

# International Trade in Services: Importance and Potential for States

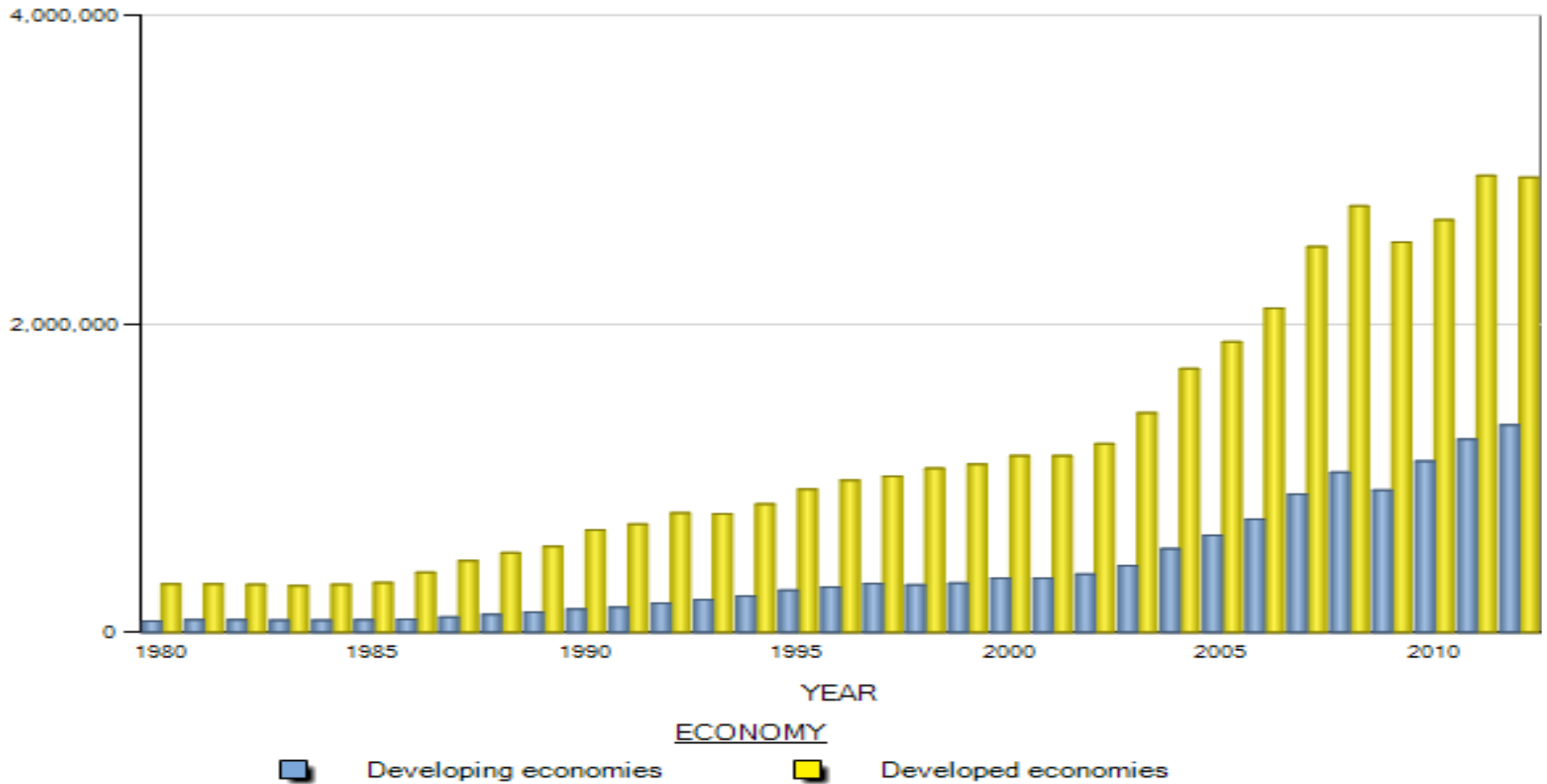
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# OVERVIEW

- Income generation, employment and export potential of services
- Services and States
- Legal / Regulatory framework at different levels of government – Role of states
- Overview of GATS

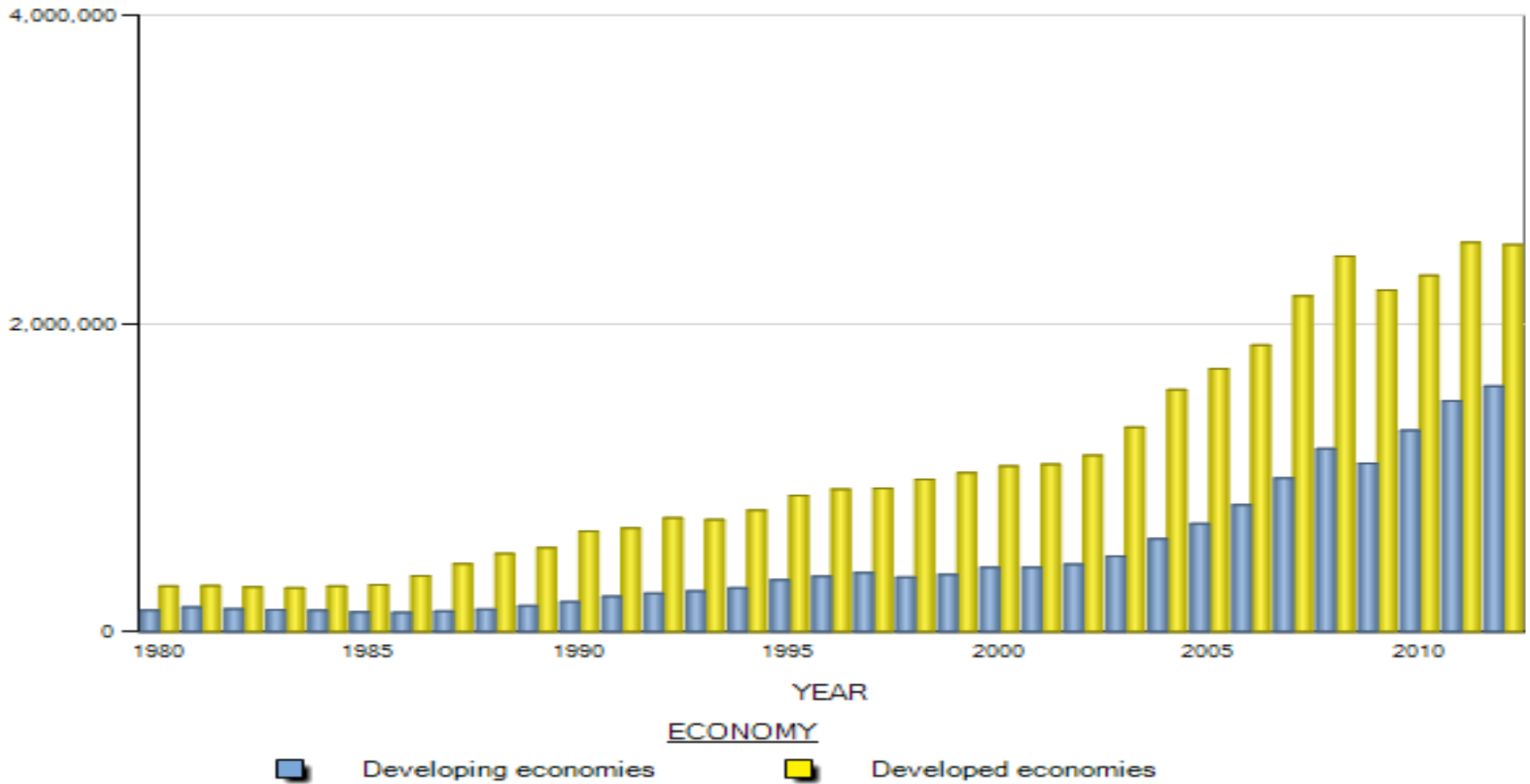
# Trends in Services Trade

Total Services Exports (In USD Millions)



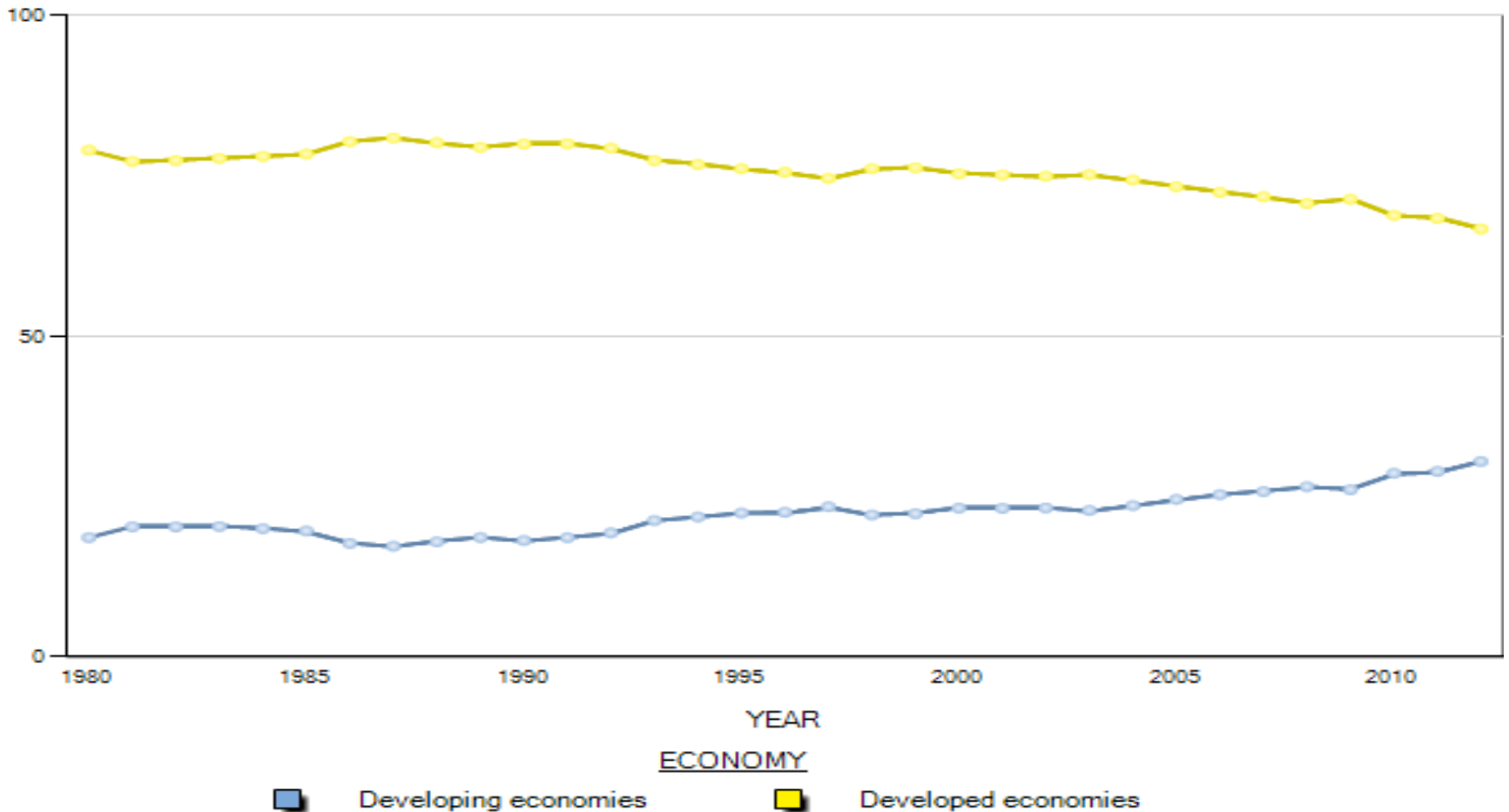
Source: UNCTAD Statistics

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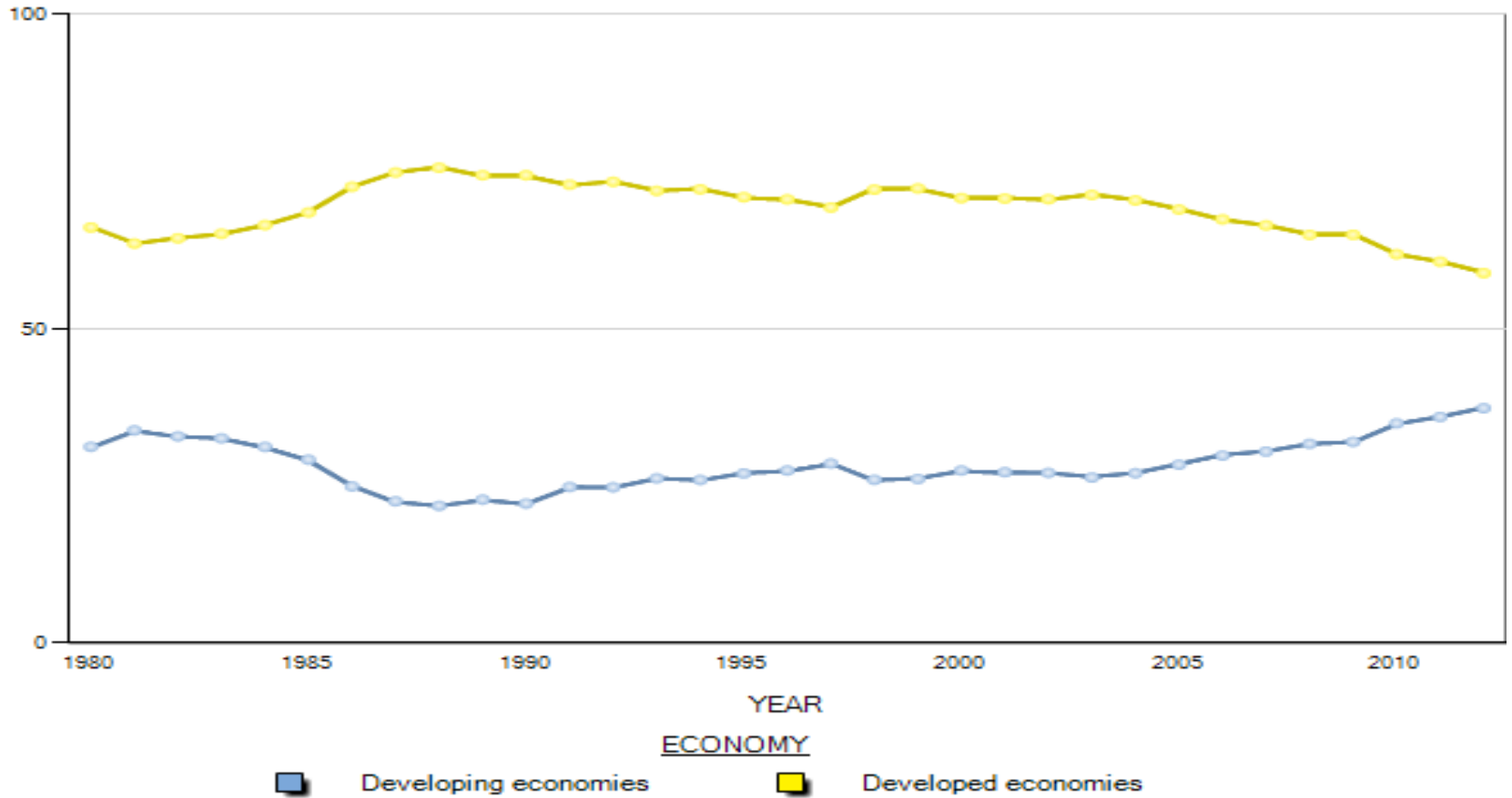
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## Total Services Exports (%age of total world)



Source: UNCTAD Statistics

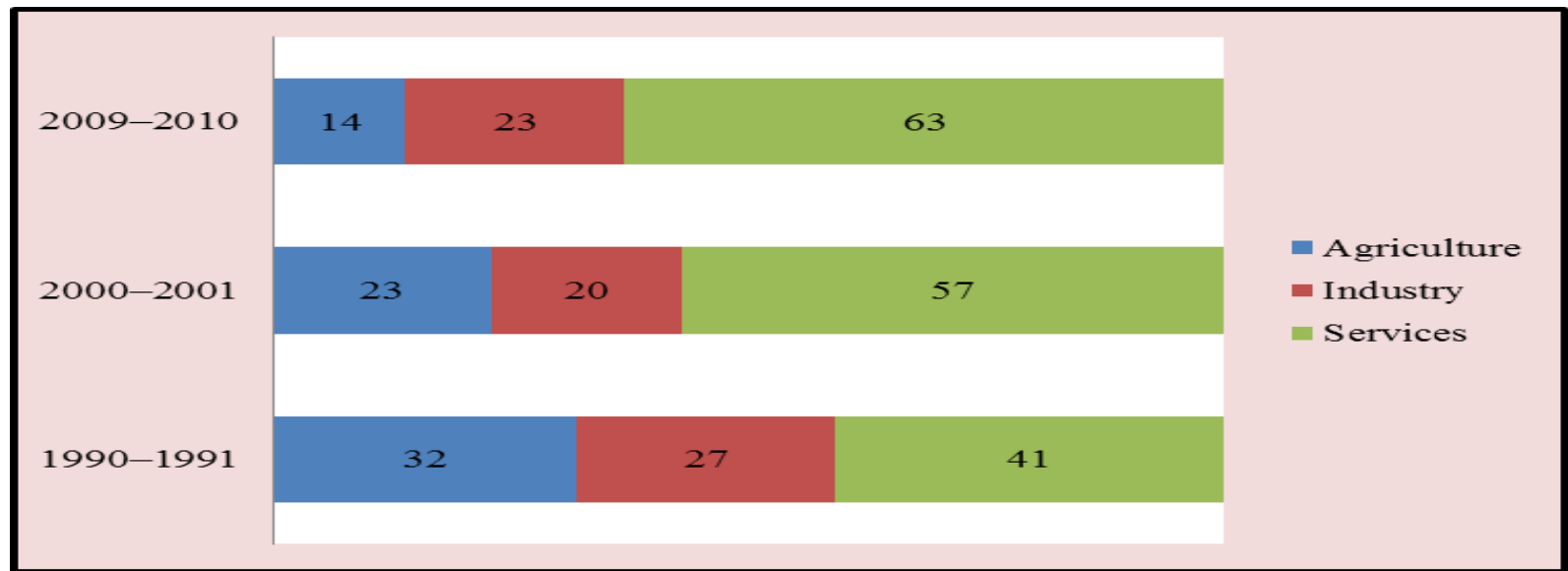
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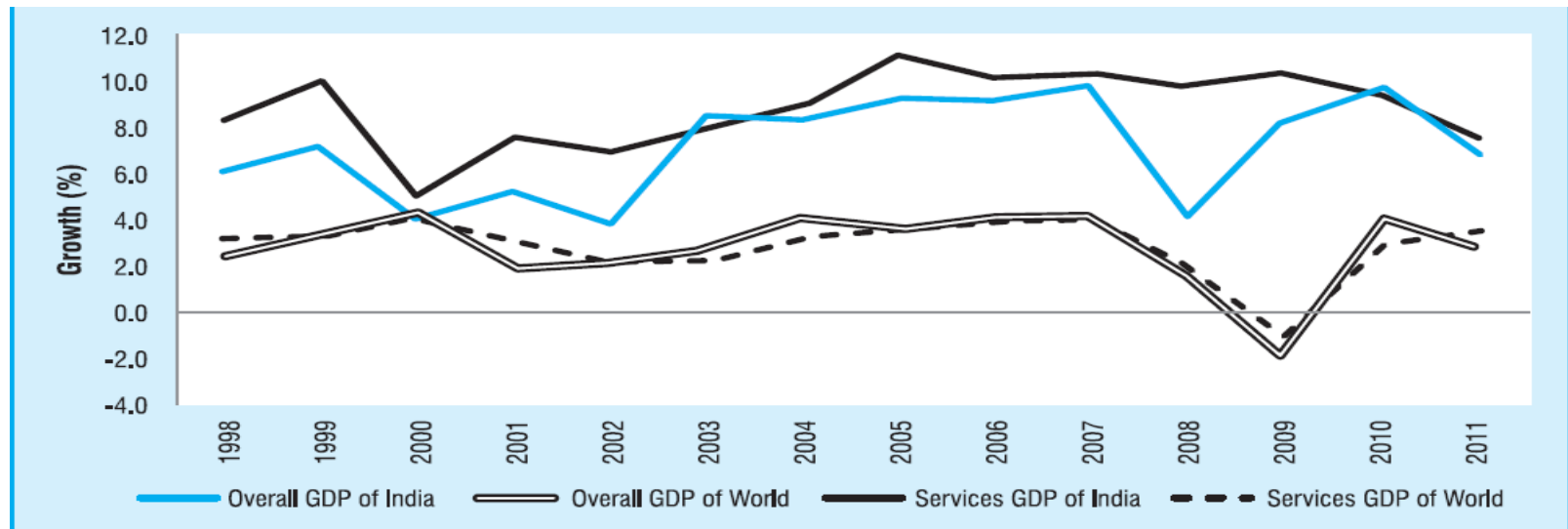
# SOME DATA ON SERVICES

- In 2011, services were estimated to account for 67.5% of the world GDP (UNCTADStat Database)
  - Developed countries – 71%
  - Developing countries – 50%
    - High income - 54%
    - Middle income - 49%
    - Low income – 45%
- Contribution of services in India's GDP is continuously increasing
  - Risen from 43% (1990-91) to 64.8% (2012-13) (Economic Survey, 2013)
  - Among the top 15 countries with highest overall GDP in 2011, India ranks 9<sup>th</sup> and 10<sup>th</sup> in overall GDP and services GDP respectively
  - With 18 % share, trade, hotels, and restaurants as a group is the largest contributor to GDP followed by financing, insurance, real estate, and business services with 16.6 % share



### % Contribution of Services in India's GDP

Source: Author's calculations based on information from the CSO (Central Statistical Organisation) and the Government of India's Economic Survey of various years



### Growth Rate of Services GDP and Overall GDP – India and World

Source: Ministry of Finance, Economic Survey 2012-13



# TRADE IN SERVICES

- World trade in services dominated by developed countries, but, emerging economies like China and India are emerging as important players
- India is the most dynamic exporter of services and ranked 7<sup>th</sup> in the world in both exports and imports of services in 2010 (Economic Survey, 2012)
- Contribution of services in India's exports is continuously increasing
  - Share in total exports grown from 20% (1990-91) to 35% (2009-10) (UNCTAD Handbook of Statistics ,2011)
  - India's share of services exports in the world exports of services increased from 0.6 per cent in 1990 to 1.0 in 2000 and further to 3.3 per cent in 2011
  - Has been increasing faster than the share of merchandise exports in world exports

# Services Trade: Conceptual Issues

- Characteristics of services-
  - Intangible
  - Simultaneity
  - Instantaneity
- Government involvement in the form of -
  - Natural monopolies, public service obligations, etc.
  - Infrastructural importance (transport, telecom, etc.)
  - Role of non-economic objectives (social, cultural, safety)
- Barriers in the form of regulations unlike tariffs in case of goods

- Evolving nature of regulations, regulations are either not present, out dated or not clearly written in the legislation
- Lack of transparency
- Technology driven changes in many services
- Difficulty in measuring services data
- Four-pronged definition of services trade depending on the territorial presence of the supplier and the consumer at the time of the transaction

# INCOME GENERATION, EMPLOYMENT AND EXPORT POTENTIAL OF SERVICES

- Services very important for income generation, employment and trade (exports)
- Services play vital role in facilitating all aspects of economic activity
  - Transportation, communications and financial services provide the support necessary for any type of business
  - Educational, health, and recreational services influence the quality of labour available to firms
  - Professional services provide specialized expertise to increase firms' competitiveness
- Increasingly, the major portion of value-added (up to 70 percent) comes from services inputs

- Traditional belief that services can not be traded due to various characteristics, such as-
  - Intangible
  - Simultaneity
  - Non-storability
- These beliefs are not correct as
  - Trade in services has grown faster than in goods over the past decade with developing countries witnessing even faster growth rates
  - Certain services - international transport and communication - have been traded for centuries, Some services are supplied in conjunction with goods (finance, insurance, marketing, etc.)
- Services have become more tradable as a result of:
  - Technical progress (e-banking, tele-medicine, distance learning)
  - Government retrenchment
  - Market liberalization and regulatory reform

# SERVICES AND EMPLOYMENT

- Contribution of services to employment in India is not very satisfactory
  - Some concerns for India's services led growth experience: 'jobless growth'

Share of employment per sector in India (%), 1993–94, 2004–05 and 2007–08

Year	Primary	Secondary	Tertiary
1993–94	64.5	14.3	21.2
2004–05	57.0	18.2	24.8
2007–08	55.9	18.7	25.4

*Source: Ministry of Finance, Economic Survey, 2010–11*

- However, high potential to absorb semi-skilled and skilled workforce as reflected in employment data of other countries

# SERVICES AND STATES

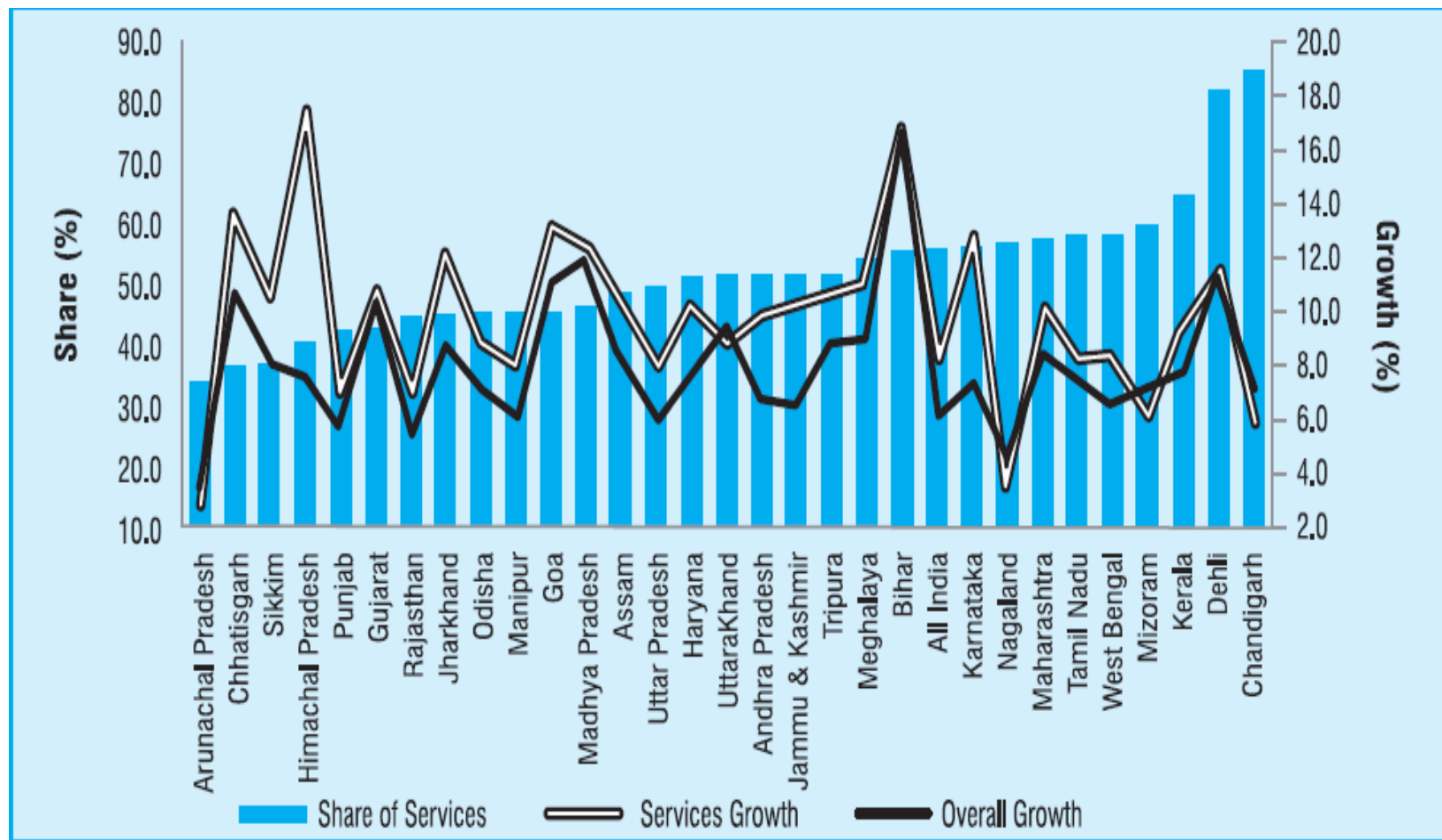
- Services sector contribution to GDP varied across states in India
- Services sector is the dominant sector in most states of India
  - Tripura, Nagaland, West Bengal, Mizoram Maharashtra, Bihar, Tamil Nadu, Kerala, Delhi, and Chandigarh have higher than all-India shares
  - Except a few states, services contribute more than 40 % in the GSDP in all other states
- Services revolution in India seems to be becoming more broad-based

State	2011-12			2010-11		
	Primary	Secondary	Tertiary	Primary	Secondary	Tertiary
Andhra Pradesh	19.2	25.7	55.1	20.9	25.5	53.6
Arunachal Pradesh	30.8	34.0	35.2	30.2	34.4	35.4
Assam	22.4	21.9	55.7	22.8	22.1	55.0
Bihar	18.1	17.5	64.4	19.9	16.9	63.2
Chhattisgarh	18.5	33.7	37.8	19.2	33.6	36.9
Goa						
Gujarat				14.6	39.4	46.0
Haryana	16.3	29.1	54.5	16.8	29.6	53.5
Himachal Pradesh	16.1	39.8	44.1	19.5	40.1	40.4
Jammu & Kashmir	19.8	25.9	54.2	20.6	26.6	52.8
Jharkhand	28.9	26.0	45.2	28.9	27.4	43.7
Karnataka	15.4	27.0	57.6	16.8	27.7	55.5
Kerala				11.1	20.1	68.8
Madya Pradesh				23.0	29.5	47.4
Maharashtra				9.1	29.0	61.9
Manipur	24.8	32.3	43.0	24.8	32.9	42.3
Meghalaya	22.8	25.6	51.7	23.7	24.7	51.6
Mizoram						
Nagaland	27.2	17.7	55.0	27.7	17.2	55.0
Orissa						
Punjab	22.7	31.9	45.4	24.0	31.0	45.0
Rajasthan	22.1	27.6	48.1	22.7	27.9	47.3
Sikkim				11.3	38.9	49.8
Tamil Nadu						
Tripura	24.8	23.2	52.0	25.5	23.2	51.2
Uttaranchal	12.2	33.4	54.3	13.0	33.2	53.9
Uttar Pradesh				25.1	21.4	53.6
West Bengal	18.2	18.4	63.5	18.9	18.8	62.3

Source: Economic Survey of respective States and information obtained from the Directorate of Economics and Statistics of the concerned State, Indiatat database and CSO



# Share and Growth of Services Sector in India's States, 2001-12



Source : Computed from CSO data.

Notes : Data in the case of Gujarat and Mizoram are from 2010-11.

Shares at current prices, growth rate at constant (2004-5) prices.

# CASE STUDY 1: THE FISHERMEN OF NORTHERN KERALA\*

- The way services underpin economic growth is illustrated by the story of the fishermen in northern Kerala
- Without access to market information, fishermen used to sell their daily catch only on the local beach market
  - Some markets among the coastline oversupplied while on others unable to satisfy demand

\* Source: WTO E-Learning: Trade in Services in the WTO

- Starting in 1997, mobile telephony towers were installed near the coastline, making coverage available at sea
  - Fishermen started calling coastal markets while at sea, in order to find the best price
- Soon, many of them were venturing to nearby markets when prices were higher
- No more fish were wasted, consumer prices fell, and the fishermen's increased profits permitted them to pay off their mobile phones in two months
- These improvements led to better resource utilization
- Excellent example of how services (in this case telecom) can provide access to the information necessary for improved market performance and welfare

# STATES AND SERVICES TRADE

- Foreign trade is in 'Central' List of the Indian Constitution
  - Govt is empowered to frame all rules and regulations for foreign trade applicable to the whole country
- Role of the state governments is complimentary
  - Providing special and additional measures for promoting foreign trade
- Example: Foreign Investment
  - National policy framework is to maximize inflow of foreign investment in India
  - Investors have the ultimate choice of where to locate their investment in India
  - Hence, policies and programs of state governments become very important in deciding location of such investment

- Domestic preparedness of various states in realizing India's services export potential differ vastly
  - Leading vs laggard states
    - The World Bank Investment Climate Survey, 2009 of 16 Indian states ranked Karnataka at the top followed by Kerala, Gujarat and Andhra Pradesh
- States need to identify service sectors in which they have natural competitive advantage
  - Example: Goa, Himachal – Tourism; Kerala – Nursing services
- States also need to create competitive advantage by creating appropriate infrastructure and environment
  - Example: Karnataka – IT, Biotechnology; Andhra Pradesh

# LEGAL/REGULATORY FRAMEWORK FOR SERVICES AT DIFFERENT LEVELS OF GOVERNMENT

- Legal/regulatory framework operates at three levels in India-
  - Central
  - State
  - Local
- Stakeholders at all three levels need to understand modalities of services trade
- Provisioning of many services are subject to regulatory framework at more than one level

# Example 1: Tourism Services

- Tourism industry holds special position as it not only have potential to grow at a high rate, but also stimulate other economic sectors through its backward and forward linkages and cross-sectional synergies with sectors like agriculture, horticulture, poultry, handicrafts, transport, construction, etc.
- Many of these subjects are within the state jurisdiction
- The Ministry of Tourism acts as the nodal agency for the development and promotion of tourism in the country.
  - Plays a crucial role in formulating national policies and programmes as well as coordinating and supplementing the efforts of the State/Union Territory Governments and private sector in improving the quality of tourism infrastructure
- State governments have the responsibility to develop enabling infrastructure

## Example 2: Education Services

- The regulatory framework for providing education services is complex in India
- Education is in 'Concurrent List' of the Constitution
  - Responsibility for higher education shared between the central government and the state governments
- Central government responsible for coordinating and determining standards in higher education, through an apex regulatory body, the University Grants Commission (UGC) and thirteen professional councils for different disciplines at the national level
- State governments, as the main financiers of the higher education system, responsible for all administrative and operational matters
  - Some states also have a council for higher education and councils in different professional areas



# Trade in Education Services-Central Laws or State Laws?

- Being unsure about passing of the Foreign Educational Institutions (Regulation of Entry and Operations) Bill, 2010, the Ministry has asked the University Grants Commission (UGC) to identify possibilities within the existing laws of regulating and allowing the foreign educational institutions
- The two possible ways of going about it:
  - Allowing these institutions to enter as 'deemed universities' under Section 3 of the University Grants Commission Act, 1956
  - As private universities under the State laws

Source: *The Hindu*, "Foreign Universities Bill: government trying 'backdoor' entry"; <http://www.thehindu.com/news/national/article3477233.ece>

# Example 3: Retail Distribution Services

- The distribution sector is subject to a plethora of laws at the central, state and local/municipal levels
- Role of State governments very important for efficient retail distribution services
  - Availability of approach roads, parking facilities, public transport facilities, electricity and communication systems, and real estate; generally controlled by states
- Cooperation is required not only between Centre and State but also among States
  - Inter-state difference in taxes encourages infiltration of products from states with lower taxes to states with higher taxes, resulting in black marketing

- Many issues hampering efficient retail services are in the control of States
  - High electricity charges
  - Erratic supply
  - Restriction on shop opening timings
- The retail services segment also constrained by different Indian states having their own policy with respect to production, distribution and taxation

# Trade in Retail Services- FDI in Multi Brand Retail?

- Passing of law related with allowing FDI in MBR is in the hand of Central Government
- But, States are free to or not to implement it
- The leading foreign players will be interested only if a reasonable number of states opt for it

# General agreement on trade in services (GATS)

- GATS is the first ever international discipline on trade in services
- Entered into force in January 1995 as a result of the Uruguay Round negotiations to provide for the extension of the multilateral trading system to services
- In the Uruguay Round negotiations, many developing countries resisted negotiations on trade in services
- GATS negotiations were conducted “outside” the Uruguay Round negotiations until the end of the process when the countries reached consensus on a

- Why so late an international agreement on trade in services?
  - Different from goods trade
  - Peculiar characteristics of services such as non tangibility etc.
  - Importance of domestic regulations as opposed to trade-specific legislations
  - Public policy objectives such as health and safety regulations
  - Sovereignty issues and related regulations such as investment regulations, immigration

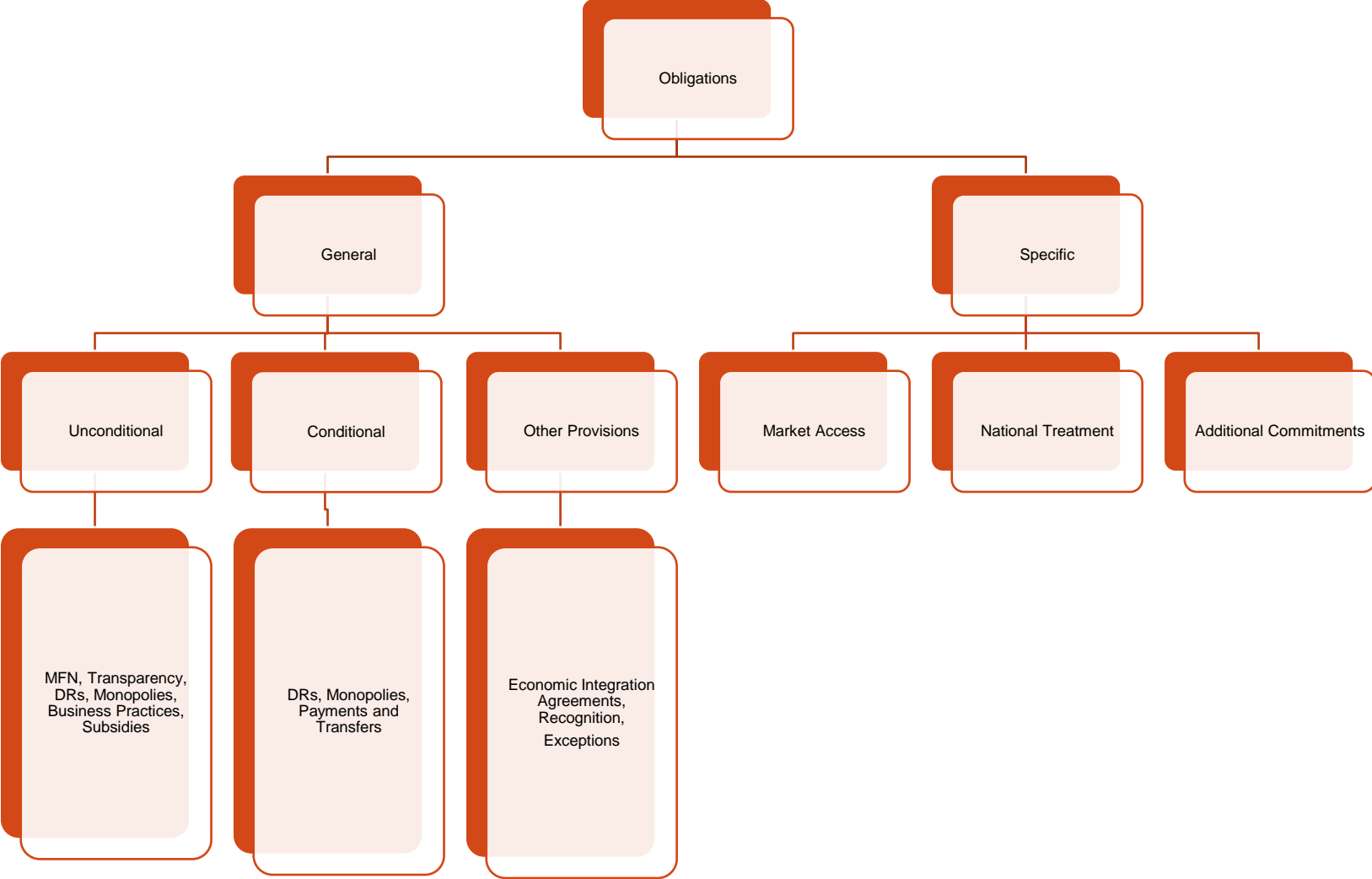
# Understanding the GATS

- All Members of WTO are signatories to the GATS and have to assume the resulting obligations
  - Regardless of their countries' policy stances, trade officials need to be familiar with this Agreement and its implications for trade and development
- GATS applies to measures by Members affecting trade in services- these measures may be taken by central, regional or local governments or authorities
- Two main pillars of GATS:
  - (a) ensuring increased transparency and predictability of relevant rules and regulations, and
  - (b) promoting progressive liberalization through successive rounds of negotiations

- It aims at improving market access and extending national treatment to foreign services and service suppliers across an increasing range of sectors
- It does not, however, entail deregulation
- Rather, the Agreement explicitly recognizes governments' right to regulate, and introduce new regulations, to meet national policy objectives



# Structure of the GATS



- GATS covers all internationally traded services except-
  - Services provided to the public in the exercise of governmental authority that are supplied “neither on a commercial basis, nor in competition with one or more service suppliers”
  - Air Traffic rights and all services directly related to exercise of air traffic rights (but includes aircraft maintenance and repair; selling and marketing of air transport services; computer reservation services)

## **GOVERNMENTAL SERVICES- SOME EXAMPLES....**

Police, fire protection, infrastructural services  
(roads, etc.)

Monetary policy operations, customs  
administration,

Other public services (health, education, etc.)  
meeting the relevant criteria

# GATS: SECTORAL COVERAGE

## 12 Sectors and 161 Sub-Sectors

- Business Services
- Communication Services
- Construction Services
- Distribution Services
- Education Services
- Environmental Services
- Health Related Services
- Financial Services
- Tourism Services
- Recreation, Culture, Sports Services
- Transport Services
- Other Services

# Modes of Services Trade under GATS

Trade in services is defined as the supply of a service through 4 modes:

**Mode 1: Cross-border supply**

**Mode 2: Consumption abroad**

**Mode 3: Commercial presence**

**Mode 4: Presence or movement of natural persons**

# Mode 1

- **Mode 1: Cross border supply**, i.e., supply of a service from the territory of one Member into the territory of another Member
  - e. g – International Telecommunication, IT-enabled services, online courses, BPOs.

## Mode 2

- **Mode 2: Consumption abroad**, i.e., supply of a service in the territory of one Member to the service consumer of any other Member-implies services consumed abroad by national of another country.
- e.g. - Tourism - when an Indian tourist stays in a UK hotel, she consumes hospitality services ‘abroad’ from the UK hotelier; Health – Indian Hospital providing hospitalisation for foreign patients; a British ship undergoing repairs in US

## Mode 3

- **Mode 3: Commercial Presence**, i.e., supply of a service by a service supplier of one Member , through the commercial presence in the territory of any other Member- implies services provided by an operator based abroad to consumers of that country through a business or professional establishment by establishing a juridical person or maintaining a branch or a representative office.
- e.g. – A Branch of State Bank of India based in UK providing banking services to UK consumers, Vodafone providing telecom services in India.



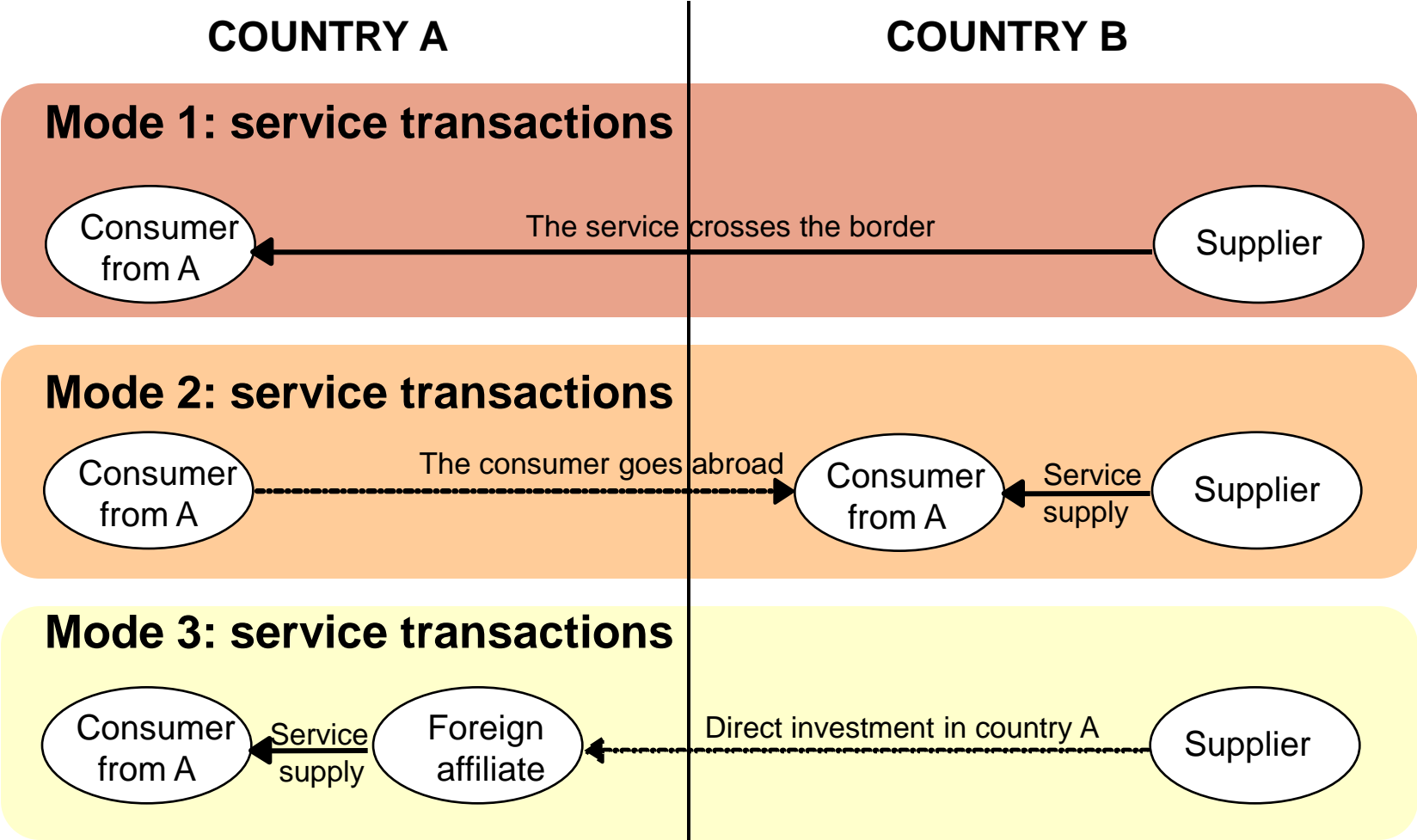
## Mode 4

- **Mode 4:** Supply of a service by a service supplier of one Member through presence of natural persons of a Member in the territory of any other Member- implies Movement of Natural Persons (MNP) or Movement of skilled personnel, of one country to another to work there on a temporary basis.
- Supply of service can be by a natural person or a juridical person of one Member through the presence of natural persons of Member in the territory of any other Member

# Mode 4 (contd.)

- Examples of Mode 4 suppliers:
- A self-employed Indian doctor working in a US hospital on a contract basis (Independent Professional)
- A software engineer of Infosys, India , travelling to US for developing a software for Citibank, US pursuant to a contract between Infosys and Citibank when Infosys has no commercial presence in US (contractual service supplier)
- A software engineer of Infosys, India , travelling to US to work in US Branch Office of Infosys to develop a software for Citibank, US pursuant to a contract between Infosys and Citibank(Intra corporate transferee)
- A Senior Manager of Infosys, India visiting US to negotiate sale of software service to Citibank (Business Visitors)

# 4 Modes of Supply under GATS (1/2)

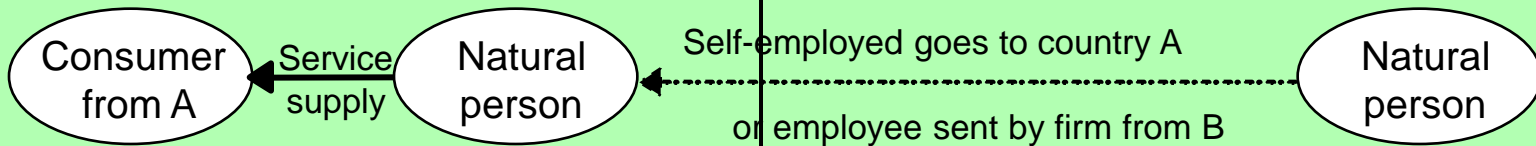


# 4 Modes of Supply under GATS (2/2)

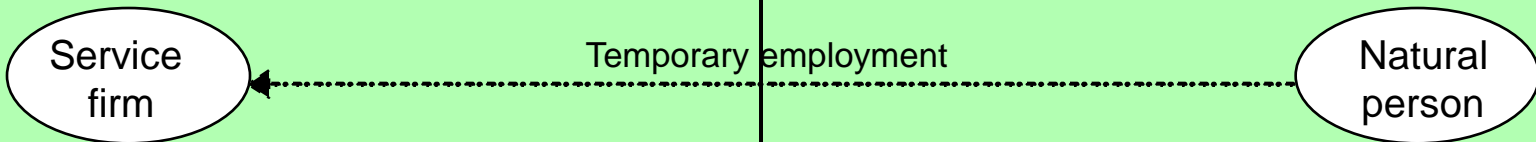
**COUNTRY A**

**COUNTRY B**

## Mode 4: service transactions



## Mode 4: employment



# Scheduling Commitments

- Each Member is required to assume specific commitments relating to market access and national treatment in designated sectors
- Market Access and National Treatment commit Members to giving no less favourable treatment to foreign services and service suppliers than provided for in the relevant columns of their Schedule
- Commitments thus guarantee minimum levels of treatment, but do not prevent Members from being more open (or less discriminatory) in practice

Modes of supply:  
persons

- 1) Cross-border supply 2) Consumption abroad 3) Commercial presence 4) Presence of natural persons

Sector or subsector	Limitations on market access	Limitations on national treatment	Additional commitments
<b>I. HORIZONTAL COMMITMENTS</b>			
SECTORS INCLUDED IN THIS SCHEDULE			
<b>II. SECTOR-SPECIFIC COMMITMENTS</b> <i>[Insert specific commitments in the relevant service sector(s)/sub-sector(s) as appropriate]</i>			
	1) Unbound 2) Unbound 3) None 4)	1) 2) 3) 4)	
	1) 2) 3) 4)	1) 2) 3) 4)	
	1) 2) 3) 4)	1) 2) 3) 4)	

## LIMITATIONS ON MARKET ACCESS (MA)

- Giving access to home market by a member country to services and service suppliers of other Member countries
- GATS cover six types of MA limitations
  1. Limitations on the number of service suppliers;
  2. On the total value of service transactions or assets;
  3. Number of operations or quantity of output;
  4. Number of natural persons supplying a service;
  5. Type of legal entity or joint venture through which a service is provided;
  6. Any foreign capital limitations relating to maximum levels of foreign participation

# LIMITATIONS ON NATIONAL TREATMENT (NT)

- The NT standard does not require formally identical treatment of domestic and foreign suppliers
  - Formally different measures can result in effective equality of treatment; conversely, formally identical measures can in some cases result in less favourable treatment of foreign suppliers (*de facto* discrimination)
- Limitations on national treatment cover cases of both *de facto* and *de jure* discrimination
- Unlike MA limitations, NT limitations do not contain an exhaustive listing of the types of measure



# Most Favored Nation (Article II)

- Under this if a WTO member country grants favourable treatment to another country, even a non-WTO member, regarding the import of a service, it must grant all other WTO signatories the same treatment
- If a country allows any foreign competition in a service sector, it must allow service providers from all WTO member countries to compete to supply that service
- BUT - one-off opportunity to claim MFN exemptions. Unique to the GATS – can only do so upon accession, in principle exemption for 10 years
- Other possible departures from MFN - Article V (Economic Integration); Article VII (Recognition)

# Economic Integration Agreements

## Article V

- Recognizes that economic integration agreements enhance the cause of liberalisation of trade
- Allows members to enter into such agreements where the liberalisation of trade on bilateral or plurilateral basis is greater than WTO commitments, **without MFN obligations**
- **Provided-**
  - such an agreement has “substantial sectoral coverage” and removes substantially all discrimination between participants
  - overall trade barriers are not raised for non-participants

# Mutual Recognition Agreements

## Article VII

- Allows scope for recognition of education or other qualifications obtained by an individual supplier in other member states, **without MFN obligations**
- Such recognition can be granted through agreement or on autonomous basis
- **Provided-**
- such recognition is not on exclusive basis, i.e. members are given opportunity:
  - to negotiate their accession to such agreements; or
  - to demonstrate that their requirements be recognised as well;
  - overall trade barriers are not raised for non-participants

# Domestic Regulations (DRs)

- GATS makes a clear distinction between domestic regulation and measures subject to trade liberalization
- Explicitly recognizes the continued right (and, possibly, the need) of Members to enforce domestic policy objectives through regulation
- Public policy objectives that might require regulatory support:
  - Equitable access, regardless of income or location, to a given service
  - Consumer protection (including through information and control)
  - Job creation in disadvantaged regions
  - Labor market integration of disadvantaged persons
  - Reduction of environmental impacts and other externalities

# ADDITIONAL COMMITMENTS

- Members may also undertake additional commitments w.r.t. measures not falling under the MA and NT provisions of the Agreement
- Such commitments may relate to the use of standards, qualifications or licenses
- Usually in the form of undertakings
- Particularly frequent in the telecommunication sector

# BILATERAL AND PLURILATERAL NEGOTIATIONS ON SERVICES

- More and more countries involved in signing bilateral agreements (FTA/PTA/RTA)
  - Services are becoming and integral part of such agreements
- Key Demands on India in its FTAs-
  - Mode 3
- India's key demand on its trade partners in FTAs-
  - Mode 1
  - Mode 4
- Example: India-EU FTA is stalled mainly on services issues

# Thanks!

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