



# **International Trade in Services: Importance and Potential for States**

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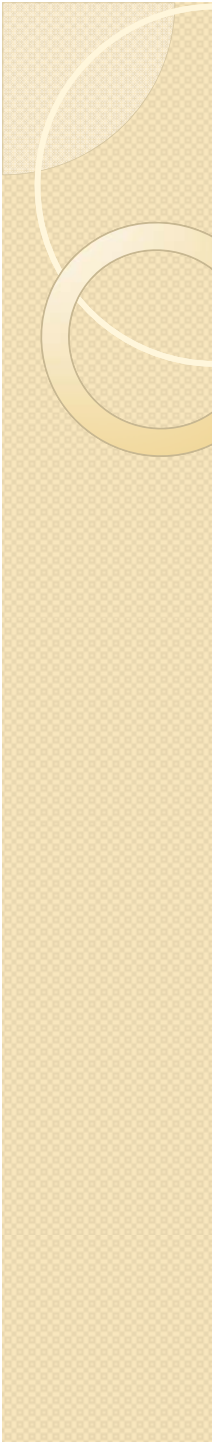
# OVERVIEW

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



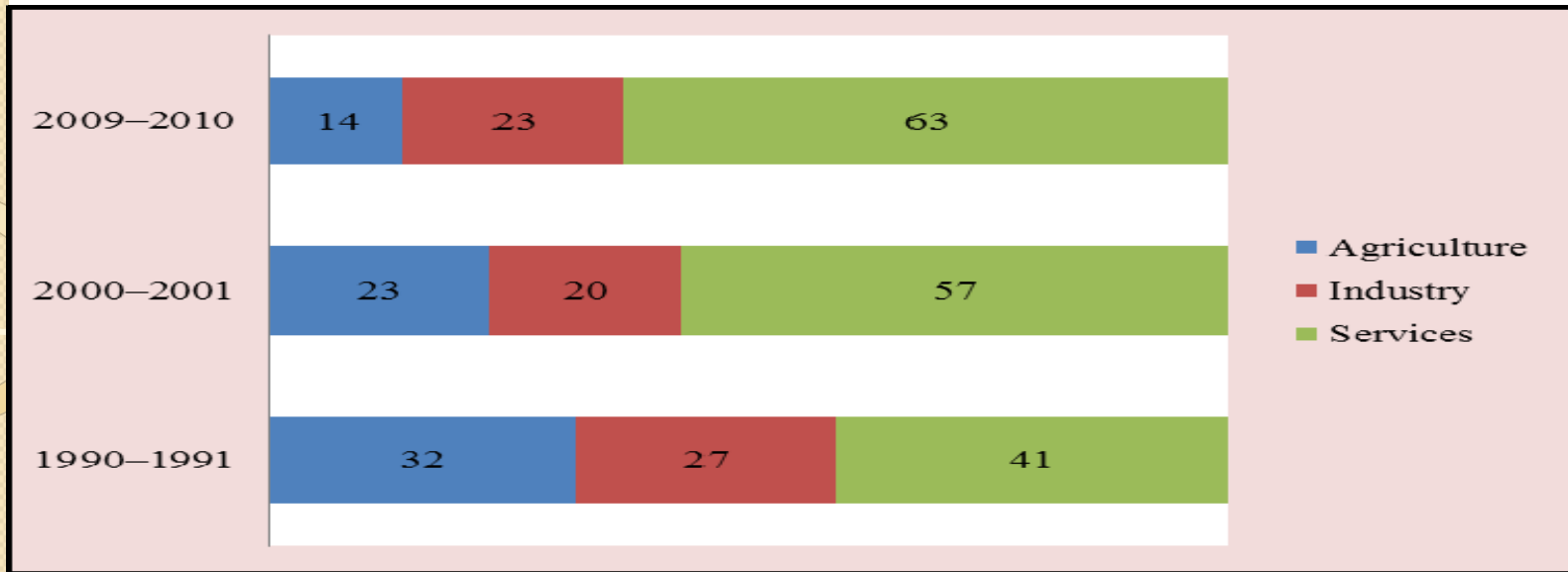
# INCOME GENERATION, EMPLOYMENT AND EXPORT POTENTIAL OF SERVICES

- 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

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- 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

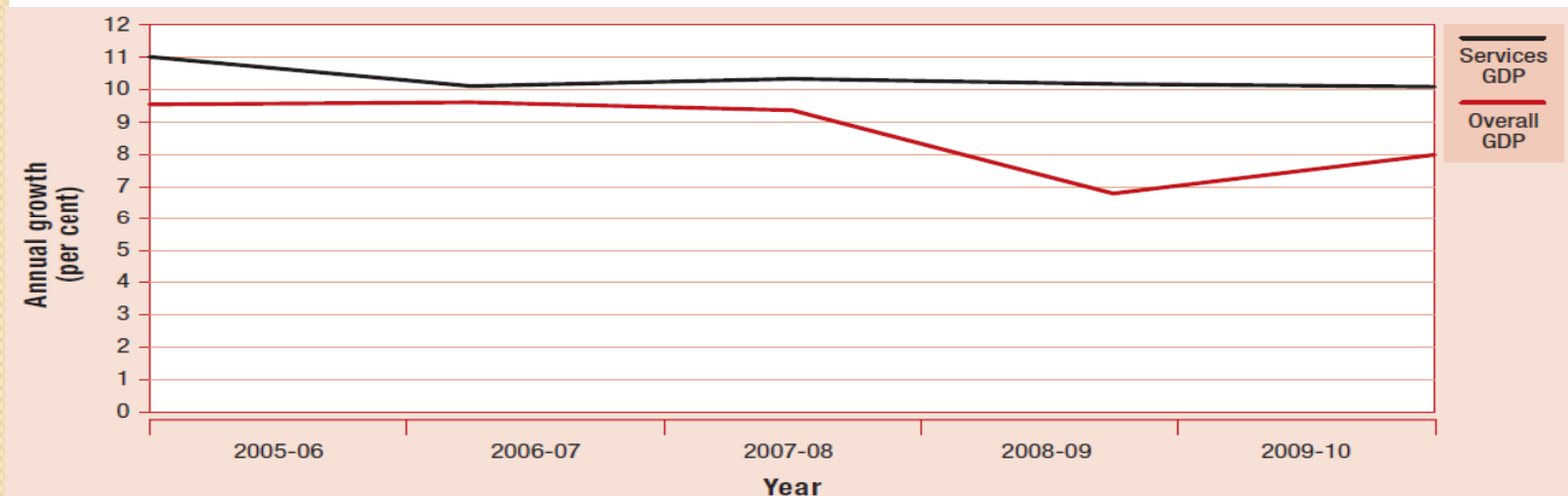
# SOME DATA ON SERVICES

- In 2010, services were estimated to account for 64% 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% (2010-11) (Economic Survey, 2012)
  - Among the top 12 countries with highest overall GDP in 2010, India ranks 8 and 11 in overall GDP and services GDP respectively
  - With 16.9 % share, trade, hotels, and restaurants as a group is the largest contributor to GDP followed by financing, insurance, real estate, and business services with 16.4 % 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 and Overall GDP in India

Source: Ministry of Finance, Economic Survey 2010-11

# 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)
  - Share of services in India's total exports expected to rise to about 50.4%, likely to surpass merchandise exports by 2012 (FICCI Survey, 2007)

# 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



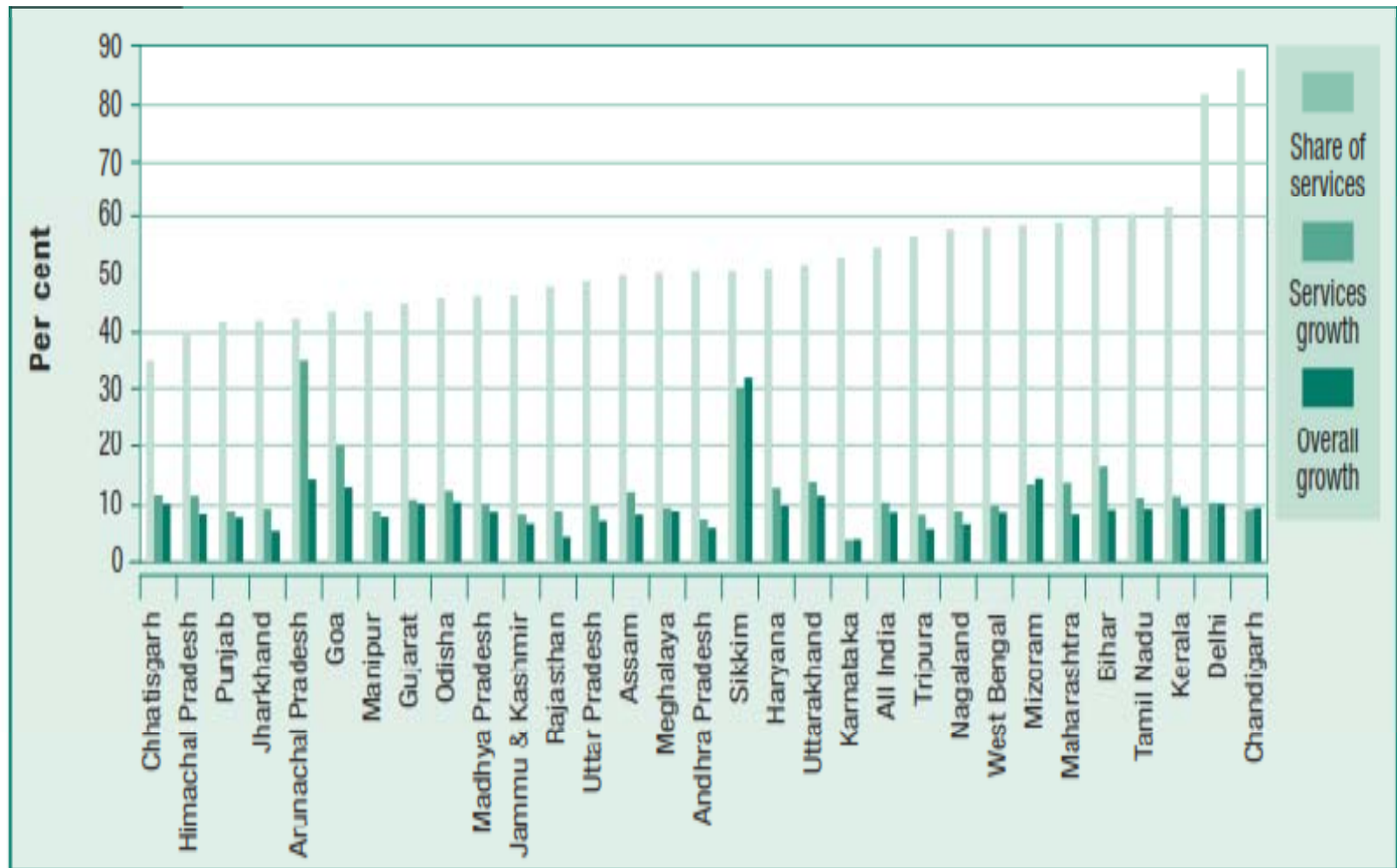
# SERVICES AND STATES

- 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
  - Even backward states piggy-backing on the good performance of this sector to go up the escalator of progress

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, 2009-10



Source : CSO.

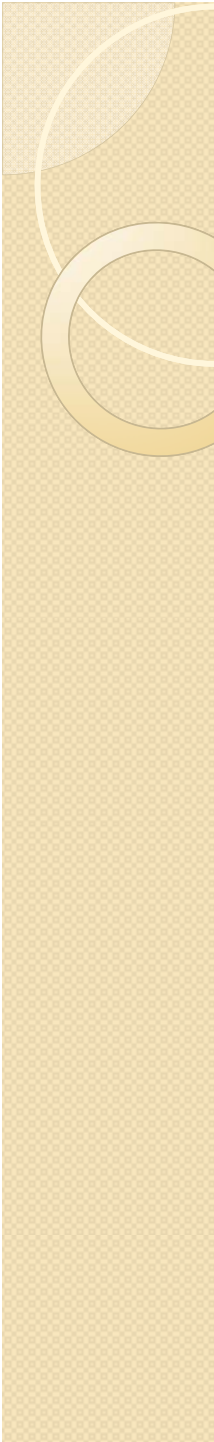
Notes : Data in the case of Nagaland are for 2008-09.

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

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

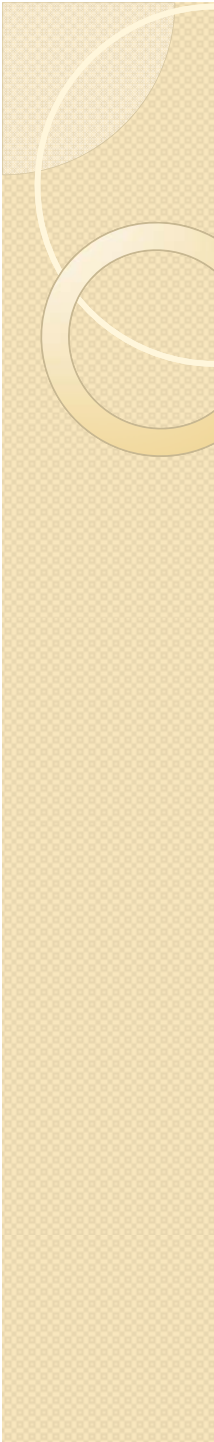
- The way services underpin economic growth is illustrated by the story of the fishermen in northern Kerala
- Without access to market information, fishermen used to sell their daily catch only on the local beach market
  - Some markets among the coastline oversupplied while on others unable to satisfy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

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

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- 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
  - Gol 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

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- 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 - Tourism
  - States also need to create competitive advantage by creating appropriate infrastructure and environment
    - Example: Karnataka – IT, Biotechnology

# 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 I: 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

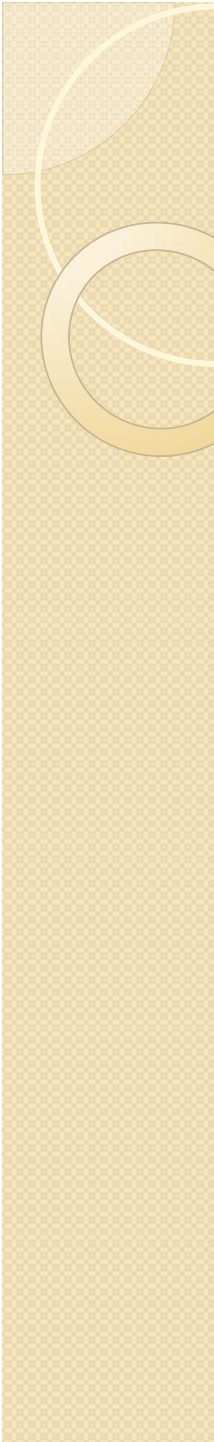
# Trade in Education Services-Central Laws or State Laws?

- 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 2: 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

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- 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

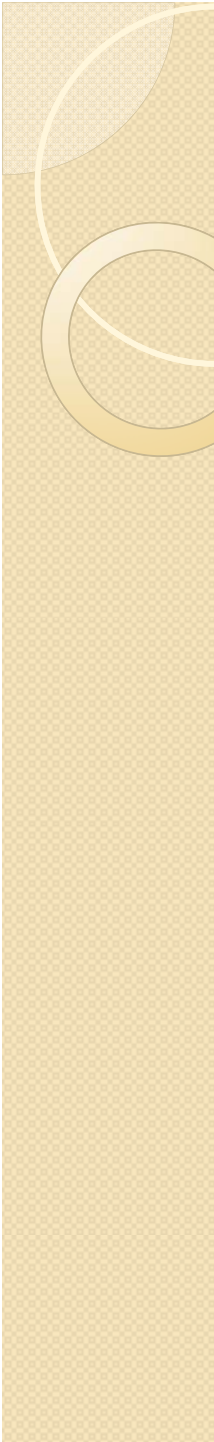


## Trade in Retail Services- FDI in Multi Brand Retail?

- Passing of law related with allowing FDI in MBR is in the hand of Central Government
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- 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

# UNDERSTANDING THE GATS

- The General Agreement on Trade in Services (GATS) entered into force in January 1995
  - Result of the Uruguay Round negotiations to provide for the extension of the multilateral trading system to services
- 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

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- Two main pillars of GATS:
    - Ensuring increased transparency and predictability of relevant rules and regulations, and
    - Promoting progressive liberalization through successive rounds of negotiations
- 
- GATS does not entail deregulation, rather, the Agreement explicitly recognizes governments' right
    - To regulate services
    - To introduce new regulations

# BUILDING BLOCKS OF THE AGREEMENT

- The GATS consists of two main parts:
  - The text of the Agreement (a Preamble, 29 articles arranged in six Parts and various Annexes);
  - A schedule of specific commitments for each WTO Member
- The text provides a framework of disciplines and obligations that apply to all Members, while a schedule contains Member-specific commitments on individual sectors (together with a list of any MFN exemptions)
- 29 articles- divided into 6 parts- Scope & definition, General obligations & disciplines, GATS Rules, Schedules of commitments, Progressive liberalization, Institutional and final provisions
- Also includes various Annexes to GATS- while 2 Annexes deal with MFN & MNPs others specify rules for specific sectors- air transport, financial, telecom and maritime services



**Applies to all  
Members**



**Short text of Articles  
- the "Framework"  
+  
Annexes**

**Applies  
individually**



**Schedules of Specific  
Commitments  
+  
MFN Exemptions  
(<sup>m</sup>once -off<sup>n</sup> on accession)**

# SERVICES TRADE AND MODES OF SUPPLY

- Four-pronged definition of services trade depending on the territorial presence of the supplier and the consumer at the time of the transaction
  - (a) From the territory of one Member into the territory of any other Member (**Mode 1 - Cross-border trade**);
  - (b) In the territory of one Member to the service consumer of any other Member (**Mode 2 - Consumption abroad**);
  - (c) By a service supplier of one Member, through commercial presence, in the territory of any other Member (**Mode 3 - Commercial presence**); and
  - (d) By a service supplier of one Member, through the presence of natural persons of a Member in the territory of any other Member (**Mode 4 - Presence of natural persons**)

# GATS - SCOPE AND APPLICATION

- Article I:1 stipulates GATS applies to “**measures by Members**” affecting trade in services
  - Does not matter in this context whether a measure is taken at central, regional or local government level, or by non-governmental bodies exercising delegated powers
- However, “**services supplied in the exercise of governmental authority**” (Article I:3b) not covered under GATS
  - Such services should be “supplied neither on a commercial basis, nor in competition with one or more service suppliers” (Article I:3c), such as police, fire protection, monetary policy operations, mandatory social security, and tax and customs administration

# SERVICES SECTOR CLASSIFICATION

- Classification system comprised of 12 core service sectors (document MTN.GNS/W/I20):
  1. Business services (including professional services and computer services)
  2. Communication services
  3. Construction and related engineering services
  4. Distribution services
  5. Educational services
  6. Environmental services
  7. Financial services (including insurance and banking)
  8. Health-related and social services
  9. Tourism and travel-related services
  10. Recreational, cultural and sporting services
  11. Transport services
  12. Other services not included elsewhere



# GATS: THE AGREEMENT

- **General Obligations**
  - Unconditional General Obligations
  - Conditional General Obligations

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- **Other General Provisions**
- **Specific Commitments**

# UNCONDITIONAL GENERAL OBLIGATIONS

- Each Member has to respect certain general obligations that apply regardless of the existence of specific commitments
- These include:
  - MFN treatment (Article II),
  - Some basic transparency provisions (Article III),
  - Availability of legal remedies (Article VI:2),
  - Compliance of monopolies and exclusive providers with the MFN obligation (Article VIII:1),
  - Consultations on business practices (Article IX), and
  - Consultations on subsidies that affect trade (Article XV:2)



# Conditional General Obligations

- These applies only to sectors listed in a Member's schedule of commitments

1. Domestic Regulation
  2. Payments and Transfers
-



# Other General Provisions

1. Economic Integration Agreements
  2. Recognition
  3. Exceptions
-



# Specific Commitments

- In addition to respecting the general obligations, each Member is required to assume specific commitments relating to market access (Article XVI) and national treatment (Article XVII) in designated sectors
- The relevant sectors as well as any departures from the relevant obligations of Articles XVI and XVII are to be specified in the country's Schedule of Commitments
- Article XVI (Market Access) and XVII (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: 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) 2) 3) 4)	1) 2) 3) 4)	
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## LIMITATIONS ON MARKET ACCESS (MA): ARTICLE XVI

- The provisions of GATS, laid down in Article XVI.2, cover six types of restrictions that must not be maintained in the absence of 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
- These measures, except for (5) and (6), are not necessarily discriminatory, i.e. they may affect national as well as foreign services or service suppliers

## LIMITATIONS ON NATIONAL TREATMENT (NT): ARTICLE XVII

- The national treatment 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)
- That limitations on national treatment cover cases of both *de facto* and *de jure* discrimination
- Unlike Article XVI, Article XVII does not contain an exhaustive listing of the types of measure which would constitute limitations on national treatment

# 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 an 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



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**Thanks!**