thai market on a 5-point scale, with 1 representing 'unimportant' and 5 for 'very important'.<sup>22</sup> For each factor, the percentage of respondents that rated it as 'very important' or 'important' was calculated and the factors were then ranked. The most important barrier faced by the Indian companies was found to be the restriction on acquiring land, followed by barriers such as lack of inter-ministerial co-ordination and minimum capital requirements and (Figure 3).

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<sup>22</sup> This was a multiple-choice question and respondents marked more than one option. Several barriers received a very high rank, indicating the presence of a large number of restrictions in Thailand.

**Figure 3: Ranks of Barriers faced by Indian Companies in Thailand**



*Source:* Authors' compilation from survey

Indian companies were also asked about the barriers that they face with respect to the movement of people. In Thailand, a large number of professions such as engineering, accounting, legal and architectural services are reserved for Thai nationals. In occupations where foreign nationals are permitted to work, a foreign national requires both a work permit and the correct work visa. However, different authorities issue these documents; the work permit is issued by the Ministry of Labour, whereas visas are given by the Ministry of Interior.

Thailand has been restrictive in giving work permits. Applicants must have a job offer with a person or company in Thailand that will pay a salary that meets the requirements in the Ministry of Labour's foreign labour regulations. In addition, the job should not fall under the category of jobs restricted for citizens of Thailand under the Thai Foreign Business Act, B.E. 2542 (A.D.1999),<sup>23</sup> the Thailand Ministry of Labour Ministerial Regulations, or any other applicable laws. In addition, there is some form of an Economic Needs Test (ENT) or a Labour Market

<sup>23</sup> For details of the professions restricted under the Thai Foreign Business Act, B.E. 2542 (A.D.1999),

Test, since work permits are not granted to foreigners for jobs that for which a Thai national is available to join. To avoid these ENTs, it becomes necessary to draft a job description that will avoid undue scrutiny by the Thai official reviewing the application. To do this, a legal expert is hired to draft the application, which is expensive.

The Thai work permit allows the applicant to work at the company location listed in the work permit. This is a major barrier to IT companies that send workers on projects; at the end of a project, the worker cannot be transferred to another project within the country.

The company applying for the work permit is required to hold a minimum amount of registered capital per work permit; if the applicant is married to a Thai national, the required amount is one million Baht (US\$29,555).<sup>24</sup> If the company is registered with the Board of Investment (BOI), it can obtain multiple work permits without increasing the registered capital, depending on the agreement with the BOI, but they need to hold a minimum of one million Baht in registered capital. If the company does not have BOI approval and the foreign employee is not married to a Thai national, the company requires two million Baht (US\$ 59,110) of registered capital for each work permit.

About 50 percent of the Indian companies pointed out that it takes 55–60 days to get a visa for longer stays (a business visa is given on arrival). Also, the visa and work permit are usually issued for only one year and can be extended only for another year. Thus, there is a restriction on the length of stay. Moreover, in the past six years, the Thai government has not issued any citizenship or residence permits.

### ***3.2 Barriers Related to Investment and Movement of People in India***

The number of Thai companies interviewed was fewer and, therefore, it is difficult to rank their views on barriers. Thai companies referred to high land prices, difficulties in land acquisition, lack of regulatory transparency, lack of inter-government co-ordination and high and multiple taxes as some key barriers to investment in India. They specifically referred to the differences in regulations and taxes across states that prohibit pan-India operations. Thai companies and individuals find it difficult to identify the right partners. Some of them have been cheated, which has led to scepticism. Thai companies also pointed out that it is generally difficult to do business with Indians, because there are delays in payments. In setting up Thai spas, spa and medicinal products have to be imported, but duties on spa products are as high as 30 percent and the documentation process takes 2–3 weeks. India does not recognise the certificate issued by the Food and Drug Administration (FDA), Thailand, which acts as a barrier to bringing in products for the services.

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<sup>24</sup> Converted using [www.oanda.com](http://www.oanda.com); as on May 29<sup>th</sup>, 2015

One of the most important barriers to the movement of Thai specialist workers is the minimum salary condition of \$25,000 per annum imposed on foreign nationals in India.<sup>25</sup> This barrier is particularly restrictive for Thai nationals in specialised services, such as spa and massage services. The survey participants pointed out that \$25,000 per annum is a managerial-level salary and not that of a therapist or a masseuse. Around 50 spa projects in India had to close down due to this salary restriction.

#### **4. Liberalisation in International Trade Agreements**

The previous sections show that trade agreements facilitate bilateral trade and enhance market integration. The survey identified some the trends and barriers to enhancing the role of services between India and Thailand. This section assesses the present status of liberalisation in India and Thailand and scope for addressing these barriers through negotiations.

##### ***4.1 Multilateral Liberalisation***

Both India and Thailand are founder members of the WTO and are actively participating in the ongoing Doha Round of WTO negotiations. Thailand has a more restrictive regime for foreign investment than India and this is reflected in their Revised Offers submitted to the WTO in August 2005 and November 2005.<sup>26</sup> Both countries tend to offer below the level of their autonomous liberalisation in the WTO.

There are differences in how India and Thailand define certain categories of service providers (for example, managers and specialists), but in general India's definitions are broader and the offers are better than those of Thailand for high-skilled workers or professionals. The schedule of sector-specific market access commitments of the two countries in the WTO Revised Offer shows that while the two countries have shown an interest in improving upon their Uruguay Round commitments, India's Revised Offers are much better. Following the MTN.GNS/W/120 classification that is used in the WTO negotiations on services, India offered to undertake commitments in 11 broad services sectors, while Thailand offered to take commitments in 10 broad services sectors. Both countries covered a limited number of sub-sectors within each of these broad categories. Some of the sensitive sectors for Thailand are 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 incidental to energy distribution, placement and supply services

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<sup>25</sup> According to the visa regime in India, a foreigner seeking an employment visa should draw a salary of more than US\$25,000 per annum. However, this condition of an annual floor limit on income does not apply to: (a) ethnic cooks, (b) language teachers (other than English language teachers)/translators, and (c) staff working for the concerned Embassy/High Commission in India.

<sup>26</sup> For Thailand's Revised Offer to the WTO, see <http://www.esf.be/pdfs/GATS%20Revised%20Offers/Thailand%20Revised%20Offer.pdf> and for India's revised offer to the WTO, see [http://commerce.nic.in/trade/revised\\_offer1.pdf](http://commerce.nic.in/trade/revised_offer1.pdf)

of personnel and tourist guide services. The sensitive sectors for India are education services, legal services, postal and courier services and retail trade.

In the WTO, both India and Thailand have taken most favoured nation (MFN) exemptions to accord preferential treatment to select trading partners. In the WTO, both India and Thailand are demandeurs of Mode 1 and Mode 4. However, while India demands easier market access for high-skilled people, Thailand focuses on easier movement of specialised skills. Among ASEAN countries, Thailand is less offensive on services negotiations compared to countries such as Singapore, but more offensive than countries such as Malaysia, Indonesia and the Philippines.<sup>27</sup> Along with other ASEAN countries (except Singapore), it is campaigning for an emergency safeguard mechanism in GATS to protect against a surge of imports in exceptional situations.<sup>28</sup>

#### ***4.2 Bilateral and Regional Liberalisation***

The bilateral and regional trade agreements of India and Thailand play a key role in the integration the South and Southeast Asian markets. India and Thailand have been engaged in multiple bilateral and regional agreements involving services, and are negotiating with each other in multiple international forums. The list of trade agreements of India and Thailand that include services is given in Appendix 1.

Thailand has a special strategic and bilateral engagement with the US known as the Treaty of Amity and Economic Relations. Under this agreement, the US is allowed to have majority ownership of investment in most sectors, despite it being prohibited in the Thai Foreign Business Act, B.E. 2542 (A.D. 1999). The Treaty was signed in 1966 and ratified in 1968. This treaty gives similar treatment to an American majority-owned company as a Thai majority-owned company. Since Thailand has not taken major reform initiatives in the post-Uruguay Round period and the Treaty of Amity and Economic Relations covers several services sectors, US nationals have a distinct economic advantage *vis-à-vis* nationals from other countries such as India.

##### ***4.2.1 Regional Agreements***

This section examines progress under AFAS and SATIS, the two key regional agreements involving services, along with the ASEAN–India Comprehensive Economic Co-operation Agreement.

***ASEAN Framework Agreement on Services (AFAS).*** This agreement, signed on December 15, 2005, provides a legal framework for the broad parameters that enable ASEAN member states to progressively liberalise and integrate their services markets. It follows the structure and positive list approach of GATS for scheduling commitments, but it aims to expand the depth and scope of

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<sup>27</sup> For details, see Sally (2005).

<sup>28</sup> For details, see Sally (2007).

liberalisation beyond GATS.<sup>29</sup> AFAS also introduced the ‘ASEAN Minus X’ formula in the implementation of member states’ services commitments.<sup>30</sup> Under this formula, countries that are ready to liberalise a certain service sector may proceed to do so without having to extend the concessions to non-participating countries.

In 2007, ASEAN adopted the ASEAN Economic Community (AEC) Blueprint<sup>31</sup> to strengthen the institutional framework and have a unified legal identity by putting in place rule-based systems so that the AEC could be established by 2015.<sup>32</sup> In the area of trade in services, the Blueprint focuses on removing barriers to foreign investment, integrating markets in sectors such as air transport, health, tourism and logistics services and MRAs in professions such as engineering, architectural services and nursing to facilitate easier movement of people within ASEAN. As a member of ASEAN, Thailand is in the process of initiating domestic reforms to meet the regulatory requirements of this agreement.

***SAARC Agreement on Trade in Services (SATIS)***. This agreement was signed between the SAARC Countries (Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka) at the 16<sup>th</sup> SAARC Summit held in Thimphu in April 2010 and came into force on November 29, 2012 after ratification by all SAARC Member States. At present, negotiations on the Schedule of Specific Commitments of individual SAARC countries are ongoing.<sup>33</sup>

***Association of Southeast Asian Nations (ASEAN)–India Comprehensive Economic Co-operation Agreement (CECA)***. The Framework Agreement on the Comprehensive Economic Co-operation Agreement between ASEAN and India was signed at the second ASEAN–India Summit in 2003 at Bali, Indonesia. This is India’s only agreement where goods negotiations preceded services negotiations under a comprehensive agreement. After six years of negotiations, the ASEAN–India Trade in Goods (TIG) Agreement was signed in August 2009 and came into force on January 1, 2010. At the 10<sup>th</sup> ASEAN–India Summit in New Delhi on December 20, 2012, India and ASEAN concluded negotiations for FTAs in services and investment. In the 11<sup>th</sup> ASEAN–India Summit in Brunei Darussalam on October 10, 2013, it was announced that the ASEAN–India Trade in Services and Investment Agreement would be signed by the end of the year 2013 and become operational by July 2014.<sup>34</sup> The agreement was signed in September 2014.

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<sup>29</sup> <http://www.asean.org/6628.htm>

<sup>30</sup> <http://www.aseansec.org/8205.htm>

<sup>31</sup> <http://www.asean.org/21083.pdf> (page number 8-11)

<sup>32</sup> <http://www.asean.org/21082.htm>

<sup>33</sup> [http://saarc-sec.org/areaofcooperation/detail.php?activity\\_id=46](http://saarc-sec.org/areaofcooperation/detail.php?activity_id=46) (last accessed on October 23, 2013).

<sup>34</sup> For details, see Ministry of External Affairs, Government of India, <http://www.mea.gov.in/in-focus-article.htm?22311/Chairmans+Statement+of+the+11th+IndiaASEAN+Summit+Bandar+Seri+Begawan> (last accessed on October 23, 2013).

According to information given by the Press Information Bureau of the Government of India,<sup>35</sup> the Trade in Services Agreement with ASEAN contains all features of a modern and comprehensive agreement on services and is in line with the other bilateral agreements that India has signed so far. Some important Articles contained in the Agreement are ones on transparency, domestic regulations, recognition, joint committee on services and review, among others. Both India and ASEAN member states have taken GATS plus commitments in various services and modes of supply. While each ASEAN member state has tabled an individual schedule of commitments, India has tabled three schedules of commitments—one for the Philippines, one for Indonesia and one for the remaining eight ASEAN member states. India also agreed that in order to increase the participation of least developed countries, no additional requests would be tabled to the CLMV countries (Cambodia, Lao, Myanmar and Vietnam). All three schedules tabled by India are well within the existing autonomous regime of India. A brief annex on Movement of Natural persons (one of the key areas of interest for India) has been included in the Agreement, which defines all categories of service suppliers, except independent professionals.

#### ***4.2.2 Bilateral Agreements***

This section examines four bilateral agreements by India and Thailand, namely, Thailand–Australia Free Trade Agreement, Thailand–Japan Economic Partnership Agreement, India–Japan Comprehensive Economic Partnership Agreement and India–Korea Comprehensive Economic Partnership Agreement in terms of their structure, coverage and depth of commitments.

India and Thailand have different approaches in designing their FTAs. While India follows a fixed pattern, Thailand has customised its agreements to the requirements of its trading partner. This is reflected in the architecture of their respective agreements, which are compared in Table 4.

In terms of their commitments, under Mode 3 Thailand has gone beyond its autonomous regime in its bilateral agreements. For instance, in the agreement with Japan, in sectors such as wholesale trade and retail services that are under List 3 of the Foreign Business Act, B.E. 2543 (1999),<sup>36</sup> Thailand has allowed foreign participation. Moreover, in sectors such as travel and tourism services, foreign investment has been increased from 49 per cent to 60 per cent. Compared to the WTO, Thailand has improved its commitment in sectors such as professional services, distribution services, education services and hotel and restaurant services. In the agreement with Australia, Thailand allows 100 percent Australian ownership in general management consulting services. For education services, Thailand permits Australian equity participation up to 60 percent in some specialised tertiary education services. In its autonomous regime, Thailand permits 49 percent foreign ownership in these sectors. India has not gone beyond its autonomous regime; however, it has improved its commitments compared to the

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<sup>35</sup> Available at <http://pib.nic.in/newsite/PrintRelease.aspx?relid=109489> (last accessed on May 21, 2015.)

<sup>36</sup> In sectors listed in List 3, foreigners are prohibited from operating unless permitted by the Director-General.

WTO Revised Offer in sectors such as professional services, R&D services, telecommunications services, audiovisual services and construction and engineering-related services.

In movement of natural persons, while India made commitments under all four categories of service suppliers, but Thailand has not covered independent professionals. Thailand seems to give preferential treatment to its bilateral trading partners in terms of temporary entry of people. For example, in the Thailand–Australia Free Trade Agreement, Australian business visitors do not require a work permit and can attend or conduct business meetings in Thailand for up to 15 days; this condition does not apply to business visitors from other countries, who require both a visa and a work permit. Thailand also has the provision of an APEC Australian Business Travel Card (ABTC) under the Thailand–Australia Free Trade Agreement. ABTC cardholders are permitted to attend business meetings/seminars or conduct business contracts without engaging in making direct sales of goods to the general public, and they can supply services or can acquire remuneration in Thailand for up to 90 days. Thailand also permits spouses of service suppliers to work as managers, executives or specialists for Thai companies. In its trade agreement, Thailand requests easier movement in specialised skills such as Thai chefs and spa workers.

In its bilateral agreements, India has given commitments in a wide range of professions across four categories of movements, namely, business visitors (BV),<sup>37</sup> intra-corporate transferees (ICT),<sup>38</sup> independent professionals (IP)<sup>39</sup> and contractual service suppliers (CSS).<sup>40</sup> It seeks market access for professionals. However, Indian commitments do not go beyond the domestic regime or the request that India makes is not beyond the work permit and visa regimes of its trading partners. None of India's trade agreements has provisions for specialised visas or free movements as under NAFTA (North American Free Trade Agreement), nor do India's trade agreements focus on liberalisation of the entire value chain within each professional category. The professional categories that India seeks to liberalise under trade agreements do not match the ILO (International Labour Organization) classifications or any other internationally recognised labour classifications (for details, see Mukherjee and Goyal, 2013).

Overall, in its bilateral agreements, India wants liberalisation commitments in knowledge-based services, such as computer-related services, and Modes 4 and 1, while Thailand pushes for movement of specialised skills. Table 4 highlights that in their respective trade agreements India and Thailand have provisions for co-operation in several services sectors. Both India and Thailand seems to have a weak government procurement chapter in trade agreements where they

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<sup>37</sup> A person who visits another country for a short duration specifically for business negotiations and/or for preparatory work to establish a presence.

<sup>38</sup> Employee of a company who transferred from the originating country's office to an office of the same company in another country.

<sup>39</sup> A self-employed person who entered another country to perform a service on contract basis.

<sup>40</sup> Employee of a foreign company who enters another country temporarily in order to perform a service pursuant to a contract.



propose to co-operate rather than take commitments. Similarly, they leave it to their respective professional bodies to enter into MRAs.

**Table 5: Design and Coverage of India and Thailand's 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 of the WTO (i.e., MTN.GNS/W/120)	India has taken commitments in all 11 broad services sectors covered under the W/120 of the WTO	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
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
Agreement has provision for co-operation in	Energy; ICT; science and technology; SMEs; infrastructure and transportation; audiovisual; tourism; healthcare; government procurement; renewable energy resources	Environment; trade and investment promotion; infrastructure; ICT; science and technology; energy; tourism; SMEs; health; entertainment and information	Education and human resource development; enhancement of business environment; financial services; ICT; science, technology, energy and environment; SMEs; tourism; trade and investment promotion	Research and development; human resource and professional development and apprenticeship; trade in services data management; SMEs capacity enhancement; education; healthcare; tourism; promoting the facilitation of temporary entry of business people, in particular through developing

Parameters	India–Korea CEPA	India–Japan CEPA	Thailand–Japan EPA	Thailand–Australia FTA
				the capacity to grant applications offshore for business entry; e-commerce
Government procurement	Co-operation	Separate chapter on government procurement . Proposes establishment of comprehensive chapter on government procurement	Separate chapter on government procurement. Proposes establishment of sub-committee on government procurement	Separate chapter on government procurement. Proposes establishment of working group
Mutual Recognition Agreements	After the date of entry into force of this Agreement, upon request being made in writing by a Party to the other Party in any regulated service sector, the Parties shall encourage their respective professional bodies to negotiate and conclude, within 12 months of the date of entry into force of this Agreement, in that service sector for mutual recognition of education, or experience obtained, requirements met, or licences or certifications granted in that service sector.	Parties should encourage their respective professional bodies to negotiate and conclude within 12 months any arrangement for mutual recognition of education, experience, licences or certification with a view to early outcomes.	Recognise the education or experience obtained, requirements met, or licenses or certifications granted, in whole or in part (compared to no indication of such scope in GATS), in the other Party. Recognition may be achieved through harmonisation or based on an agreement or arrangement between the Parties or may be accorded 'unilaterally'.	Parties lay down the possibility to recognise the education, experience obtained, requirements met, or licences or certifications granted in the other Party and to conclude agreements in this respect. In addition, the Parties are called upon to encourage their relevant bodies to enter into negotiations in this regard.

*Source:* Compiled by the authors from the four trade agreements of the two countries.

*Note:* \*This document includes a 12<sup>th</sup> category: other services not included elsewhere; available on the WTO website at [http://www.wto.org/english/tratop\\_e/serv\\_e/mtn\\_gns\\_w\\_120\\_e.doc](http://www.wto.org/english/tratop_e/serv_e/mtn_gns_w_120_e.doc).

## **5. Conclusion and the Way forward**

The services sector contributes significantly to the GDP and employment of South and Southeast Asian countries. With globalisation, liberalisation and increase in trade, the services sector has become a key component of market integration and global production networks through their role in the value chain. Services such as logistics and communications facilitate trade and enhance the global competitiveness of other services, manufacturing and agriculture sectors. Countries in South and Southeast Asia have complementarities in services but they also compete with one another. In the past, trade agreements in this region focused only on trade in goods, but services is increasingly becoming an important component of trade agreements because it helps develop production networks and value chains. To understand how services can be traded within the region and how it can lead to improved efficiency, market integration and the creation of value chains, this paper discussed the case of bilateral trade in services between India and Thailand.

The study found that these two countries have certain commonalities in their approach to services trade. Both have a fairly restrictive FDI regime in services and the regulations in this sector are evolving. This creates a non-transparent operating environment for foreign service providers. The two countries are proponents of liberalising the movement of people or Mode 4 in their WTO and bilateral/regional trade agreements. While India focuses on the movement of professionals, Thailand focuses on the movement of specialised skills. On their part, the two countries are sceptical about opening up the domestic market to the entry of foreign service providers (movement of people). There are some noticeable differences between the two countries. India is a much larger exporter of services than Thailand, but its exports are concentrated largely in the IT/ITeS sector and to developed countries. Thailand, on the other hand, has tried to develop competence in exports of some services such as tourism and alternative healthcare, and has focused on improving the competence of delivery of goods through improvements in services such as logistics. Thus, Thailand's export basket in services is more diversified than that of India.

There has been an increase in investment flows between India and Thailand in services. While Thai companies prefer to operate in India in sectors such as hotels and restaurants, Indian companies operate in Thailand in sectors such as construction services. However, the number of companies in each other's market is limited and the governments of the two countries do not regularly monitor and collect bilateral trade data. Therefore, this paper is based on both secondary data and a primary survey. The paper showed that Thai companies, unlike Indian companies, prefer to operate in the domestic market and within the ASEAN member states. Indian companies are more global than Thai companies and they prefer English-speaking, developed countries. It is only recently, after the global slowdown, that Indian companies have started to focus on Southeast Asia and, within Southeast Asia, on Singapore as their preferred destination. In Thailand, Indian companies have shown investment interest in sectors such as IT/ITeS and telecommunications. In banking, Indian banks are keen to have a presence, despite the fact that they have a small share in the Thai market. Thai companies and associations are interested in establishing a foothold in spa services in India.

This survey-based study found that integration in physical infrastructure and ease of movement of people are key to facilitating bilateral trade and investment and for integrating markets. The major barriers to physical connectivity and seamless supply chains are FDI restrictions, regulatory barriers and procedural delays. There are other barriers to investment such as problems related to land acquisition, multiple clearance requirements and lack of co-ordination between different government bodies. Business-facilitating instruments such as banks have a limited presence in each other's market and, despite their close proximity, transport connectivity between India and Thailand is poor. The survey also showed that most of the barriers to physical connectivity could be addressed through domestic reforms in the two countries. While for Thailand the key driver of domestic reforms is the ASEAN market integration of 2015, in India it is the slowdown in growth rate and FDI inflows. The pace of reforms in the two markets is relatively slow especially compared with other Southeast Asian countries and there is an urgent need to prioritise and implement reforms especially those related to the removal of FDI restrictions and regulatory hurdles. The two countries have to develop a sound institutional framework and there is a need for greater co-operation at three levels—government to government, among industry associations and among businesses. Co-operation and sharing of information and knowledge will facilitate market integration.

The movement of people between the two countries is limited by the restrictive work permit and visa regimes of the two countries. While Thailand grants visas on arrival to Indian citizens, which enables them to travel for business, India does not have a 'visa on arrival' facility for Thai nationals. India should reciprocate. Some initiatives can be taken under the India–Thailand CECA, which will facilitate the movement of people. For example, India can relax or reduce the minimum salary condition for services that are of interest to Thailand and which the domestic market will benefit from without adversely affecting local labour. For instance, the Indian government can remove/reduce the \$25,000 per annum salary condition for spa professionals, whereas for beauty services the restriction could remain. On a reciprocal basis, India can ask for easier work permit and visa conditions for its IT/ITeS professionals. Thus, the two countries can select certain categories of professionals and specialised skills as a first step to facilitate easier cross-country movements. The professional bodies of the two countries hardly interact and they prefer a closed domestic market. The professional bodies should start interacting and should share information on curriculum, registration processes, etc. Since the professional market in ASEAN is likely to become integrated by the year 2015 through MRAs, a carefully designed chapter on movement of people under the India–Thailand CECA will benefit both countries. There are some issues such as language and cultural differences, low productivity of the workforce in the Indian services sector and the lack of a social security agreement between India and Thailand, but these are not major impediments to trade if the work permit and visa barriers, barriers due to lack of recognition of each other qualifications, nationality, registration requirements, etc. are addressed. On the movement of people, this study found that unless there is co-operation at the institutional level, it is difficult to have market integration or sign agreements such as MRAs for professional co-operation.

India and ASEAN signed a services agreement in the year 2014. India and Thailand are also negotiating an India–Thailand CECA and services is a key component of this agreement. India’s CECA negotiation with Thailand is part of its larger ASEAN integration strategy. This paper found that India’s commitments in different services sectors in the bilateral agreements are either equal to or lower than the level of autonomous liberalisation. However, Thailand is willing to go beyond its domestic regime in trade agreements. Ideally, a bilateral trade agreement should go beyond the domestic regime to facilitate market integration. Nevertheless, if it even binds the existing regime it provides operational certainty to businesses, since both countries will find it difficult to roll back the existing regime. Such operational certainty is important in countries such as India and Thailand that frequently change their regulatory regime. Since both India and Thailand continue to negotiate trade agreements such as the RECP market integration will enable them to leverage each other’s strengths. Collaboration in areas such as spa and *ayurveda* will enable them to jointly access third-country markets. It will also enhance their joint bargaining power in RCEP *vis-à-vis* countries such as China.

Overall, the paper found that for services market integration and the development of services value chains, countries in this region have to speed up their domestic reforms process, remove market access barriers and implement a sound regulatory framework that enables foreign companies to operate in a transparent and non-discriminatory environment. The trade agreements of countries such as India and Thailand are weaker agreements, since they focus on co-operation rather than on commitments. Commitments under trade agreements may help speed up the domestic reform process in the region and integrate the services markets in South and Southeast Asia.

## Appendix 1

**Table A1: List of India's FTAs and PTAs that include Services (as on October 2013)**

FTAs/PTAs	Date of Signing	Date of Enforcement
<b>Concluded</b>		
India–Singapore Comprehensive Economic Co-operation Agreement (CECA)	June 2005	August 2005
India–Korea Comprehensive Economic Partnership Agreement (CEPA)	August 2009	January 2010
India–Japan CEPA	February 16, 2011	April 2011
India–Malaysia CECA	February 18, 2011	July 2011
SAARC Agreement on Trade in Services (SATIS)	April 2010	November 2012 <sup>41</sup>
ASEAN–India CECA	December 2012	December 20, 2012 <sup>42</sup>
India-ASEAN Trade in Services & Trade in Investment Agreement	September 2014	-
<b>Under Negotiation</b>	<b>Launch of Negotiations</b>	
India–Thailand CECA	October 2003	
India–Mauritius Comprehensive Economic Co-operation and Partnership Agreement (CECPA)	August 2005	
India–New Zealand CECA	April 2007	
India–Canada CEPA	November 2010	
India–Australia CECA	July 2011	
India–Indonesia CECA	October 2011	
India–EU Broad-based Trade and Investment Agreement (BTIA)	June 2007	
India–European Free Trade Association (EETA) BTIA	October 2008	
Regional Co-operation Economic Partnership (RCEP) Agreement between ASEAN + six (China, Japan, South Korea, Australia, New Zealand and India) or ASEAN+6 FTA	May 2013	
<b>Under Consideration</b>	<b>Date of Proposal</b>	
India–Russia CECA	February 2006	
India–Turkey FTA	September 2009	
Comprehensive Economic Partnership for East Asia (CEPEA/ASEAN+6)	December 2005	

Source: Compiled from Asia Regional Integration Centre (ARIC), ADB.

<sup>41</sup> [http://saarc-sec.org/areaofcooperation/detail.php?activity\\_id=46](http://saarc-sec.org/areaofcooperation/detail.php?activity_id=46); The Agreement entered into force on November 29, 2012, and at present negotiations on the Schedule of Specific Commitments of individual SAARC countries are ongoing.

<sup>42</sup> At the 10<sup>th</sup> ASEAN-India Summit in New Delhi on December 20, 2012, India and ASEAN concluded negotiations for FTAs in services and investments. In the 11<sup>th</sup> ASEAN-India Summit in Brunei Darussalam on October 10, 2013, it was announced that the ASEAN-India Trade in Services and Investment Agreement would be signed by the end of the year 2013 and become operational by July 2014.

**Table A2: List of Thailand's FTAs and PTAs that include Services (as on October 2013)**

<b>FTAs/PTAs</b>	<b>Date of Signing</b>	<b>Date of Enforcement</b>
<b>Concluded</b>		
Japan–Thailand Economic Partnership Agreement	April 3, 2007	November 1, 2007
Thailand–Australia FTA	July 5, 2004	January 1, 2005
Thailand–New Zealand Closer Economic Partnership Agreement	April 19, 2005	July 1, 2005
ASEAN Framework Agreement on Services (AFAS)	December 15, 1995	2015
ASEAN–Australia–New Zealand Free Trade Agreement	February 27, 2009	January 1, 2010
ASEAN–Japan Comprehensive Economic Partnership Agreement (CEPA)	April 14, 2008	December 1, 2008
ASEAN–Korea Agreement on Trade in Services	November 21, 2007	May 1, 2009
ASEAN–People's Republic of China Comprehensive Economic Co-operation Agreement (CECA)	November 29, 2004	July 1, 2005
ASEAN–India CECA	December 2012	2015
India–ASEAN Trade in Services & Trade in Investment Agreement	September 2014	-
<b>Under Negotiations</b>	<b>Launch of Negotiations</b>	
India–Thailand CECA	October 2003	
US–Thailand FTA (TUSFTA)	June 2004	
Thailand–Chile Comprehensive FTA	April 1, 2011	
Thailand–European Free Trade Association FTA (TEFTA)	October 2005	
ASEAN–EU FTA	May 2007	
ASEAN–Pakistan FTA	August 2009	
Regional Co-operation Economic Partnership (RCEP) Agreement between ASEAN + six (China, Japan, South Korea, Australia, New Zealand and India) or ASEAN+6FTA	May 2013	
<b>Under Consideration</b>		
Korea–Thailand FTA	August 2003	
Pakistan–Thailand FTA	April 2004	
East Asia Free Trade Area (ASEAN+3) (China, Japan and Korea)	November, 2004	

Source: Compiled from Asia Regional Integration Centre (ARIC), ADB.



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