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Foreign banks face Bharat challenges

Shinjini Kumar, Hindu Business Line

29 June, 2012: Foreign banks have been part of India's financial landscape since late nineteenth century. For the first few decades after independence, they quietly existed as icons of global financial authority, attracting high end clients and employees.

Opening of the economy in the 1990s brought fresh attention to foreign banks for their role in facilitating trade flows, introducing new products and helping capital formation. Many foreign banks expanded and tried to 'localise' products, services and branding, even as new private sector banks offered competition. The latter were able to grow rapidly, aided by an active policy of branch licensing and consolidation.
Over time, the relative disadvantage in terms of branch licensing and inorganic growth opportunities became significant hurdle for foreign banks, particularly those whose business plans went beyond serving their multinational clients in one or two locations.

RBI roadmap

In this backdrop, the roadmap for foreign banks released by Reserve Bank of India in 2005 was an important pointer to the policy direction for foreign banks; moderating hopes of rapid expansion on one hand and creating long-term optimism on the other.

The roadmap termed its goals as consolidation of domestic banks and 'synchronised' presence of foreign banks, vaguely promising a wider play during the second phase. But before the first phase of the roadmap expired in 2009, the world as we knew it came to an end, ending with it all certainty of economic relationships.

In the wake of the financial crisis, another noteworthy demise was that of the assumption that the developed world knew all along what it was doing. Also, Indian banks fared well through the crisis. All of this damaged the foundation on which the promise of change was built; thereby delaying the second phase and denying the big opportunity that many were watching out for.

And then, RBI released a 'Discussion paper on the presence of foreign banks in India' in early 2011. Apart from a more assured point of view regarding local incorporation for systemically important foreign banks, the Discussion paper does little to shake up the game for existing foreign banks. It does, however, change the rules of entry for new entrants by defining categories of banks that may not be eligible for the branch mode of presence.

Interestingly, 2009 and 2010 recorded the highest number of branch licences given by the RBI in recent years. Many of these went to new entrants from hitherto under-represented geographies of South East Asia, Australia, Japan and Korea.

It is worth examining the landscape for foreign banks in India as a result of the realignment of global economies and population trends. It is also useful to contextualise this within the rise and interconnectivity of the emerging markets that seems to be here to stay and shape the future of financial services globally.

The theory of shift of economic power to emerging markets is now widely accepted. WTO data show increasing trend of interregional trade flows between countries in Asia, West Asia, Africa and South and Central America.

India's top two trading partners are GCC and China. While Europe and the US grapple with economic and regulatory changes that make incremental capital infusion in India difficult, Indian regulations proposed in the discussion paper target these banks for local incorporation, further exacerbating capital issues. This is already playing out in the case of a few European banks in India and the overall shrinkage in the share of foreign banks.

On the other hand, banks from GCC, South East Asia, Australia, Japan or Africa may be relatively better positioned to bring capital, but in the current branch licensing regime, they cannot hope to overcome the competitive disadvantage vis-à-vis existing foreign banks. Not only is the branch expansion route like the proverbial camel passing through the needle's eye (existing as well as new entrants compete for 12 mandatory and few discretionary branch licenses), but also the proposed WOS route promises no certain growth path, inorganic or organic.

Physical branches

A good question to ask at this stage concerns the relevance of physical branches. After all, in the age of technology and tech savvy young population, physical branches should not matter. The difficulty arises from lack of unambiguous guidance on a bank's ability to create outreach through non-branch presence. Regulations around deposit acceptance, doorstep banking and simple, unspecified fear of God keeps foreign banks from experimenting; and rightly so. If getting a branch licence is so difficult and getting around a branch licence so easy, it is better to be safe and follow district, municipal, state or any other boundaries!

From a business perspective also, physical presence will continue to be relevant even as economic growth leads to changes in social and economic behaviour. The projected 300 million middle class as well as the wide 'emerging middle' in India will not be monolithic but diverse in their language, customs and demands.

Migration patterns

Unlike the past domination of a handful of cities, the future may bring more spread wealth as States take charge of growing their economies and promote local entrepreneurship.

Migration patterns may change as Europe and America lose sheen and the corridors from India to the GCC countries and South East Asia become wider. Futuristic trends like the Marigold Hotel may actually come true, bringing in immigrants from the west for more than hip replacement. However, although physical presence may remain an essential precondition for penetration, there is a double negative response to this situation.

Firstly, foreign banks do not find small ticket retail banking in India commercially attractive and secondly, the predetermined model of financial inclusion (no frills accounts, Priority sector lending with rigid asset buckets) and branch expansion create disincentive for banks to be innovative or import ideas and best practice.

On the whole, scepticism regarding foreign banks may be justified today, given that foreign banks are largely urban, with 302 branches in urban/metropolitan and 14 branches in rural/ semi-urban India. On the other hand, the population pattern in India point to the emergence of large rural and semi-urban population that can fuel growth, given the right access to formal financial system.

For now, this difference seems irreconcilable. But given some ability to innovate, create partnerships and evolve mutually acceptable solutions, maybe the twain shall meet. After all, if foreign foods, beverages, hair colour and mobile phones can reach every village in India, why would foreign banks be such an implausible dream?

(The author is Director, Pricewaterhouse Coopers. Views expressed are personal)

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Services export down 23% in April to $ 10.48 billion

PTI

15 June, 2012, Mumbai: India's services export declined sharply to $ 10.48 billion in April, down 22.95 per cent from a month ago, RBI data showed today.

In March, the services exports were $ 12.89 billion. The RBI data included travel, transport, construction, insurance and pension services, financial services, charges for the use of intellectual property, telecommunications, computer and information services among the major components of the services sector exports.

Meanwhile, services imports during the month fell to $ 6.5 billion from $ 9.08 billion in March.

RBI releases the provisional monthly data on international trade in services with a lag of 45 days.

However, the data undergoes revision in the quarterly Balance of Payments (BoP) data. The October-December BoP data was released on March 30, 2012.

As per the provisional data of RBI, services exports in the last quarter of FY2011-12 stood at $ 35.14 billion. Services imports bill was at $ 23.16 billion.

India's services exports has been growing at an average yearly rate of 25 per cent in last 10 years, barring 2009-10 where it was down by nine per cent because of global recession and 2011-12, where growth was just four per cent, according to Services Export Promotion Council (SEPC).

"Yes there is a decline because the overall economy of the world is under negative pressure. The rupee depreciation against the US dollar has also affected the receipts," said Rajesh Sharma, director general, SEPC.

Services exports has recorded more than six-and-a-half- fold increase in 10 years from $ 20.76 billion in 2002-03 to $ 138 billion in 2011-12.

The services trade (exports and imports) stood at $ 220 billion in 2011-12, as per RBI data.

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Software exporters face gloomy outlook as slowdown lingers

Surabhi Agarwal, Mint

June 16, 2012: A slowdown in decision-making and cutbacks in discretionary spending, especially in the banking and financial sector, will continue to impede the growth of the $70 billion software services export sector in the coming quarters.

According to reports of several brokerage firms, which attended analyst meets organized by the country's top information technology (IT) firms Tata Consultancy Services Ltd (TCS) and Wipro Ltd, the near-term outlook for the sector continues to be gloomy even as it shows promise in the long term.

Ashish Chopra of Motilal Oswal wrote in his 13 June report that the BFSI (banking financial services and insurance) vertical remains under stress, having witnessed spending cuts in a few segments.

"Decision-making in discretionary spends remains very slow, and there are few indicators of improvement in the same." He added that negative publicity around visa issues and election year in the US have compounded concerns.

While a favourable rupee, which has fallen by almost 10% in the last three months, could help offset some of the negative impact of wage increases and visa fees for companies such as TCS, it could also mean pressure on pricing as clients may demand some benefit of rupee depreciation through rate cuts.

"We believe that if the rupee remains weak at Rs.54-55 to a dollar levels for a period of time, it could trigger more than just sporadic discussions around pricing," Chopra said.

While TCS has announced a wage hike of an average 8% for its offshore employees and 2% for those onsite, Infosys is waiting for more clarity on business demand, while Wipro is expected to raise pay effective June.

While analysts are enthused about Wipro's strategy to focus on key verticals such as BFSI, healthcare, retail and energy and utilities, which constitute almost 65% of its revenue, apart from driving more sales from key 138 clients, they are cautious on growth and the long wait for an overhaul at the company.

Shashi Bhushan and Pratik Shah of Prabhudas Lilladher wrote in their report that according Azim Premji, Wipro's chairman, the IT industry would deliver growth of 13% for the current financial year. "However for Wipro, the sales cycle is now slower than what they witnessed in April (earlier the management indicated acceleration in decision-making in April'12 after a slow start for calendar year 2012). The growth is likely to be anaemic for Q2FY13." The report added that the company didn't indicate any improvement in the demand environment. "There is pricing pressure in some verticals. The deal closure continues to remain a moving target since January."

Ankita Somani of Angel Broking was more upbeat on the company as it has operating margin levers such as improving utilization level (which has been the lowest since FY2008) and increasing offshore revenue. “Early signs of restructuring yielding results are visible in terms of improvement in the deal pipeline, growth seen in the company’s focus industry verticals and increasing revenue from the company’s top clients.”

On the other hand, TCS has indicated that its volume growth in the current quarter would be more than the 3.2% registered during the March quarter this year. In a different report, analysts of Prabhudas Lilladher wrote that even though the cautious stance taken by clients of TCS in February 2012 still continues, “according to the company, the ramp-up of new deal wins and status-quo in the environment would help them to deliver growth better than quarter four of last fiscal.”

In line with its smaller rivals, TCS is also witnessing softness of demand for IT in the banking and financial sector and from the UK. However, it is expecting to grow from deals in insurance, telecom and from continental Europe.

However, near-term challenges persist for Infosys, which is seeing almost 40% of its business under stress, according to Chopra of Motilal Oswal. “While it is growing geographies like France and Germany, and services like cloud and mobility at a very high pace, given their low base, this does not translate into overall growth for the company.”

He added Infosys is expecting good growth from verticals such as telecom, healthcare and retail. However, even for Infosys, BFSI continues to be a laggard.

“The industry has thrived on low hanging fruits (BFSI and North America) thus far. Focus will (now) shift to under-penetrated segments which still have a lot of growth to offer,” summed up Chopra of Motilal Oswal.

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First time in years, cap on H1B visa reached

PTI

June 14, 2012, Washington: For the first time in several years, the Congressionally mandated 65,000 H-1 B work visas, the most sought after by Indian professionals in the US, has reached its cap.

"USCIS announced today that it has received a sufficient number of H-1 B petitions to reach the statutory cap of 65,000 for fiscal year (FY) 2013. June 11 was the final receipt date for new H-1 B specialty occupation petitions requesting an employment start date in FY 2013," an official statement said.

In the past few years, it either crossed over to next year or the cap was reached later in the year. It is noteworthy that the cap has been reached mid-year in particular during the recent economic crisis.

US Citizenship and Immigration Service (USCIS) said it will consider properly filed cases as received on the date that it physically received the petition; not the date that the petition was postmarked. It will reject cap-subject petitions for new H-1 B specialty occupation workers if they arrive after June 11, 2012 and seek an employment start date in FY 2013, it said.

It will continue to accept and process petitions that are otherwise exempt from the cap, it said.

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Visa, poultry issues on the agenda

Nayanima Basu, Business Standard

June 13, 2012, New Delhi: Even as the third India-US Strategic Dialogue is held in Washington tomorrow, contentious areas relating to the recent spate of disagreements between the two countries are likely to significantly feature in the talks.

The past few months have seen both countries engaged in a bitter fight over several trade-related issues, with each dragging the other to the World Trade Organization (WTO)'s Dispute Settlement Body. While the US had taken India to the WTO over restrictions imposed by India on poultry products from the US, India had complained against the US for increasing professional visa fees, which hit the operations of Indian information technology firms. It had also lodged a complaint against duties on Indian steel imports.

The dialogue tomorrow would be chaired by External Affairs Minister S M Krishna, who would meet US Secretary of State Hillary Clinton in Washington DC. In 2009, both countries had decided to establish the dialogue process. The first meeting was held in Washington in 2010, while the second was held here in July 2011.

"When bilateral issues would be discussed, the recent WTO disputes would undoubtedly feature high on the agenda. After all, both countries are soon going to surpass $100 billion worth of bilateral trade. So, even minor trade irritants like these matter a lot for both parties," a senior government official told Business Standard.

The irritants notwithstanding, two-way trade in goods and services between the two nations increased almost five-fold in the last decade — from $18 billion in 2001 to nearly $90 billion in 2011. This year, bilateral trade is expected to stand at $100 billion.

"The US-India bilateral relationship has truly experienced a quantum jump in the past decade. Job creation and value addition have been the bedrock of business partnerships between the two countries. But much remains to be done," said Adi Godrej, president, Confederation of Indian Industry, who is leading a delegation of chief executives to the US as part of the dialogue.

The US had yesterday exempted India, South Korea, Taiwan, South Africa, Turkey, Malaysia and Sri Lanka from sanctions on oil imports from Iran. India is the third-largest buyer of Iranian oil, according to US Department of Energy.

During her visit to India last month, Clinton had urged India to buy less oil from Iran. Starting June 28, the US plans to implement sanctions against banks that finance oil imports from Iran. India has, however, maintained it would only follow decisions taken by the United Nations, not the foreign policy of a particular country.

"Governments in market economies do not create or run businesses, but we can help create the environment that allows entrepreneurs to take smart risks that catalyse new business—by strengthening investor protection, providing export financing and supporting investments in infrastructure and high technology," said Robert Blake, US assistant secretary of state for south and central Asian affairs.

Both sides would also discuss cooperation in public, private and scientific sectors, energy security, women's empowerment and health. [Back to Top]

Delay in proposed liberal visa regime worries industry

Elizabeth Roche, Mint

May 28, 2012, New Delhi: Representatives of Indian industry on Monday expressed disappointment over the failure of India and Pakistan to clinch a landmark visa procedure liberalization pact last week. The pact would have resulted in the South Asian rivals issuing single-year, multiple entry business visas besides exempting holders from mandatory reporting at police stations and allowing travel to as many as 10 cities on either side.

Both countries, which share an often hostile relationship, would have also for the first time in their histories paved the way for the issue of tourist visas to each other's citizens besides extending visas on arrival for senior citizens and young children entering India or Pakistan through the Wagah-Attari land border— one of the few routes open between the neighbours.

"We had gone there prepared to sign this agreement," Indian foreign secretary Ranjan Mathai told reporters in New Delhi on Friday. "We have also received this report that the Pakistani side referred to some delays in their procedures as also the desire of their interior minister (Rehman Malik) to have a political-level participation at the signing. That is where the situation is. But we had gone there fully prepared to sign this agreement," Mathai said.

On Monday, Vikramjit S. Sahney, president, Saarc Chambers of Commerce and Industry, said: "We are a little disappointed." Saarc is the South Asian Association for Regional Cooperation.

"We express the hope that this agreement will be signed at the political level very soon," Sahney said at a meeting organized by the Federation of Indian Chambers of Commerce and Industry (Ficci) in New Delhi.

"Along with this (the visa pact) we need air connectivity, local banks (setting up branches in the other country), we have to open many border trading points, we need the seamless movement of railway wagons, the early conclusion of the joint bilateral investment protection agreement and, of course, the Mumbai-Karachi sea route. I think these are the 10-12 steps which will pave the way for greater economic engagement with Pakistan," Sahney said.

Sushanta Sen of the Confederation of Indian Industry also expressed disappointment over the delay. "It would have been good if it happened. (But) the intentions of both countries are good. It's a question of time, I think the agreement will happen."

Trade is being seen as the key driver of the peace process between India and Pakistan begun last year after a previous dialogue was put on hold after the 2008 Mumbai terrorist attack.

This year, India and Pakistan have opened a new border trading point at the Wagah-Attari land crossing to boost commerce. They have also exchanged business delegations and hosted exhibitions highlighting the business potential of trading directly between the two countries. India has in principle agreed to allow Pakistan to invest in India and Pakistan has moved from a positive list-based trade regime to a negative list-based trade regime with India. The Pakistani government has promised to abolish the negative list and accord India most favoured nation status by the end of 2012 besides looking to import petroleum and power from India.

A liberalized visa pact would have given added impetus to these moves.

Rajya Sabha MP and former Indian consul general in Karachi, Mani Shankar Aiyar, held the Pakistan government responsible for the delay in initialling the pact. “A lot of interaction between India and Pakistan businessmen has to take place. We must facilitate it through a visa regime. Unfortunately, although some progress was made there... (it) was held up on political grounds,” he said. “I am hoping we will overcome this,” said Aiyar, speaking to reporters on the sidelines of the Ficci meet.

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Domestic tourism gains as rupee's fall hits foreign travel

Moulishree Srivastava & P.R. Sanjai, Mint

New Delhi/Mumbai, May 31, 2012: About three weeks ago, Expedia India Inc. offered a discount deal on domestic air tickets of Rs. 600 on all destinations, leading to a surge in bookings—by 350% over the previous month. Trade and industry say domestic tourism has been a collateral beneficiary of the slide in the rupee.

Enthused by the response, Expedia is now offering a discount of Rs. 1,000 on an air ticket if tagged with a hotel booking.

It's not the only one offering such deals. Many travel agencies have begun to do so to tap the surge in demand as Indian tourists shift their focus to domestic travel this summer.

"The leisure outbound travel has taken a double hit with the depreciating rupee and rising air fares. There has been a combined hit to the pocket of anywhere between 18% and 40% when compared with last year," said Raja Natesan, chief operating officer, TUI India.

Natesan said some established agents reported 30% fewer enquiries this summer for international holidays compared with last year.

"My wife and I planned to go to the US this summer, but then we changed our plans because as compared with last year we would have to pay around 40% more," said a senior banker with a public bank, who did not want to be identified. The rupee's slump "has a real impact on short-term decisions like these".

The Indian currency crossed Rs. 56 per dollar on Wednesday's close, compared with Rs. 45 per dollar a year ago.

The number of Indians travelling abroad during 1991 was 1.9 million, which rose to 12.99 million in 2010 with a compound annual growth rate of 10.5%, according to the tourism ministry. In 2010, the number of Indians travelling abroad registered a growth of 9% as compared with 1.8% growth in 2009.
Data for 2011 wasn't available.

International tourism expenditure by Indians has increased to $14 billion in 2010 from $1.3 billion in 1997, according to a report on the Indian outbound market by European Travel Commission and the World Tourism Organization.

Those who might have holidayed abroad are now thinking local.

“There are many people who wanted to graduate from domestic travel to international travel this year, but now have postponed their plans till next year. This has fuelled domestic travel demand,” said Manmeet Ahluwalia, marketing head of Expedia India.

Destinations such as Kashmir, Leh, Ladakh and Sikkim, which thrive on foreign tourists in a normal year, are seeing a spurt in Indian travellers.

This is borne out anecdotally. Ron Feemster, a US expatriate who visited Kashmir last week with one of his friends, said there were many more Indian travellers than they expected. “We were on a houseboat, which is popular with foreign travellers. People over there told us that we came in at the right time because suddenly there were lots of Indian travellers and houseboats weren’t available.”

Travel agencies say they have observed a huge demand for domestic packages even though rising domestic airfares continue to be a challenge.

“With prices increasing for outbound, people are taking breaks where price is controllable,” said Rajiv Duggal, managing director, Kuoni Travel India Ltd. “The trend is that international clients are opting for domestic holidays or short-haul holidays. We are also seeing a huge demand for our weekend packages for destinations at drivable distances and box packages that include typical two nights, three days stays, with breakfast. They cost around Rs. 5,000. We already had such packages, but we never presumed this much demand.”

Domestic airfares, which are around 30% more expensive this summer, still pose a challenge, Duggal said.

“Many travel agencies including ours are in the process of re-contracting on airfares with airlines, but it’s not easy,” said Duggal.

Yatra Online Pvt. Ltd. is also focusing on localized packages, such as holidays to destinations that are a four-five hour drive away from major cities for weekend breaks.

Destinations in Kashmir and the North-East “are in huge demand, because we have sold out on all these packages for this summer”, said Pratik Mazumder, head of marketing and strategic alliances at Yatra . Other destinations in demand are in Rajasthan and Kerala, which usually see lean demand in summer. That’s partly “because many luxury resorts are cutting down their rates by 30-40%,” said Expedia’s Alhuwalia. “Normally, for a plush, luxurious resort in cities like Jaipur, Udaipur and Bikaner, it costs around Rs. 9,000-17,000 a night.”

Kuoni’s Duggal said that by June-end the company expects growth in domestic travel revenue of around 20% over the year earlier period. The industry needs that growth.

“This summer we will have to do more volume, because our margins are going to be low,” said Duggal.

“The margins and profitability are going to be 20-30% lower than what we have thought of earlier, so based on the volume, by June end, we expect 18-22% increase in our domestic travel business.”

Thomas Cook said that it has seen an upward trend of over 30% in the domestic business this season.

Other than domestic destinations, short-haul destinations such as South-East Asia have seen growth, travel agents said.

“There has been a 30-35% increase in Indian travellers going to South-East Asia, as compared with last year,” said Expedia’s Alhuwalia. “However, they are downgrading their accommodation from a five-star category to four-star or three-star and also cutting short on holidays from eight-nine days to five-six days.”

With the rupee having slumped, many US travellers are showing interest in coming to India, but there hasn’t been any significant momentum, yet. “On inbound from the US, we could have made some money, but we are in a period where outbound is drying up,” said Kuoni’s Duggal. “So, we are stuck from both sides.”

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Lower the barriers for higher education

Sajal Mathur, Economic Times

25 May 2012: Indians aspire to give quality education to their children. Unfortunately, given our population, there are not nearly enough schools or reputed institutes of higher education in the country.

Premier institutions like the IITs, IIMs or AIIMS have thousands of applicants for each available seat. Those with deeper pockets or financial aid often look overseas for graduate studies.

The business of higher education is booming notwithstanding significant trade barriers that dampen cross-border movement of students and faculty . According to OECD estimates , there were 3.7 million foreign students worldwide in 2009. Universities in OECD countries have captured 80% of the market.

The top three destinations for international students are the US (6,60,581 students), UK (3,63,363 students) and Australia (2,57,637 students). Together , these countries account for nearly 1.3 million, or 35% of all foreign students in 2009. The main catchment area for university recruiters are developing countries in Asia.

China (5,67,982 students), India (2,11,083 students) and South Korea (1,27,291 students) are the top three markets. You would expect host countries to welcome graduate students to their universities. Foreign students bring talent, ideas and pay higher tuition fees.

The higher fees allow foreign universities to invest in faculty and research. However, the reality is that host countries can do more for international students. Set aside the security issues or attacks on Indian students and look at the broader policy framework for cross-border trade in education services.

There are significant market access and regulatory barriers to international movement of students and faculty. Only around 50 WTO members have specific commitments to promote higher education services under the WTO's trade in services (Gats) framework.

Even in bilateral or regional trade in services agreements , higher education and the mutual recognition of professional qualifications are not adequately addressed. Given the inherent needs and the size of the Indian market, education services should be kept on the radar.

Some of the barriers affecting trade in the higher education sector are:

Portability of degrees: Difficulty in translating professional degrees earned in India into equivalent recognised degrees overseas, and vice versa, poses challenges and requires attention. For students aspiring to become doctors, lawyers or accountants, the decision on where to study and eventually practice may hinge upon mutual recognition agreements (MRAs).

There are complications if an Indian MBBS or LLB degree is not recognised for an MD or LLM degree abroad. Supplementary qualification exams for fully-qualified professionals are also a dampener.

Fees: Charity begins at home. A dual or multiple fee structure implies that fees for citizens , regional partners and other internationals are usually differentiated.

It is hard to argue that deserving students from Lagos or Lucknow should pay two or even three times more than a student from London. Scholarships may provide relief but more funds and attention are needed to bridge the widening gap in fees for domestic and international students.

Other market access barriers: Under the WTO's Gats framework , cross-border supply through distance education and e-learning is still at a nascent stage here. There is considerable scope here with advances in information technology. Consumption abroad continues to be the predominant form for trade in higher education services. However, unlike a shopping binge overseas, which requires a tourist visa, students typically need a multi-year visa.

The visa approval procedures and fees could be further streamlined to avoid turning back deserving students. Commercial presence requires the supporting regulatory framework for investment in higher education . North-South and South-South partnerships between institutes of higher education can be encouraged. There are 'twinning arrangements' being pursued such as setting up of branches or local campuses of foreign institutions, subsidiaries and franchising.

Finally, cross-border movement could also be encouraged to give higher education the necessary fillip. Student and faculty exchange programmes can be pursued. The 'brain' and 'foreign exchange' drain from student and faculty migration can be arrested if reputed foreign universities start partnerships with domestic institutions. India has begun leveraging its institutes of higher learning overseas.

The IIFT, for example , has a partnership in Tanzania and is now proposing a new collaboration in Uganda. TheIndian School of Business in Hyderabad has tie-ups with several leading international business schools. It is time to lower the barriers for higher education. India's services offer in the Doha negotiations takes cognisance of higher education services.

The country's conditional offer envisages market opening in all four modes. Other trade partners could be requested to reciprocate in the relevant bilateral, regional or multilateral negotiations or forums. This is necessary if India is to reap a demographic dividend and provide technical skills and university education domestically or overseas for its growing population.

The author is professor at Centre for WTO Studies, Indian Institute of Foreign Trade (IIFT). Views expressed are personal.

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Services exports growth at 4% as global uncertainties take toll

Asit Ranjan Mishra, Mint

May 22, 2012, New Delhi: Global uncertainties, especially in the euro zone, have taken a severe toll on India's services sector. In the year ended March, services exports grew at the slowest pace in a decade, barring the crisis year of 2009-10. The single-digit growth pace was surprising as merchandise exports expanded at nearly 20% in the same year.
According to provisional Reserve Bank of India (RBI) data, services exports grew 4% to $137 billion (around Rs. 7.5 trillion today) in the last fiscal year, while services imports contracted 3.8% to $81.1 billion.

While the year started off well, with such exports registering a robust 24.9% growth in the first quarter, the second quarter saw a sharp slowdown to 4.1%. In the third quarter, they contracted 5.4% and remained flat in the fourth.

The central bank began releasing monthly data in April 2011 on trade in services with a lag of 45 days and at a more disaggregated level on a quarterly basis beginning in the first quarter of 2010-11.
The sector ranges from information technology (IT) to services provided by Indian doctors and nurses abroad. RBI's classification includes transport, travel, construction, insurance and pensions, financial services, telecommunications, computer and information services, and personal, cultural and recreational services, among others.

While disaggregated data for the fourth quarter will be available on 30 June, data till the third quarter shows software services exports growth declined to 9.4% in the third quarter from 21.3% in the first quarter. Non-software miscellaneous services contracted 34% in the third quarter, while it grew 24.4% in the first quarter. Other key services export sectors such as travel and transportation decelerated, but still grew at robust rates of 14.4% and 23.4%, respectively, in the third quarter.
Services are critical to India's economic well-being as they constitute more than half the country's gross domestic product (GDP), having risen from a 33.5% share in 1950-51 to 56.3% in 2011-12. In terms of size, software is a key category, accounting for 41.7% of total services exports in 2010-11.

The numbers are lower than expected, said Kunal Kumar Kundu, India general manager and senior economist at Roubini Global Economics. "This means services sector GDP growth in 2011-12 could be worse than expected," he added.

Indian IT and business process outsourcing services lobby group Nasscom estimates that onsite and offshore software exports grew 16.3% to $69.6 billion, said Som Mittal, its president.
Nasscom has projected a growth rate of 11-14% for the current year, which may be too optimistic, according to companies and analysts. Nasscom will review its growth projection in October when more industry data is available, he said.

“International companies are cautious about taking decisions,” Mittal said. “However, they need us more than before to change their business model. But obviously, the uncertain global environment will impact us.”

The Economic Survey for 2011-12 said the outlook for the services sector in the domestic economy is linked to its prospects externally. “While software services exports have continued to be steady, the unfolding events in the euro area could lead to some sluggishness in this sector,” it said. “The fair-weather business services exports, which have already shown signs of deceleration, may not get better.”

Rupee depreciation may help Indian software companies at a relative level, Kundu said. “However, with European countries opting for austerity measures, it will not help Indian software companies,” he said. India needs to take a different approach to boost services exports, said Lalit Bhasin, chairman of the Services Export Promotion Council. “It is easier to sell goods abroad because people need them on a daily basis. You need to constantly upgrade and promote your service offerings. You cannot keep selling what is outdated and not demanded now,” he added.

The overall trend in the economy affects the services export sector more than manufacturing. “There has to be a proper economic climate,” Bhasin said. “Foreign direct investment is not being allowed in many sectors. No development is taking place except in some sectors like healthcare and hospitality. The education sector has almost stagnated and nothing much is happening in the entertainment sector.”

While the commerce ministry regularly updates its foreign trade policy and sets yearly targets for merchandise export growth, it hardly gives any guidance or announces measures to boost services export growth. Former commerce secretary Rahul Khullar had said earlier this month that merchandise exports may grow at around 10-15% in 2012-13.

The government and the commerce department need to come up with concrete steps to promote services trade, Bhasin said. “We have told them the industry does not need any lip service,” he said. “What it needs is focused measures and separate strategies for each services sector.”

Commerce minister Anand Sharma has said he will announce the annual supplement to the foreign trade policy on 5 June.

Kundu said sops won’t be enough to boost services exports. “The current trend reflects the overall global dynamics. The worst in Europe is yet to come. I don’t think the government can do much. In the current global environment, one cannot do much by planning,” he said.

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IT policy to look at giving exports a fillip

Surabhi Agarwal, Mint

India's policy will look at giving IT exports a fillip by giving cash incentives and make the country attractive for foreign technology manufacturing firms to build factories: Satyanarayana

May 15, 2012, New Delhi: J. Satyanarayana, who became secretary of the department of electronics and information technology about two months ago, said in interview that India's policy will look at giving IT exports a fillip by giving cash incentives and make the country attractive for foreign technology manufacturing firms to build factories.

He also wants to make existing e-governance projects more outcome based and increase awareness on cyber security. Edited excerpts.

The country's software exports sector continues to be affected by the global economic crisis coupled with the impact of the end of the tax holidays. Are there any plans to give some boost to the sector?

One thing which is being talked about is not-profit linked incentive scheme, for which consultation has also taken place with the industry. It is one of the things with the department and is currently in a draft form. It is an incentive proposed for tier-II and tier-III cities. If companies are located in these towns, certain amount of financial incentive would be given.

Will the incentives be in the form of tax holiday or land?

Tax holiday is not permissible any more. The way it is proposed is a cash incentive—refund of the certain amount of tax paid and varies from tier-II to tier-III. The incentive will also depend on whether it is SMB (small and medium business) or a non-SMB. A matrix is being worked out. But, currently it is being debated at the department only.

The government is considering proposals to provide incentives to fabrication units. What is the update on the modified version of the earlier special incentive package scheme (SIPS)?

It is undergoing an inter-ministerial consultation process. It is part of the electronics policy, which has those components, including the SIPs, which will be for various electronic items manufacturing. So, 20-25% of the threshold investment defined for the sector will be subsidised, subject to the investment happening and the unit coming into production. A three-year window will be given for submitting proposals from the notification of the policy. So there is a timeline for the last proposal to be taken up, otherwise it is open ended. But the modified SIPS is more liberal in that sense and there is no cap on the number of proposals (that could get subsidy).

Although the government wants to provide incentives to software companies by opening up the domestic sector, states have been consistently found lagging behind in the implementation of the mission-mode projects (MMP). What is the solution?

There has been a good traction from the central MMPs, but the progress is not so attractive on the state MMP front. So in terms of making a real difference there, we will give an outcome orientation (to the project). How many services have touched the citizens this month? It is the single criterion which will measure the success or the impact across the country.

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India, ASEAN indispensable IT producers, consumers: Lamy

PTI

May 15, 2012,New Delhi: India and China have turned into "indispensable" IT producers and users in the global value chain and have seen considerable rise in investments in the technology sector, top WTO official has said.

"Although developed countries still account for a large share of the investment and consumption of IT products, in recent years investment in this sector has increased considerably in some emerging economies such as China, India and ASEAN countries," the World Trade Organisation (WTO) Director General Pascal Lamy has said in Geneva.

During the welcome address on the 15th anniversary of the Information Technology Agreement (ITA) yesterday, Lamy noted efforts taken by ITA signatories like India by providing access to affordable IT equipment.

"Access to affordable IT equipment has been instrumental in enabling India to become a powerhouse in consulting services and software development," he said.

ITA has "oiled" these economies through increasing productivity of traditional industries, creating brand new business sectors and generating new jobs, Lamy added.

ITA is an agreement enforced by the WTO in 1996. The aim of the treaty is to reduce all taxes and tariffs on IT items to zero. There are over 45 signatory countries which include the US, China, Thailand and Vietnam.

Lamy said affordable access to information technology products has also contributed to trade facilitation and has helped nations better integrate into global production chains.

"These countries have now turned into indispensable producers and consumers in global value chains of IT products. All these figures are a useful reminder that trade opening can be truly win-win," the Director General said.

For instance, in southern India, mobile phones have helped fishermen address information asymmetries with traders and consumers.

He cited that "better market coordination has resulted in increased profits for the fishermen, lower fish prices for poor consumers, as well as a reduction in wastage of fish."

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India changes stance on rise in US visa fee

Nayanima Basu, Business Standard

Says rise in fee discriminatory disputes on steel, poultry trade intensify

New Delhi May 22, 2012: To strengthen its case against the US, India has changed its stance on the issue of rise in visa fees, saying the higher professional visa fees were targeted only towards Indian technology firms, not those from other countries.

India would now officially seek consultation with the US by sending a notification by the end of this week. A couple of months earlier, it had moved the World Trade Organization (WTO)'s Dispute Settlement Body (DSB) on this issue, but could not firm up the case due to its "technical and complex nature", a senior official in the commerce ministry told Business Standard.

India has said the US was using a particular law, Public Law 111-230 (Border Security Act), which substantially enhances fees relating to applications for L1 and H1B visas for companies (with at least 50 employees) for whom non-immigrants account for more than half their US workforce. As a result, Indian information technology (IT) giants like Tata Consultancy Services (TCS), Wipro, Infosys and Mahindra Satyam have come under the net.

The Bill nearly doubles the fees for skilled-worker H-1B and L1 visas to $4,500 per applicant (from about $2,320), for such companies.

"This is a complex and highly technical case. So, we are fine-tuning our consultation case. We are going to challenge that this 50-50 rule is a discriminatory move only against India, as it accounts for the major share of the IT and ITeS (information technology-enabled services) sectors in the US. This is not affecting any other country. We are going to send an official notification to the US on this soon," the official said, on condition of anonymity.

On May 31 and June 1, both India and the US are going to fight yet another dispute over the US' imposition of countervailing duties on steel imports from India. Both sides would sit for consultations in Geneva. The US, which believes the prices of steel products made by Essar Steel are doctored, has already been served a notice on this issue.

India also plans to consult WTO on the James Zadroga Act, under which US authorities have the right to impose two per cent tax on goods imported from non-government procurement countries. India is still not a party to the WTO's government procurement agreement, but the Indian government says imposition of this additional tax is a violation of the National Treatment Policy exercised under WTO trade laws.

India and the US, which have a trade relationship worth $100 billion, are also engaged in a bitter clash over poultry imports. The consultations on this case were wrapped up last month. However, it ended in a bad note and US has now notified the WTO DSB to set up a panel, which would be in place by June. If this process fails to find an amicable solution, the case would reach the WTO's appellate body.

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US senator introduces bill to increase visas for STEM grads

Malia Politzer, Mint

May 16, 2012, New Delhi: US Senator John Cornyn introduced legislation to Congress on Tuesday to increase the number of visas issued to highly skilled workers.

The bill, called the "STAR Act of 2012," would create 55,000 visas for foreign graduates from American universities holding Masters degrees or Ph.D's in the science, technology, engineering and mathematics fields by allowing them to opt for dual intent when entering the United States. "I am confident the STAR Act will bolster American competitiveness and provide a stonger foundation for long-term development in STEM. It would also streamline the greencard process for STEM economic growth and job creation," he said in the release.

The proposed bill comes roughly one month after India approached the World Trade Organization to complain about a 2010 law passed by the Obama administration that roughly doubled visa fees for highly skilled workers to $4500.

While comprehensive immigration reform is likely to be a hot topic in the upcoming presidential elections, the narrowly written STAR Act of 2012 holds some promise of bipartisan support, as both candidates have adopted official stances supporting policies that would maintain foreign graduates in STEM fields. In the fall of 2011, Romney released an economic plan to raise the ceiling on visas and streamline visa processes for such studentts. And Obama addressed the issue in this year's State of the Union. Simultaneously, growing reports and media coverage of "America's brain drain"--a trend of highly skilled foreign workers in the United States returning to their countries of origin--has provoked concern that the country may be losing its competitive edge.

India currently represents one of the top sources of foreign students to the United States at 104,000, second only to China, according to the 2010-11 report by Institute of International Education. Of these 61% are graduate students, most in STEM fields.

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India asks Germany to liberalise its visa regime

PTI

New Delhi, May 10: India today asked Germany to further liberalise its visa regime to facilitate movement of professionals and tourists in order to enhance economic ties between the countries.

The issue came up for discussion during the meeting of Commerce and Industry Minister Anand Sharma and German Federal Minister of Economics & Technology Philipp Roessler.

Sharma is in Germany for a five-day visit since Monday.

"I do hope that there will be further simplification of the visa regime between our countries and work permit procedures for facilitating easy movement of professionals, business persons and tourists," an official statement quoting Sharma said.

Sharma also raised the issue of dispute between an Indian firm Ideafarms and German company Continental AG concerning unauthorised use of a software whose copyright was held by the Indian company.

"India was given assurance of a just solution and Indian side will follow the issue up with the German side," it said.

He also discussed the possibilities of providing skill development services particularly in the field of manufacturing.

It said that only 20 per cent of Indian workforce undergo skill training as against 75 per cent in Germany.

"Germany has long traditions of strong linkages between industry, academia and skill institutions. In the coming years, skill development partnership will perhaps constitute the corner stone of Indo-German collaborations, it said.

The minister also met Klaus Wowereit, Governing Mayor of Berlin and explored the possibility of collaboration in town planning with regard to proposed smart cities under National Manufacturing Policy and Delhi Mumbai Industrial Corridor.

The bilateral trade between the countries stood at USD 23.64 billion last year.

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Current account deficit may fall this year

Indivjal Dhasmana, Business Standard

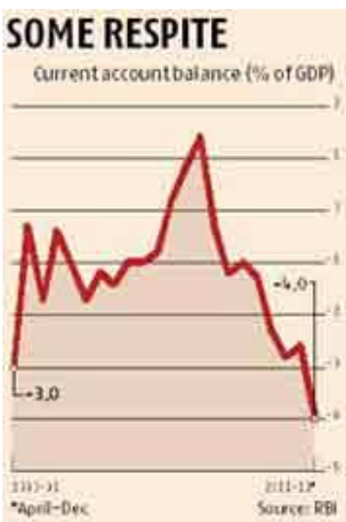
Services exports, remittances could help narrow it in 2012-13

New Delhi May 4, 2012**:** The country's current account deficit (CAD) is likely to remain under pressure this financial year, too, as merchandise exports are not expected to match the 21 per cent growth seen in 2011-12.

Even so, the deficit may come down a bit as a percentage of gross domestic product (GDP) this financial year compared to the last one. Imports, too, may not witness the 32.15 per cent growth registered in 2011-12 and improvement in the conditions in the United States might lead to services exports doing better, according to analysts. Besides, strong Gulf economies may continue to result in robust remittances from overseas Indians, they add.

The CAD may fall anywhere between three and 3.6 per cent of the GDP in 2012-13, against 3.5-4 per cent expected for the last financial year, say economists.

To finance such a high CAD for another year, capital inflows have to be very high, they say, adding government needs to clear the air on the General Anti-Avoidance Agreement Rule (GAAR) to attract investments from foreign institutional investors.



CAD, which is trade deficit together with a balance in services trade besides remittances and some investment income, was at unprecedented level of four per cent of GDP in the first nine months of last financial year against 3.3 per cent in the corresponding period of 2010-11.

"It is likely to remain in the range of 3.5-4 per cent of GDP for the whole of last fiscal," according to Crisil chief economist D K Joshi.

On the other hand, CARE Ratings chief economist Madan Sabnavis pegs CAD at 3.7-3.9 per cent of GDP for 2011-12.

While Joshi says CAD this financial year is likely to be 3.6 per cent of GDP, Sabnavis pegs it at 3-3.5 per cent. "CAD will continue to be under pressure this financial year, though it might improve a bit from 3.7-3.9 per cent expected for FY12," Sabnavis said.

The first nine months of 2011-12 saw a rise in the trade deficit to $132.3 billion—that means just over $43 billion in every quarter on an average. But, trade deficit for the full year rose to $184.92 billion, which means over $48 billion in every three months on an average. It means trade deficit rose in the last three months, and if economists are expecting lower CAD for the whole 2011-12 year than for the first nine months, then services exports should neutralise this higher trade deficit.

The surplus in services trade stood at $34.1 billion in the first nine months of FY12.

But, more than CAD, it is trade deficit that is worrying Joshi as it stands at 10 per cent of GDP in the last financial year against around three per cent even in the balance of payments crisis period of 1991-92.

Joshi expects CAD to be at 3.6 per cent of GDP this financial year. The merchandise exports, he says, will register "just single to low double-digit growth" in the ongoing financial year. Sabnavis, however, expects merchandise exports to grow by 10-15 per cent this financial year, as the US is showing signs of revival even as Europe is not recovering.

He expects the growth in trade deficit to be not as high as in the last financial year, as gold imports might come down, though there is no certainty over oil imports despite international prices not showing a spurt this fiscal so far.

In 2011-12, India's trade deficit grew to $184.9 billion from $118 billion in 2010-11. Commerce Secretary Rahul Khullar had listed petroleum and gold as the main catalysts behind this. "In these, imports were higher by about $69 billion compared to 2010-11 and that almost entirely accounts for the rise in the trade deficit in 2011-12," he added.

Sabnavis also expected services growth to do better since the US is recovering. However, Infosys co-chairman S Gopalakrishnan had earlier said that services exports growth would remain muted in the next three-five years because of a slow recovery in the US and problems in the Euro zone.

Besides, remittances will continue to be strong this financial year as well. That will not allow CAD to deteriorate further, Sabnavis says, pointing to a strong recovery in the Gulf region and in the US.

According to a World Bank report, weak rupee and robust economic activities in the Gulf region resulted in India receiving the highest amount of remittances among developing countries at $63.7 billion from nationals working overseas in 2011.

In fact, India got marginally more remittances than China, which received $62.5 billion. Though the prudential level of CAD is below three per cent for developing countries like India, a more important question is whether there are sufficient capital inflows to finance CAD.

Sabnavis says that while FDI flows will remain strong this fiscal as well, investments by FIIs need to be wooed by addressing their fears on GAAR. External commercial borrowings would also remain robust this fiscal, but they also raise the debt level, he adds.

During the first three quarters of 2011-12, there was a net drawdown of reserves (on a BoP basis) to the extent of $ 7.1 billion mainly due to a widening of the current account deficit compared to a net accretion of $11 billion recorded in the corresponding period of the previous year.

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India-EU trade deal runs into liberalization hurdle

Asit Ranjan Mishra, Mint

The deal may not happen unless govt eases foreign investment rules in banking, legal, postal services, say analysts

May 6, 2012, New Delhi: The proposed free trade pact between India and the European Union is stuck because India has failed to open up sectors such as legal and postal services for foreign investment and further liberalize sectors such as banking, insurance and pension, besides the contentious multi-brand retail.

Admitting this for the first time, a top commerce ministry official said the deal is unlikely to materialize unless India allows higher foreign investment in some of these sectors. “The future of the deal is now at the hands of the politicians,” the official said, requesting anonymity.

After the ongoing Parliament session is over on 22 May, the deal could still be sealed if the government pushes through some of the reforms till it gets busy with the presidential elections in July, he said. After that, the assembly elections in Himachal Pradesh and Gujarat by the end of the year may limit the scope of any significant policy decision, he said.

The government has become even more cautious in carrying out key economic reforms after it had to postpone its decision to allow 51% foreign direct investment in multi-brand retail following protests from opposition parties and some key allies such as the Mamata Banerjee-led Trinamool Congress. A decision on a less politically contentious issue of allowing FDI in the beleaguered aviation sector by foreign airlines has also been delayed even after open support from key ministries within the government.

Talks for the bilateral trade and investment agreement between the two sides started in 2007. Both sides have missed at least five deadlines, the latest being in April, to complete the negotiations. They held the 14th round of talks in the last week of April.

According to the EU, India is expected to gain €5 billion and the EU at least €4 billion in the short-term alone. The EU as an economic bloc is India’s largest trade partner. In 2010, it imported goods valued at €33.2 billion from India and exported goods worth €34.7 billion. Services exports to India stood at €9.8 billion and imports at €8.1 billion.

The deal is not making headway because India does not have the laws in place, according to Arpita Mukherjee, professor at the Indian Council for Research on International Economic Relations, a Delhi-based think tank.

“India’s approach of ‘give nothing and get nothing’ in trade negotiations does not work with the EU,” Mukherjee said. “They want a solid package which they can sell to their domestic stakeholders, especially when their economy is not doing well.”

She said India is also not able to derive a good package in services from the EU because it has nothing to offer in return.

Joao Cravinho, EU ambassador and head of delegation to India, told reporters last week that he expects the negotiations to be concluded by the end of this year.

However, he said clarity on issues such as duty concessions on wines and automobiles from the Indian side and liberalizing the visa regime for Indian professionals from the European side needs to be worked upon.

Cravinho hoped that greater clarity is expected on the pact during the scheduled June visit to Brussels by trade minister Anand Sharma.

“We hope when minister Sharma goes to Brussels, there will be an occasion for some clarity on the horizons,” Cravinho said. “When the political leadership meets in June, perhaps we can have a breakthrough.”

On the visa issue, Cravinho said: “We can liberalize the visa regime. I hope we can significantly improve the opportunity for India to send people to EU to send people to send services to European companies.”

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India’s export imperatives and trade negotiations

Suparna Karmakar, Mint

India’s commercial service sector prowess is under challenge and is in danger of being overshadowed

May 8: India is again at the centre of global foreign policy discourse, and not for good reasons. The present government’s proclivity to sacrifice reforms at the altar of short-term political expediency has given rise to unkind remarks about India being a delusional great-power-to-be and suffering from a surprisingly xenophobic attitude.

Unsettling as disdain can be, it’s the current disaffection with reforms and liberalization coupled with populism at both the centre and the (majority) state levels that has made the country its own worst enemy. Asinine priorities have sapped the government’s ability to invest in meaningful projects and their manifestation in the country’s recent budgets has seen an explosion of the nation’s deficits. As a recent Citigroup analysis puts it: “India has always had deficits, but now they are no longer small. The rising deficits—(1) current account, (2) fiscal (government profligacy), (3) governance (self-inflicted) and (4) liquidity (cyclical, with strains of structural)—are feeding on themselves and have contributed to a derating of the India story.” Not surprisingly, S&P’s recent sovereign outlook downgraded India from stable to negative, with a proviso that “there is a one-in-three likelihood of a(nother) downgrade over the next 24 months” (current rating is BBB-).

The downgraded outlook has its basis in the recent sad performance of the economy. For FY12, core sector growth was 4.3% against 6.6% in the previous year, with the crucial areas of Index of Industrial Production growing at dismal rates owing to a contraction in the energy and electricity sectors. In the circumstances, even the projected revised outlook of sub-7% gross domestic product (GDP) growth in FY13 seems optimistic, and could see a downward adjustment of up to a percentage point. The year started poorly with an insignificant headline Purchasing Managers’ Index rise that is easily reversible given the negative inventory trends, and looking ahead, strong headwinds indicate difficulties in achieving better economic performance in the months to come.

Simultaneously, India’s trade performance has come under a cloud. The official position appears optimistic, as despite challenging economic environments in major markets such as the US and Europe, India reportedly crossed the merchandise exports target of $300 billion for 2011-12. However, India’s trade deficit touched a record high at $184.9 billion for 2011-12 (about 10.6% of GDP) as imports outpaced exports by a huge margin. Government data also showed that exports for the month of March fell 5.7% to $28.7 billion compared with a year ago, while imports rose 24.3% to $42.6 billion.

More worryingly, India’s global commercial service sector prowess is already under challenge and will be entirely overshadowed unless our policymakers wake up from their current complacent slumber quickly. This is significant since India’s particular development path has relied on fast-growing services. But the outlook for some of the dynamic service sectors in the economy is now linked to the global economy and the unfolding events in the euro area could lead to further sluggishness in the export-oriented parts of the sector. Doomsday forecasters could, in fact, be forgiven for postulating a recurrence of the balance of payments crisis a couple of decades earlier which had brought the country to its economic knees.

But is that fate inevitable? It would appear that the government is hard at work to reverse the trend on the trade front, especially in view of the many free trade agreements (FTAs) under negotiation. The concern, however, arises from India's ability to negotiate meaningful market access in both goods and services (either multilaterally or through FTAs) in a world which for all purposes is deglobalizing. Even at the recently concluded Unctad XIII meetings the Organisation for Economic Co-operation and Development countries never showed any sign that they are prepared to break the current World Trade Organization (WTO) deadlock and discussions centred more on matters of principle than on practical accommodation of concerns.

A recent trip to Brussels has made me aware of how utterly hesitant and insular the sentiments in individual European Union (EU) member states have become, despite their public assurances to the contrary. The financial crisis and ongoing recession-induced deglobalization of the financial markets have already found their parallels in trade (though maybe not in tariffs, unlike the 1930s), as was apparent from my discussions with functionaries in the European Commission as well as individual European parliamentarians. It is thus unlikely that India-EU trade negotiations will be concluded anytime soon, the latter requiring progress that the negotiating heads of states can proudly showcase to their electorate. India's trade deal with the other regional blocks to its east is also stuck, facing serious roadblocks over the issue of movement of professionals.

Course correction, therefore, calls for urgent interventions from the polity, and action lies solidly at home. It may be recalled that China's recent commercial services export boom has been based on impressive growth in its infrastructure and trade-related services, liberalized as a part of its accession to WTO. India too must find ways to speed up domestic liberalization and regulatory reforms, both in traded and non-traded services sectors.

(Suparna Karmakar is a trade economist)

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Visa Protectionism

Wall Street Journal

Raising fees on worker visas only depresses job creation for all.

April 13: Protectionists always argue they're protecting domestic jobs. In reality, they're killing jobs for everyone. Consider:India said this week it will file a complaint at the World Trade Organization against a 2010 U.S. law that, in a thinly veiled form of protectionism, hiked visa fees for foreign skilled workers in the U.S. The Indians have a strong case.

Democratic Senator Chuck Schumer, co-author of the law, didn't leave much doubt as to legislative intent: "The emergency border funds will be paid for by assessing fees on foreign companies known as chop shops that outsource good, high-paying American technology jobs to lower wage, temporary immigrant workers from other countries." The law targets firms that operate in the U.S. with more than 50% of employees on work visas, by nearly doubling the fee to $4,500 per visa application. It has mainly affected Indian firms like Infosys and Wipro, which bring engineers and programmers from India to work in their U.S. offices. They have paid an estimated $200 million in extra fees.

The law is part of a broader trend of discrimination against foreigners who come to the U.S. to work. The National Foundation for American Policy in Washington found that rejection rates for applications shot up to 17% for H-1B visas and 27% for L-1B visas last year, from 11% and 7% respectively in 2006-07. There's an argument that shutting out foreigners from working in the U.S. this way violates America's WTO commitments on trade in services. So far, India has handled the issue maturely, only approaching the WTO after complaints to U.S. officials went nowhere. It could have retaliated and shut out American expats who need visas to work in India.

The irony is that the Indian outsourcing giants are creating jobs in the U.S. in a trend known as "insourcing." According to India's National Association of Software and Service Companies, the industry hired 107,000 permanent *American* residents to work in the U.S. in 2010-11, almost doubling from five years ago, as it moves up the value chain and sets up U.S. offices to better serve customers.

But Infosys's American offices still need Indian workers to replicate the success of Bangalore, just as American firms abroad deploy American expat managers. Keeping talented Indians out of the U.S. will only slow down all hiring in America, and encourage companies—not just Infosys—to consolidate back-office operations outside the U.S.

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How Manila trumped the teacher

Devjyot Ghoshal, Business Standard

In its rise to top of BPO biz, Philippines brought a great deal from India

Manila , July 3, 2012,: The rambling, low-slung vastness of Metro Manila, the National Capital Region of the Philippines, is broken by the steel and glass high-rises of Makati — the country's financial nerve centre. At one end of Ayala Avenue, the main thoroughfare of this central business district, sits Bong Borja, in a roomy corner office.
The story of the Philippine business process outsourcing (BPO) sector is well known, but Borja reveals another facet of this extraordinary tale: how the Philippines learnt to play the outsourcing game from India. It is a tale of consequence because the Philippines has since outplayed the Indians at their own game, and is now the biggest exporter of the voice-based BPO services in the world.

"A lot of our success was because we were operating with India, in hindsight. We were learning from them, taking the best practices but also avoiding the pitfalls. We knew, for example, early on that wage inflation was creeping up and so when we were faced with the same issue, we were steadfast as an industry to not go into that trap," he says, with a hint of an accent.

Borja can speak of the industry with some authority — he was among the Filipino entrepreneurs who got the country's BPO industry off the ground at the turn of the century. By 2004, PeopleSupport, the company that he founded, was listed on the NASDAQ, and had expanded in the Philippines and even to Costa Rica. Four years later, it was acquired by the Essar Group and became part of Aegis, of which he is now president - strategic initiatives.

"But we learnt good things as well. (For instance) the expansion geographically into other provinces of India, and not just focusing on the main ones in India. We knew that we had to go near where the talent is," he adds.

Along the way, Borja played a pivotal role in setting the Business Processing Association of the Philippines (BPAP), equivalent to India's National Association of Software and Services Companies (Nasscom), and the Contact Center Association of the Philippines. He has chaired both bodies, once even concurrently.

"We were trying to forge a very strong partnership between Nasscom and BPAP in promoting offshoring," Borja recalls, though he stutters a little while trying to get former Nasscom president Kiran Karnik's first name right.

The partnership has persisted, insists Gillian Joyce Virata, senior executive director of BPAP. "We always look at India to see what's happening, what you've done right, what we should watch out for, if there are any pitfalls and since India started ahead of us, naturally as a leader, we watch you all the time," she says, "It's nothing to be paranoid about. We do work well with Nasscom." In fact, according to Virata, the Philippine government looked at Nasscom as a template while setting up BPAP in 2004.

“India actually made outsourcing a comfortable and viable proposition to the western world, and so the barrier to offshoring, by the time we came in, was less. They (the client) could only say that since we’ve outsourced to India, we can also outsource to the Philippines,” adds Borja, “So, we did feed off the success of India.”

There are the usual reasons why the BPO sector has seen strong growth in the Philippines: a substantial English-speaking population, with about 500,000 graduates coming into the job market every year; labour cost arbitrage, as wages remain much lower than other large English-speaking countries; and a cultural affinity to Western countries, particularly the United States, the largest outsourcing client in the world.

However, there are other factors that have helped create favourable conditions— and some of these have a distinctly Indian flavour. “A lot of the fiscal incentives that we’ve got right now have been patterned after India and a couple of other countries. The income tax holidays and things like that,” says Borja.
For companies that register with the Philippine Economic Zone Authority, there’s an income tax holiday for up to eight years, followed by 5 per cent tax on gross income, compared to 30 per cent on net income for other corporate entities in the Philippines. Alongside, there’s a complete waiver on value-added tax for any purchases, as well as no tax or duty on imports.

Kiran Karnik, former president of Nasscom, recalls his erstwhile organisation’s support for the then fledgling Philippine BPO sector. “There are many things that they picked up from us,” he admits, when asked about the fiscal incentives, “And they bettered us on that, while our government has stepped back and there are differences on the tax and regulatory front now.”

Industry bodies like BPAP did much more than merely take the Indian paradigm and replicate it in the archipelago. “One of the biggest tweaks that was done was extending the economic zones to buildings,” says Borja.

While the original law looked at developed repressed areas or empty US military bases, the industry lobbied hard to get these extended to buildings as infrastructure in the prescribed locations wasn’t ready and there wasn’t enough human resource available.

“That helped tremendously, because I think today the ratio of companies that are operating with economic zone status but not physically in the economic zones would probably be over 90 per cent. It’s a major, major thing,” he adds.

As a result, while much of India’s IT & ITes sector works out of distant software parks, the booming Philippine BPO sector delights in the comforts of vibrant and well-connected business districts in the heart of its cities.

Yet, the country has had its own ghost to fight on the way to the top.

“We did have a law that said that women could not work at night, and government was supportive in that it would allow companies with women working in night-shifts to apply for waivers,” discloses Virata.

“We only amended the law only last year, I think. All this time, companies have been filing for exemptions from the law. But the government has been open-minded enough to realise that the law really needed to be amended,” she adds, with a smile.

Without its women, it would be next to impossible for the Philippines to grow the industry to 25 billion by 2016, with 1.3 million employees. But even with them, it is unlikely to be an easy target to achieve.

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Easier visa regime may come before year-end: Makhdoom Amin Fahim, commerce minister of Pakistan

Amiti Sen, Economic Times

Pakistani commerce minister Makhdoom Amin Fahim says the impediments to trade are nothing more than speed-breakers on a highway and that Indo-Pak ties will get only stronger now. In an interview with ET, Fahim talks about the need to learn from the past and the role of army in the on-going trade negotiations. Excerpts:

April 16, 2012: *What has led to the deepening of trade ties between Pakistan and India of late?*

We should realise that there is no use fighting with each other. Why should we not engage in a dialogue and move ahead? Trade is a binding force. We will move ahead in a lot of areas through trade. The remaining issues can also then get sorted out.

Have the growing budget deficit and borrowings also changed the way Pakistan views its neighbors?

Both countries have realised that trade can help move ahead in a way that it benefits both nations and people. Our priority is to improve the financial situation of both countries. It is like moving on a highway. You keep crossing speed breakers, but you ultimately reach your final point.

How do you view India's decision to allow Pak investments?

I must say the way Pakistan and India have started the process of dialogue is a very positive thing. We can come closer, resolve our issues and sort out future plans through dialogue. I think allowing FDI from Pakistan is a good initiative. We will definitely respond positively.

How do you want India to reciprocate to the grant of MFN status by Pakistan?

We have in principle decided to give the status of MFN to India. It is just a terminology of the WTO. The decision has to be implemented after negotiations with India. The two commerce secretaries will meet next month to discuss the issue. Once negotiations are completed, it will be formally announced.

What are the areas that Pakistan would focus on in these discussions?

I don't want to focus on one point. It is not advisable to keep one particular thing on top. Our talks are happening at the ministerial and official levels. Our experts are also meeting. They will take care of all issues.

There is a conflict on duty-free access to textiles. What concessions do you want?

In textiles, we want to be treated the same way as other neighbouring countries. It is true that textiles industry in both countries is strong. But so are the Pakistani and Indian cricket teams. But still they play the game. Sometimes one wins and sometimes the other.

How liberal will the new business visa regime be and when will it be implemented?

In principle, we have decided to give multiple-entry visa to businessmen but the final call will be that of the Indian home ministry and Pakistani interior ministry. Our target is to complete everything by end of year. We may reach a decision before time.

Do the talks have the blessings of the Pakistani army?

The Pakistani army is also Pakistani. So are the businessmen and people of the country. We are not separate. We are one. And our decisions are also one.

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India-Asean services deal stuck

Nayanima Basu, Business Standard

Clause relating to the movement of professionals a major roadblock

New Delhi, April 19, 2012: The much-awaited services pact between India and the 10-member Association of Southeast Asian Nations (Asean) trading bloc has reached an impasse. The deal, which was expected to open a huge services market, is stuck over stiff differences.

Since the negotiations started, talks on services trade have faced serious roadblocks, especially over the issue of Mode 4 of services trade that refers to the movement of professionals. Countries like Indonesia and Philippines have strongly opposed liberalising their respective services markets for India, as these feel Indian professionals would take away a large share of jobs in these countries if trade is liberalised.

Earlier this week, another round of talks was held between the Asean nations and India, but this, too, remained inconclusive. “It is not progressing at all. The deal is stuck. But we are still trying and hope to achieve some consensus,” a senior commerce department official involved in the negotiations told Business Standard.

India’s primary demand under the deal has been greater job opportunities for its professionals, based on easier visa rules in the markets of Singapore, Malaysia, Indonesia, Vietnam, Thailand, Philippines, Cambodia, Laos, Brunei and Myanmar.

India wants greater access in sectors such as information technology, healthcare, pharmaceuticals, banking & financial services, tourism and legal services. Philippines, one of the bigger members of the bloc, feels India is a competitor in the business process outsourcing (BPO) space. The BPO industry in Philippines accounts for about 15 per cent of the global outsourcing market.

The major problem is while countries like Thailand, Malaysia and Indonesia are ready to offer greater access to their services market to India, these are not keen to give the same leverage to other Asean members.

Currently, India is also engaged in negotiations with Thailand and Indonesia to have separate bilateral trade and investment deals with those countries.

According to officials in the ministry of commerce & industry, India was able to gain significantly in services trade when it established a separate trade agreement with Malaysia, compared to gains from the larger Asean agreement.

In August 2009, India had signed a free trade agreement (FTA) with Asean members in Thailand. According to the FTA, Asean member countries and India would lift import tariffs on more than 80 per cent of traded products between 2013 and 2016.

In January 2010, Singapore, Malaysia and Thailand accepted the FTA on goods. It is expected to be extended to all Asean member countries by 2016. The FTA collectively covers a market of nearly 1.8 billion people and proposes to gradually slash tariffs for 4,000 product lines.

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Centrality of Development Agenda Should be Maintained, Anand Sharma Tells G-20. Warns Against 'Closed Club' Agreement on Services

Press Information Bureau

20 April: The Union Minister of Commerce, Industry and Textiles, Shri Anand Sharma has stressed that the Doha round for the first time recognized the centrality of the development agenda. "Only such a narrative will have global resonance and global appeal. We must strive to create a level playing field before we ask all to compete as equals. There is a need to fulfil the promises made in the past, implement decisions taken over years and remain faithful to the mandate of the Doha Development Round. Only then, I believe, will emerge a new narrative on trade – that would position trade as a function of economic growth and not the other way round," said the Minister while intervening at the session on "understanding global value chains: towards a new trade narrative" at G20 Trade Ministers' Meeting at Puerto Vallarta, Mexico late last night.

Shri Sharma also warned against any attempt to selectively open up certain services sectors or to negotiate a 'closed club' agreement. "This would not only upset the delicate balance of the Doha Round but would also undermine the WTO." Plurilateral agreements within the framework of a multilateral agreement such as the WTO are inherently discriminatory as the benefits of this Agreement will not be 'MFNised' to other WTO member countries but will be restricted to the participating countries only. At the WTO every outcome of the negotiations on trade facilitation and services or for that matter NAMA and Agriculture represents a thoroughly negotiated trade-off. A selective approach that cherry picks a few items, from even within a specific area for expedited decisions is bound to not only upset the balance but may also result in jeopardizing the entire negotiating process. India has specific interests in the Services Agreement. However, the current proposals that relate to Services do not seem to address the core issues that concern the movement of natural persons. Their mobility is severely restricted due to visas, entry procedures, and lack of mutual recognition of qualifications among other impediments.

The Minister expressed concern over the fact that "labour largely remains hemmed in by the national boundaries" while capital finance and technologies are able to flow freely across the borders. "They remain engaged in the value chains only as long as the wages are low and present a comparative advantage and this is a harsh reality which we cannot ignore" added Shri Sharma.

Speaking on the emergence of trans-national corporations and their consolidation across the world, Shri Sharma said "The growth in manufacturing is a key political consideration for countries across the world as manufacturing alone holds the potential of absorbing millions of people who are joining the workforce. As democratically elected leaders we remain conscious of our responsibilities in this regard. So even as we endeavour to integrate ourselves with global value chains, each of us would aspire to move up the value chain and not remain confined to lower rungs in value added manufacturing".

On Trade facilitation Shri Sharma said that with the lowering of tariffs and removal of quantitative restrictions, the focus is now shifting towards simplification of trade procedures in general and customs procedures in particular.

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India, South Korea to ease visa norms; boost defence, commerce ties

Elizabeth Roche, Livemint

March 25, 2012,Seoul: India and South Korea on Sunday announced a series of steps, from commerce to defence to space cooperation, to deepen the strategic partnership between Asia's third and fourth largest economies.

Buoyed by a substantial jump in trade—between 65% and 70% after a comprehensive economic partnership agreement was inked in January 2010—both nations have decided to scale up their bilateral target from $30 billion in 2014 to $40 billion by 2015, the leaders of the two countries said on Sunday. Trade in 2011 topped $20 billion.

Prime Minister Manmohan Singh "underlined the desirability of balanced trade relations" and "ways to facilitate greater market access for each other's products and services," after wide-ranging discussions with President Lee Myung Bak, according to a joint statement.

Singh, who is in Seoul for the second nuclear security summit hosted by South Korea and scheduled for Tuesday, met Lee on Sunday for talks on bilateral matters.
The two countries have also signed an accord to simplify visa procedures aimed at boosting people-to-people contacts and business travel as Singh invited investments from South Korea into India's infrastructure sector—where the government is seeking investments to the tune of $1 trillion between 2012-17 to spruce up ports, airports, highways and power plants.

Singh also invited small- and medium-scale companies from South Korea to invest in India. Vishnu Prakash, Indian ambassador in Seoul, told reporters that approximately 99% of Korean industries are in the medium- and small-scale sector and are responsible for creating 88% of jobs in the country. There were also discussions on improving air connectivity between the two countries.

"There is considerable untapped potential given that South Korea is one of the fastest growing Organisation for Economic Co-operation and Development (a group of high-income countries) countries and India is one of the fastest growing major economies," said Sanjay Singh, secretary (east), ministry of external affairs.

Singh and Lee also discussed progress on South Korean steel maker Posco's plans to set up a $12 billion plant in India, which has been stalled for almost seven years. Billed as India's largest foreign direct investment, the project has been delayed by farmers' protests against the acquisition of land for the plant.

"We expressed that there was progress in the implementation of the Posco project. Both sides attach importance to it... We hope there is progress in the future," Sanjay Singh said.

To boost the strategic content of their partnership, Singh announced that India will appoint a defence attache to Seoul by the end of this year. This comes two years after a visit by defence minister A.K. Antony to South Korea, during which the two countries had signed two agreements, one on defence cooperation and another between India's Defence Research and Development Organisation and South Korea's defence acquisition programme administration for cooperation in research and development.

Singh and Lee agreed to "continue high-level exchanges between the defence establishments of both sides," and to "explore the possibilities of joint ventures in research and development and manufacture of military equipment including through the transfer of technology and co-production," the joint statement said. "President Lee underscored that Korea wanted to increase cooperation with India in military and defence industry," the statement said in a reference to manufacture of hardware, including naval ships and aircraft. Singh told reporters that India "has offered to launch Korean satellites on Indian space launch vehicles."

This follows from a pact both countries had signed on space cooperation in 2010 during a visit to India by Lee, Sanjay Singh said. He also said that the proposed collaboration in defence and military fields mirrored the upswing in ties and was in keeping with the strategic partnership given that South Korea had "considerable prowess" in defence production.

When asked about the impact of closer defence and strategic cooperation between India and South Korea on China, which has been wary of India increasing its economic and military engagement with countries in East Asia, Sanjay Singh said: "Our relations with every country stand on their own merit and are not predicated on relations with any other country."

Lee, in his remarks to reporters after talks with Singh, said he was "pleased" with the progress made between the two countries after the signing of their civilian nuclear agreement last year. "Recognizing the criticality of non-polluting nuclear energy in the economic development of countries, they (India and South Korea) agreed to discuss specific items of cooperation... President Lee requested that the Indian government allocate a site for Korean nuclear reactors," the statement said.

According to Sanjay Singh, South Korea generates 45% of its electricity from nuclear power plants and has expertise in building 1,400MW plants, considered the most advanced in the world. Power-hungry India is aiming to increase installed capacity by more than seven times to 35,000MW by 2022 and to 60,000MW by 2032. India now generates less than 5,000MW from nuclear power plants.

On North Korea's threat to launch a long-range rocket next month, Lee said, Singh and he agreed that this "constitutes a grave threat to peace and security" to the region. To keep up the momentum of high-level engagement, South Korea's ministers for defence and foreign affairs would be visiting India soon and the Indian commerce minister would also be travelling to Seoul in the course of this year, Sanjay Singh said.

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India challenges U.S. visa rules at WTO, eyes steel case

Matthias Williams, Reuters

NEW DELHI, April 11, 2012: India is challenging a U.S. law that raised visa fees for high-skilled foreign workers as a violation of global trade commitments and is planning another case against U.S. import duties on steel pipe, Indian officials said on Tuesday in the latest sign of prickly trade ties between the two allies.

The complaint at the World Trade Organization against the 2010 U.S. visa fee increase, which India protested at the time, is at the level of "consultations" between the two parties, the last stage before entering a full-fledged legal dispute.

"India is taking up consultations on this issue and hopes to solve it amicably," an India trade ministry official said, asking not to be named because of the sensitivity of the matter.
Trade Minister Anand Sharma raised the visa issue during a meeting with U.S. Commerce Secretary John Bryson, who visited India late March, the official added.

India's complaint is about a U.S. law from 2010 that almost doubled visa fees for skilled workers to $4,500 per applicant. The bill's sponsor, Senator Charles Schumer, a Democrat from New York, said at the time that the move was aimed at a small group of companies exploiting U.S. law to import workers from abroad.

India's economy has benefited greatly from information technology firms doing offshore work for U.S. companies, but such outsourcing has become an issue in the U.S. presidential campaign, with President Barack Obama vowing to woo jobs home from overseas.

Nkenge Harmon, a spokeswoman for the U.S. Trade Representative's office, said the United States had not yet received a formal request for consultations from India and "therefore is not in a position to comment."

"However, the United States takes its WTO obligations seriously," she added.
Once a country formally request consultations, WTO rules require it to wait 60 days before asking a dispute settlement panel be formed to hear its complaint.

"I think the government of India is right that this is a barrier to trade," Vineet Nayyar, CEO of large Indian software services exporter Tech Mahindra, told Reuters.

A senior Indian trade ministry official, who also declined to be identified because of the sensitive nature of the issue, said India waited so long to bring its complaint because "there was always the belief, constantly held out (by U.S. officials), that this would be handled somehow."

However, the way the Obama administration has implemented the provision has made it harder for Indian technology workers to obtain visas, not easier, he said.

" Now what has happened over the years is, notwithstanding all the assurances that have been held out, the rejection rates (for visas) have steadily climbed," the senior official added. "Please explain to me why in 2007/8 the rejection rate was 1 percent and today it is 50 percent. If you can give me a good explanation for that, then fine."

Commercial ties between India and the United States flourished after India's economic liberalisation in 1991, but in recent years each side has accused the other of erecting unfair barriers to trade and investment growth.

Last month, the United States began the same type of action at the WTO to open India's market for poultry meat and eggs, saying an Indian ban on U.S. imports intended to stop the spread of bird flu was not based on sound science.

India is also preparing to challenge a U.S. import duty on steel pipes, the senior official told Reuters.

The United States Commerce Department in March set a preliminary import duty of nearly 286 percent on a certain type of steel pipe from India to offset government subsidies. A final decision on duty rates is expected by August.

"They are in absolute and total breach of the WTO," the official said, referring to U.S. Commerce Department action. "There is no subsidy involved."

The official said Washington has imposed the duty because a portion of the iron ore used to produce the Indian steel pipes is provided by state-run miner NMDC, the country's largest.

Washington concluded that "because NMDC is a public sector undertaking, it is selling this iron ore ... for a song, and therefore implicitly subsidising a private-sector enterprise. This is the allegation," the Indian official said.

The allegation is baseless as NMDC is one of many producers of iron ore in the country, the official said.

Gilbert Kaplan, a lawyer at Spalding & King who represents U.S. industry in the case, said the Commerce Department was well within its rights to set the high duty on Indian imports.

Both U.S. law and WTO rules allow the Commerce Department to set duties based on based on "facts available" when foreign companies and governments do not respond to requests for information, Kaplan said.

The Commerce Department found that the government of India failed to provide information on a number of subsidy programs that it was asked about, he said.

"I think it's unjustified (for the Indian government) to go to the WTO. They certainly should not try by this unusual move to overcome their failure to cooperate in the case," Kaplan said.

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Financial services to be kept out of SAFTA talks: Government

Dheeraj Tiwari, ET Bureau

March 24, 2012, NEW DELHI: The government has decided to exclude financial services from the SAARC agreement on trade in services, following strong objection from the Reserve Bank of India, or RBI. The central bank has argued that India has already allowed access to foreign banks under the World Trade Organization agreement.

The 8-nation grouping Saarc, which includes India, Pakistan, Bangladesh and Sri Lanka, is working to expand the region's free trade agreement in goods, or Safta, implemented six years ago to include services and investments. The broad contours of the agreement are still being worked upon.

"RBI has argued that it allows foreign banks to open branches in the country under the WTO agreement. There is no need for any bilateral or plurilateral agreement over and above that," said a government official. India had committed to the World Trade Organization (WTO) in 1997 to give 12 new branch licences to foreign banks every year.

RBI has so far exceeded that number. "RBI has also said that it is not in favour of India making any requests to other Saarc countries for opening up their financial sector," the official added. The other members of Saarc are Bhutan, Maldives, Nepal and Afghanistan. Intra-regional trade under SAFTA has hit $1.4 billion.

Another government official said India's decision to exclude financial services from the services and investment pact could further impede its progress. "Some countries do not want to liberalise several services sectors as they fear India, which is the biggest economy in the region, will take advantage of its size," the official said.

Four countries Afghanistan, Bhutan, Nepal and the Maldives are yet to sign the agreement on services. India, however, is taking all steps to promote this agreement. It has decided to reduce the sensitive lists of items that it has excluded from the FTA in goods, especially for the least developed countries.

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Philippines' voice-BPO growth no threat to India

Bibhu Ranjan Mishra, Business Standard

The archipelago's outsourcing exports is about $9 bn compared to India's $15 bn

Bangalore/Mumbai, Feb 24, 2012: Philippines might have emerged as the new capital for call centre works, but the country still has a long way to go to match India in the overall business process outsourcing (BPO) segment not just in terms of size of the industry, but also in terms of range of services. According to various industry and analysts' reports, Philippines has overtaken India in the voice-based BPO services delivery, but in the overall BPO category India still leads the pack with BPO exports of close to $15 billion.

The BPO industry in Philippines was estimated at about $ 9 billion in calendar year 2011 (as per the data obtained from research firm Everest), with voice-based BPO services (call centre works) dominating the vast majority of the total BPO exports at about $7.38 billion. This is marginally higher than India's voice-based BPO exports' revenues of about $7 billion in financial year 2011.

Industry analysts say that though Philippines' BPO industry is growing at a faster rate than India, even at the current rate of growth it will take a few more years to match the Indian BPO industry.
Amneet Singh, vice-president, Global Sourcing, Everest Group, said, "On the voice side, the Philippines' BPO industry has overtaken India. It's because there is a clear advantage for Philippines for serving voice customers, primarily in the US market on account of cultural affinity and better English accent. But on the non-voice BPO side, there is still a significant difference between India and the Philippines."

The Indian BPO industry is expected to earn exports revenues worth about $16 billion in financial year 2012. This is a growth of more than 12 per cent over financial year 2011. At present, the Indian BPO industry provides direct employment to about 880,000 people, according to Nasscom Strategic Review for 2012.

"India is way ahead of Philippines when it comes to data-based works. Moreover, moving the work to any other centre is a decision of the customer as well as the vendor. For us, it is a de-risking strategy. Also, as we become more and more global, we also want to expand our presence globally," said Keshav Murugesh, CEO of WNS.

While most of the BPO delivery centres in the Philippines are run by Indian companies, most of these companies use the country as a base to offer alternative delivery option to global clients. For example, Aegies, BPO arm of Essar Group, is the largest BPO in Philippines, employing about 12,000 people.

"We often provide solutions where it makes the best sense — whether in India, the Philippines, Guatemala or Bucharest. In certain cases, we explain the customer the reason why it makes sense to get the work delivered from the Philippines," said N V 'Tiger' Tyagarajan, president & CEO of India's largest BPO services provider Genpact.

Indian BPO players also believe that there are certain skillsets that are easily available in the Philippines which help them to ramp up faster in that process. "If any BPO company wants to add a large number of people for various BPO services, their choice would be the Philippines, which is capable of offering such services, apart from India. For example, in finance & accounting, Manila alone has over 100,000 certified accountants which helps BPO companies to quickly ramp up their F&A practice in that country," said Swaminathan D, CEO and MD of Infosys BPO.

One of the factors that make India more lucrative is that operation cost in the country is still 5-15 per cent cheaper than what it is in the Philippines. However, India may not offer the same cost advantage in future with the exit of the Software Technology Parks of India (STPI) scheme, which was giving tax incentives to the IT-BPO sector. When the STPI scheme was discontinued in March 2011, almost 70 per cent of the BPO centres were located in STPI facilities.
Unlike the Philippines, where BPO centres are largely located in two cities, Manila and Cebu, India offers multi-city delivery options and this makes the cost structure variable. India has close to 22 cities, including tier I and II cities, offering BPO services. In the Philippines, 80 per cent of the BPO companies are located in Manila, and the option of cities as alternative delivery locations is limited.

On the positive side, the Philippines offers better infrastructure. Besides, the BPO industry in that country does not provide security and transportation services to the employees, which is an added cost in India. The attrition rate, though somewhat lower in the Philippines, is expected to go up with the maturity of the industry.

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Walls and laws

The Indian Express

By allowing foreign lawyers to conduct temporary business in India, the high court opens a window

Feb 23, 2012: The Madras high court has brought some clarity to the vexed question of what foreign lawyers may and may not do in India. It has ruled they are allowed temporary “fly-in, fly-out” stints, to advise on international law, and participate in negotiations and arbitration proceedings.

Foreign law firms have been clanging the gates since the 1990s — and back then, the RBI had allowed three firms (Chadbourne & Parke, Ashurst Morris Crisp, and White & Case) to set up liaison offices. This was bitterly resisted. Though successive law ministers have voiced their commitment to opening up the legal market, and suggested it’s just round the corner, sustained opposition from domestic law firms and a protectionist Bar Council have stymied it. Those who argue for it say that such legal practice falls in the services sector and India is bound under WTO to liberalise it. However, in 2009, after 14 years to mull the issue, the Bombay HC upheld the Lawyers Collective’s challenge to the RBI’s permission, ruling the Advocates Act 1961 applied to litigation as well as non-litigation practice, and non-Indian nationals can enrol as advocates in India only if, reciprocally, their country allows Indian lawyers to practice in the same manner there. Foreign law firms have circumvented Indian rules in many inventive ways — crafting “Best Friends” agreements with Indian firms, employing extensive India practices, etc. However, in 2010, 31 foreign law firms and a legal process outsourcing company were hauled to court by a Chennai lawyer, A.K. Balaji, who claimed they were still operating in India, overtly and covertly, and that’s what the Madras HC has just ruled on.

This verdict clears up some of the haze surrounding the subject — for instance, it was unclear what constitutes “practice” — how the duration and frequency of visits by a foreign lawyer would be counted, what kind of work was allowed, whether they were allowed to have a workplace in India, etc. The Madras HC has sensibly ruled short visits don’t amount to a practice. Of course, the Advocates Act would have to be amended if the legal market is to be genuinely liberalised — and that should be a matter of “when”, not “if”, in the interests of greater competition, better employment prospects for lawyers, and global expertise.

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Lack of internal coordination on services talks irks Commerce Ministry

Arun S &Thomas K Thomas, Hindu Business Line

New Delhi, March 2: The Commerce Ministry is peeved at the lack of coordination within the Government during the services trade negotiations at the bilateral Free Trade Agreements (FTA) and even the World Trade Organisation's (WTO) multilateral trade negotiations.

According to an internal note seen by *Business Line*, the Commerce Ministry said that “while negotiating these agreements (FTAs), it has been seen that there is no internally coordinated approach in the Government towards dealing with this (services) sector in a cohesive manner.”
The Ministry said it usually holds inter-ministerial consultations and meetings with industry associations, professional bodies and other stakeholders for feedback and inputs during such negotiations.

However, the Ministry rued that since there is no defined group of stakeholders that can be regularly consulted, at times it does not get timely and meaningful responses.
Significantly, it also said during multilateral and bilateral negotiations, “important issues are often addressed in an ad hoc fashion.”

A close coordination with other ministries and stakeholders will also help India in WTO multilateral talks where negotiations for disciplining domestic regulations of countries are currently on, the Commerce Ministry said.

These domestic regulations include qualification requirements and procedures, licensing requirements and procedures, implicit market access barriers, all of which are affecting India's professionals trying to offer their services in markets abroad, it said.

It further said India is pitching for greater market access abroad for its service providers, and that disciplines on domestic regulations is India's key demand.

The Ministry said only an institutional arrangement in the form of an Inter Ministerial Group (IMG) will help in sensitising other Government departments of the reciprocal measures required in service sectors and in turn help trigger regulatory reforms.

The IMG can suggest steps to address domestic regulatory and resource issues hampering the growth of services sector policy as well as identify key areas in domestic reforms to enhance India's services exports sector's potential, it said.

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India among major commercial service exporters in 2010: WTO

PTI

New Delhi, January 31, 2012: India and China were among the leading exporters of commercial services in 2010, a World Trade Organisation (WTO) report has said, with the total value of these activities growing by 9 per cent to USD 3,695 billion during the 12-month period.

"In 2010, world exports of commercial services grew by 9 per cent... Despite this global rebound, exports remained below the level achieved before the financial and economic crisis," the 'International Trade Statistics 2011' report said, adding that the recovery has not been even across regions.

"... The most rapid growth has been in Asia, where exports rose by 22 per cent in 2010, led by India and China," it said.

During the period, the European Union's (EU) exports grew by merely 3 per cent. Nevertheless, Europe accounted for 45 per cent of total trade in commercial services.

In recent years, it said that Europe's share of global exports of commercial services has fallen significantly.

Asking the global community to refrain from protectionist measures, World Trade Organisation Director General Pascal Lamy said as the world enters the final quarter of 2011, it finds itself again in a situation of financial turmoil.

"The positive signs of growth in the first part of the year have been clouded by the sovereign debt crisis and ensuing currency turbulence, which have brought us to the edge of a new crisis," Lamy said.

"During these times, it is all the more important to avoid protectionist responses to domestic difficulties and to do all we can to keep trade open and flowing as smoothly, predictably and freely as possible," he said.

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Saudi Arabia sees 'huge potential' for trade with India

PTI

NEW DELHI, January 4: Against economic troubles in Europe and uncertainty in the US, Saudi Arabia on Wednesday said it sees "huge potential" for stepping up commercial engagement with India.

However, Saudi Arabia which is home to two million Indian workforce, asked the Indian government to relax visa rules to boost bilateral trade and investment. "We are eager to do more trade with India. Huge potential is present in both the nations as both are emerging economies," Saudi Arabia commerce and industry minister Tawfeeq Bin Fouzan Al Rabea said at a Ficci meeting here.

Al Rabea, who is leading a 35-member business delegation, said there are opportunities for bilateral engagement in sectors like infrastructure, IT and education.

With economic troubles affecting the entire Eurozone and the US economy giving uncertain indications, Saudi businesses are looking at India as an alternative investment and trade option, industry officials said.

Al Rabea urged the Indian government to liberalise visa norms for its people. "... what I heard from some of our colleagues that they get only one month with single entry visa (from Indian Embassy in Saudi Arabia). So, I think, we need to do something here and there, to make sure we facilitate the movement of people between the two countries," Al Rabea said.

On the other hand, Saudi Arabia gives multiple entry visa for one year. The visiting minister said that about two million Indians are working in different sectors in Saudi Arabia. The bilateral trade has increased by about 60 per cent to $25 billion in 2010.

Addressing the gathering, Ficci President-elect R V Kanoria said that Saudi businessmen can explore investment opportunities in areas like bio-technology, telecommunication and automobile.

"Huge investments are required in infrastructure sector in India. India is going to invest as much as $1 trillion in next five years," Kanoria said.

India's exports to Saudi Arabia mainly comprises Basmati rice, meat, man-made yarn, cotton yarn, chemicals and machinery. Imports largely include crude oil, as India imports a quarter of crude requirement from Saudi Arabia.

"There is big sale of oil to india...Our bilateral trade is increasing and I see this growth continuing and I see more potential for cooperation and trade," the Saudi minister added.

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Central Statistics Office to create database for services exports

Economic Times

New Delhi, 27 December: The government plans to create a database to monitor exports of services, which account for almost 60% of the country's gross domestic product and a large chunk of foreign exchange inflows.

The Central Statistics Office under the Ministry of Statistics and Programme Implementation has formed an expert group to create a mechanism for regular collection and compilation of data on internationally traded services, a ministry official said.

Currently, the government completely relies on the Reserve Bank's estimates for service sector exports.

The expert group is chaired by Anwarul Hoda, Chair Professor of trade policy and WTO research programme at Indian Council for Research on International Economic Relations (ICRIER).

The Central Statistics Office (CSO) along with ICRIER is already conducting pilot surveys on exports of health and education.

"The emphasis is on evolving the methodology for collecting data on services that are exported and plug the gaps in the current system," Hoda said.

The RBI gets its data from banks and foreign exchange dealers and holds surveys to find the extent of the trade, he said. This data often includes whole figures and does not include sectoral specifics such as the break up between shipping and insurance charges on traded commodities and thus may not reflect the actual value of exports.

The RBI releases provisional aggregate monthly data on India's international trade in services, with a lag of 45 days. The data is revised once the Balance of Payments (BoP) data is compiled, with three months' lag.

So, the provisional services exports data for April this year was released on June 15 and the BoP numbers for April-June quarter were released on September 30.

The CSO is expected to finalise a mechanism with data on exports of health and education within 3-4 months. Then the government will bring other services into the fray.

Economists welcome the move. "This exercise would help in better classification and identification of services being exported," said Madan Sabnavis, chief economist of rating agency CARE.

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US call centre bill: Indian BPOs not too worried

John & Pranav Nambiar, TNN

The general feeling in the Indian BPO industry is that the proposed new bill tabled in the US House of Representatives to discourage movement of call centres overseas will not become law.

Dec 22, 2011, BANGALORE: There's a tinge of anxiety, but the general feeling in the Indian BPO industry is that the proposed new bill tabled in the US House of Representatives to discourage movement of call centres overseas will not become law.

If it indeed becomes law, it could negatively impact the BPO sector, but not necessarily the bigger players. The bill seeks to stop federal grants and contracts to US companies that offshore call centres. It will mandate a 120-day advance notification before moving a call centre overseas. Such measures could hold back at least some who might otherwise consider offshoring. Sameer Dhamrajani, country head, Fidelity National Financial India, said the move would be detrimental both to the BPO industry and US corporates.

For US corporates, offshoring brings significant savings, and those who depend on government grants and contracts will have to consider if the savings from offshoring will offset the negative impact of any federal withdrawals.
S Nagarajan, co-founder of BPO firm 24/7 Customer, does not foresee any serious pull back on account of the bill. "It will only increase cost for US consumers, and US corporations wouldn't want to do that" D Swaminathan, MD of Infosys BPO, said BPOs were innovating, and improving cost competitiveness, which would make it even more difficult for US corporates to ignore them.

The bill would mandate that customer service representatives working abroad for US corporations have to disclose locations upon request, and they should have option of being transferred to call centres back in US. For bigger players, this would be less of an issue as some have established and others are in the process of establishing centres in the US.

A spokesperson of BPO firm Aegis said the bill would have no implication on its operations. Aegis has over 5,000 people spread across 9 centres in the US. Over 90% of employees there are local US citizens. Keshav Murugesh, group CEO of BPO company WNS, said the company has been ramping up and opening delivery centres around the world to mitigate risks from legislation that could affect location of clients/delivery centres in a single country. "We have also been evaluating opening of a delivery centre in the US to cater to the onshore outsourcing requirements of our clients," he said. Infosys BPO is also ramping up its US operation.

Everybody slammed movers of the bill for their "protectionist" move. "It restricts free trade, it's discriminatory. Protectionism is always answered by protectionism," Nasscom president Som Mittal said.

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Government, IT industry demand parity for Indian business in US

Economic Times

NEW DELHI,13 December: The government and the IT industry are understood to have demanded parity between Indian and local businesses in America at the 11th US-India ICT Working Group meeting held here today.

Both Indian and US services firm are supplying similar services in the US market but because of PL 111-230, Indian service suppliers are being meted different treatment, a Department of Commerce official is believed to have said, according to sources who attended the meeting.

"This is violation of US commitment under mode 3," the official is believed to have said at the meeting.

Public Law 111-230 was signed by US President Barack Obama, under which a visa seeker is required to submit an additional fee of USD 2,000 for certain H-1B petitions and USD 2,250 for certain L-1A and L-1B petitions.

The official said at the meeting that this regulation, under mode 4, nullifies and impairs US commitments to the WTO.

James Zadroga levies 2 per cent tax and levies on services procured from certain WTO countries and not from other WTO countries. Again this is an issue which erodes basic WTO principles, the official is believed to have said.

Under the James Zadroga 9/11 Health and Compensation Act last year America had imposed 2 per cent tax on US government procurement from foreign companies and also extended the present visa fee on certain categories from 2014 to 2015.

The official highlighted that Indian professionals working in the US are suffering because of mis-match in the US domestic regulation.

"Your regulation for social security and visa makes difficult for professionals to survive who contributes from his salary month after month but is not entitled to commensurate benefit that according to us is more of ethical issues," the official noted.

Similar issues were raised by representative from Nasscom, the software services industry body.

"Ohio has banned offshore IT projects. There is 2 per cent excise tax on goods and services purchased by foreign suppliers. Our market is open and we want similar access for Indian companies into other markets," said a Nasscom official.

Indian industry and government representative requested their counterparts in the US present in the meet to take note of the issue and resolve as early as possible.

"Knowledge is global and workforce is global. They plenty to talk about immigration (rules)on both sides, in both countries. Because of the importance of economic relationship we firmly recommend high level dialogue," said representative of United States India Buisness Council (USIBC).

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EU to ease visa rules if India opens its market

Amiti Sen, ET Bureau

The European Union is ready to ease visa rules for professionals if India agrees to open up more of its sectors and markets.

Nov 22, 2011,.NEW DELHI: The European Union is ready to ease visa rules for professionals if India agrees to open up more of its sectors and markets as part of a proposed free-trade agreement the two sides hope to sign early next year.

While all 27 EU member states have approved liberalised visa norms for professionals, the Indian government could also allow entry to legal and accountancy pros, a commerce department official told ET, adding that New Delhi is open to lowering duties on costly spirits and automobiles as well.

Chief negotiators from both sides are meeting next month in Brussels to finalise the agreement, scheduled to be signed during the India-EU summit in February. The EU is India's largest regional trading partner, accounting for $90 billion of trade in 2010-11, equally balanced between the two sides. European countries are also ready to do away with the contentious "labour market test" and take on individual commitments for increased visas for various categories of Indian professionals.

"The labour market test is an inhibiting clause that disincentivises hiring of foreign professionals," said Arpita Mukherjee, professor, Icrier. Most EU countries give out work permits to foreigners only after ensuring that their own labour do not get left out. Employers in the EU have to advertise for a job locally for a specified amount of time before a foreign worker is allowed to fill up the post.

Although some exceptions to the labour market test have been made for some highly skilled sectors in a few countries, it is mostly applied across sectors. For India, the big-ticket beneficiaries of the visa relaxation rule would be the information technology and the IT-enabled services sectors, the official said.

Other gainers would include structural engineers, medical support services, architects, accountants and teachers. Commitment on a minimum number of visas to be issued by EU countries annually could cut both ways, said an expert in services trade at a Delhi-based research organisation. "Since it would be a kind of quota, we have to make sure that the commitment that we are getting is more than what is anyway allowed in these countries," he said.

The commitment would be for both contractual service suppliers who visit a foreign country to fulfill a work contract as well as individual professionals. India's demand for free movement of professionals is known as Mode 4 in technical parlance while the EU, in return, wants greater openings in Mode 3, which means setting up of commercial presence. It wants professionals in sectors such as legal and accountancy to be allowed to set up practice in India.

"There is a possibility of allowing legal professionals in some corporate segments, but it is being opposed big-time by large legal firms," the official said. The EU also wants commitments for allowing investments in both single brand and multibrand retail.

"While the decision on allowing foreign investment in multi-brand retail or further easing in single brand will be applicable to all countries, the EU wants us to take on commitments in these so that the rules are not changed later," the official said.

While India is open to slashing duties on high-end spirits such as Scotch, it wants to protect cheaper products like local wines. The government may also lower duties on automobiles, but the cuts are not expected to be very sharp.

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Final push to India-Asean FTA in services on anvil

Amiti Sen, Economic Times

17 November, New Delhi: Prime Minister Manmohan Singh will make yet another attempt to convince the ten-member Asean group to conclude the long-pending free trade agreement on services at the upcoming India-Asean summit in Singapore, but the commerce department is already weighing the option of exiting the talks if no headway is made soon in the negotiations.

Asean had promised to sign a services pact soon after the implementation of the India-Asean FTA in goods in January last year. The two sides are nowhere near completing the negotiations as the Asean countries have not come up with meaningful offers that would give India greater access into the services market in these countries.

"We have been going around in circles for the last couple of years and have already employed a lot of resources on the services talks," a commerce department official said requesting anonymity. "If Asean does not come up with meaningful offers soon, we might as well deploy our officials in other negotiations," he added.

A formal decision on the matter, however, needs to be taken involving the Prime Minister's Office, as India-Asean relation is high on the priority list of the PM. In fact, it was on the insistence of the PMO that the commerce department agreed to delink the services pact from the FTA in goods, which allowed the Asean to go slow on the services agreement which is not its area of primary interest.

Both goods and services were part of the original pact that the two sides had agreed to endorse. The prime minister is expected to make one last push for an agreement at the two-day India-Asean summit beginning November 18 reminding the countries of the promise made.

"The Prime Minister will put political pressure on Asean leaders during the summit reminding them of their promise. We hope something comes out of it," the official said.

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Services exports dip in Sept

BS Reporter

Mumbai November 16, 2011: Reflecting the adverse effect of global economic uncertainty, India's services exports dipped in September to $11.2 billion from $11.9 bn in August.
It was $10.4 bn in July. The Reserve Bank of India began releasing monthly data on trade in services only this financial year. Hence, comparable data for the same month in 2010-11 is not available to capture the trend.

The imports, payments for services, also declined to $6.8 bn in September from $6.9 bn in August. Imports for July were $5.9 bn.

The growth in services receipts and payments remained moderate during the first quarter as compared with that recorded in Q1 of 2010-11. These were also lower as compared to the preceding quarter, according to the RBI.
Some sectors, such as information technology (IT) are facing challenges in the global economy. IT exports have a large share in the services trade. There is also moderation in domestic economic activity. The data on services trade (exports and imports) is reflecting what is happening in the real economy.

Merchandise exports, after growing at an impressive speed for much of the first half, have are also begun to show signs of moderation.

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India-Asean services talks inching towards 'progress'

Nayanima Basu, Business Standard

New Delhi October 21, 2011: But hopes of more access under Mode 4 are fading.

The much-awaited pact on trade in services and investment between India and the Association of Southeast Asian Nations (Asean) has made "some progress towards conclusion" during the last round of negotiations that took place here last week, even as New Delhi's hope of getting more market access for its professionals seems futile.

India and the 10-member trading bloc already have a goods agreement in place after it came into force from January last year, providing tariff-free access to a range of product lines such as textiles, pharmaceuticals, chemicals, engineering products, processed food and auto parts.

However, the deal in services trade and investment had been going on since it started formally in October 2009. Under that, India has mainly demanded greater job opportunities for its professionals in the Asean markets of Singapore, Malaysia, Indonesia, Vietnam, Thailand, Philippines, Cambodia, Laos, Brunei and Myanmar.

"Hopefully, by the early part of 2012, we might be able to wrap up the talks. But getting more under Mode 4 is out of question, even though we do have hopes to get more under Mode 3 and Mode 1," according to a senior commerce department official involved in the talks. "So, there has been some working progress this time. The level of ambition can be seen amongst all the countries. It has been agreed unanimously to nudge Philippines from its position, which had been reluctant since beginning. Of course, huge levels of ambitions cannot be expected," he told Business Standard.

Under trade parlance, trade in services is divided into four broad categories. Mode 1 refers to cross-border supply of services through electronic means. Mode 2 refers to a situation where the consumer of a service moves into another partner country. Mode 3 implies that a particular service provider established presence in form of joint venture in another country. Mode 4 is the movement of professionals to other country to provide service such as doctors, accountants and engineers.

"Bilaterally, with Thailand and Indonesia, India will be able to get more access under Mode 4 but under Asean it is not possible because of the inherent nature of the block," the official said.

"Within Asean, they do not want to give each other more than what has already been offered, which is the main problem."

India and the Asean countries had earlier decided to have a broad-based comprehensive economic partnership agreement encompassing trade in goods, services and investment. However, the goods deal was agreed and signed upon last year.

This would result in doing away with at least 80 per cent of import tariffs in a phased manner between 2013 and 2016. The tariffs on sensitive products would also be slashed by five per cent by 2016.

This deal would also help India in reducing its dependence on China as it will be able to access the vast and thriving markets of all the 10 Asean countries. The total trade between India and the 1967-formed bloc increased by 24 per cent in 2010 reaching $51.3 billion. India's exports grew at 33 per cent to $23.1 billion while imports from Asean increased by 18 per cent to $28.2 billion. Both sides have set the objective of increasing bilateral trade to $70 billion by 2012. [Back to Top]

Draft IT policy targets $200 b exports by 2020

Special Correspondent, The Hindu

NEW DELHI, October 7, 2011: Communications and Information Technology Minister Kapil Sibal on Friday unveiled the draft National Policy on Information Technology 2011 that envisages taking the overall revenue from the sector from $89 billion as of today to $300 billion by 2020, besides creating additional one-crore jobs. He also hinted that once the Direct Taxes Code (DTC) was in place, the Centre might extend tax holiday under the Software Technology Park of India (SPTI) scheme, which expired in March this year, besides giving incentives to small and medium enterprises engaged in the IT sector.

Exploring new markets

Aimed at further consolidating the position of the Indian IT and IT-enabled services (ITeS) sector in the global arena, the draft policy has set the target of achieving $200 billion exports target by 2020 against the current level of $59 billion. “Today, 80 per cent of the IT sector revenue comes from exports, mainly from North America and Europe. While we have seen IT sector exports growing at 30 per cent, this year it may be around 15 per cent due to global financial crisis…we need to diversify our exports by exploring new markets to sustain the growth momentum,” he pointed out.

The draft policy, which will be available for comments from public and various stakeholders for a month, also focuses on gaining a significant global market share in cloud-based technologies and services, and mobile-based value added services.

“The focus is on deployment of ICT in all sectors of the economy and providing IT solutions to the world. It also aims to strengthen and enhance India's position as the global IT hub and to use IT as an engine for rapid, inclusive and sustainable growth in the national economy,” he added.
The draft policy will also look into formulating fiscal and other incentives to attract investment in this sector in Tier II and Tier III cities, besides promoting innovation and research and design in cutting-edge technologies and in strategic sectors such as defence, space and atomic energy.
Referring to the launch of world's cheapest tablet PC ‘Aakash', Mr. Sibal said the aim was to integrate Internet and mobile-based delivery of services onto a common platform to enable seamless, ubiquitous, secure and personalised delivery of government and non-government services throughout the country.

PTI reports: Further, the draft policy calls for setting up centres of excellence in institutions of higher learning so as to produce at least 3,000 PhDs in the information and communication technology sector in specialised areas by 2020.

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India to seek fast tracking of pact with ASEAN on services and investment

Special Correspondent, Hindu

NEW DELHI, October 8, 2011: Seeking to widen the scope of the free trade agreement (FTA) in merchandise goods, India will seek fast tracking of the agreement with the ASEAN bloc for opening of trade in services and liberalisation of investment norms.

A team of ASEAN officials is scheduled to visit New Delhi during middle of this month to hold talks on further progress of the talks which have been hanging fire for the last one and half years due to reluctance of some ASEAN countries including Philippines on opening the services sector. India and the 10-nation ASEAN bloc already allow each other free market access in merchandise goods.

With services being the mainstay of the Indian economy, India is keen for concluding the talks as early as possible. Philippines, a strong player in the global outsourcing, is not enthusiastic about the services pact which has made its conclusion difficult.

The two sides have already held ten rounds of talks without a breakthrough and effort this time around would be deal with the contentious issues in order to arrive at some kind of understanding to pave way for an early pact. The services sector is of key interest to India as it contributes over 55 per cent to its GDP.

The services sector has emerged very strong for export earnings for India. India is looking at expanding trade with the ASEAN in several services including banking, insurance, health, accountancy, architecture and engineering. During the April-July period this fiscal, the country's cumulative exports of services amounted to $44.74 billion. The talks are being held before the India-ASEAN summit to be held in Bali, Indonesia in November in which Prime Minister, Manmohan Singh is likely to take part. India and ASEAN are keen that the talks should be concluded by the end of this year.

A recent FICCI-Deloitte study has said that once the agreement comes into effect, Indian industry would get considerable opportunities in services like telecommunications, radio, television, consultancy, architectural, legal, accounting, education, health and social work. The ASEAN countries include Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Thailand, Singapore and Vietnam. India-ASEAN trade in 2010 stood at $50.33 billion. Both the sides aim to take it up to $70 billion by 2012.

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India seeks opening up of services sector

Nayanima Basu, Business Standard

New Delhi October 4, 2011: The first round of formal negotiations for having a Comprehensive Economic Cooperation Agreement (CECA) between India and Thailand is going to be held in Bangkok in the end of November or early December. Both sides would be meeting for the first time for a full-fledged round, since there has been a change of government in Thailand. India is seeking greater movement of persons with Thailand in the deal.

Both sides held an informal round of talks on the intention to have the CECA on the sidelines during the Asean (Association of South-East Asian Nations) Economic Ministers meeting in Manado, Indonesia, in August.

Under the agreement with Thailand, which is also part of the 10-member Asean bloc, India has been demanding opening up of the services sector for greater movement of its professionals in Thailand such as doctors, nurses, architects and chefs, officials in the department of commerce told Business Standard.

India has a free trade agreement (FTA) with Asean in merchandise goods, while a deal on services trade has got delayed due to several roadblocks. The deal would also lead to slashing of tariffs on as many as 94 items traded between India and Thailand. India already has an early harvest scheme with Thailand since 2004 that led to speedy elimination of tariff on 82 items of export interest to the sides. Tariffs on all these 82 items became zero for both sides in 2006.

Some of the topmost items traded between both the countries are fruits, wheat, fish, ores, chemicals, inorganic acids, alloys, rubber, plastics and gear boxes.

Both sides are also looking towards having a trilateral trade corridor that would link both the countries through Myanmar.

The India-Thailand Trade Negotiating Committee has been constituted to negotiate a comprehensive FTA covering trade in goods, trade in services, investment, rules of origin and dispute settlement mechanism. Talks to have the CECA started in November 2001 when the then Prime Minister of Thailand Thaksin Shinawatra met Prime Minister Manmohan Singh agreed to set up a joint working group to undertake a feasibility study of a free trade pact.

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Indo-US trade talks: India to seek withdrawal of visa fee hike

Amiti Sen, The Times of India

20 September 2011, NEW DELHI: India will ask the Barack Obama administration to end its restrictive trade practices that have made exports to the US more expensive and raised costs of Indian IT companies operating there.

Commerce and industry minister Anand Sharma will meet US trade representative Ron Kirk next week and is expected to make a strong case for withdrawal of the steep increase in professional visa fees and the additional duties imposed on government imports. He is also expected to ask for speedy restoration of the generalized system of preferences scheme that allows duty-free imports of specific goods from developing countries like India.

"The US has not responded to India's demand that the hike in visa fees and imposition of extra duties on government imports should be withdrawn. We want them to take notice this time," a government official told ET.

Finance minister Pranab Mukherjee and Sharma will both be part of a CEO forum together with the USTR and treasury secretary Tim Geithner in Washington on Thursday. "We expect the issues bothering us to be taken up strongly as CEOs from both sides are also hit by the measures ," the official said.

The increase in fees for H-1 B and L1 visas for funding domestic programmes such as enhancing border security and meeting health needs of 9/11 victims is bothering India as these implicitly target and discriminate against IT companies. India feels that these could be inconsistent with the US multilateral commitments under the General Agreement on Trade in Services.

The additional 2% duty imposed on government purchases from countries like India that are not part of the government procurement agreement of the WTO could also be against US commitments. "Minister Sharma has already written to the USTR about India's concerns on these issues but there has not been any satisfactory response so far," the official said.

The issue of negativity towards Indian professionals and attempts to restrict free flow of services and professionals may also be taken up. "IT body Nasscom has reported increased negativism in granting visas and harassment at the port of entry in the US and this may be a point of discussion," he said.

Nasscom had written to the US ambassador in India, Timothy Roemer, in November, on rejection of a larger number of business visas and visa interviews taking the form of interrogation. India is expected to invite US pension funds and insurance companies to invest in its infrastructure debt fund and call for collaborative projects in energy-efficient buildings, water, agriculture and health care.

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India threatens to move WTO against EU’s carbon tax

Chetan Chauhan, Hindustan Times

New Delhi, July 28, 2011: India has threatened to move World Trade Organisation (WTO) against the European Union if it fails to withdraw carbon tax to be imposed on flights landing or taking off from European airports from January 2012. Even though the additional per passenger cost would be around six US dollars, Indians would be paying approximately about one billion US dollars a year to Europe. Similar cost for China would be about four billion US dollars.

Money is not the worrying factor for India, as a senior environment ministry official puts it. But, the concern is that the tax will give kick-start similar unfair trade practices in the name of fighting climate change. Europe is already talking about imposing a similar carbon tax on imported high carbon emitting fuels from 2013-14.

In the world’s first, the European Union earlier this year decided to bring aviation sector from January 2012 under EU Emission Trade Scheme, which imposed a penalty for failing to keep carbon emissions within 10,000 tonnes a year.

It would mean that a Boeing 747 flying from Delhi to London will exhaust this quota within a month and thereafter, will have to pay the environmental degradation tax for landing on European airports. The decision was taken after EU found that aviation sector was spewing 20 % more carbon dioxide into the environment than previously estimated.

India has not bought the European claim and Indian environment minister Jayanthi Natarajan lodged a formal protest with the European Union this week terming the decision as “unfair” trade practice. Natarajan in a letter urged Europe to withdraw the unilateral tax till a consensus is built on the issue at United Nations Framework Convention on Climate Change.

“We believe European carbon tax is just a start of a new global tax regime to adversely hit business of emerging economies such as India and China…We will have no option other than to approach WTO if it is not withdrawn,” a senior government functionary said.

The issue would be discussed at a meeting called by Cabinet Secretary Ajit Kumar Seth on Friday, where officials from ministries of civil aviation, commerce and environment will participate. “We are seeking legal opinion on how we can approach WTO,” the functionary said, while explaining that aviation is not trade but service sector. WTO covers only trade sector.

The issue of carbon tax came up at a recent UNFCCC meeting in Bonn, Germany, where India along with the biggest group G-77 plus China opposed it. They termed it as an unfair practice against the developing world as under UN protocol to flight change the historical polluters --- rich countries --- have obligation to reduce carbon emissions and pay to the developing world to adapt to adverse implications of climate change. “By levying carbon tax, developing countries would be paying to rich nations,” a government official said.

Environment ministry officials said India will also raise the issue at the next meeting of Basic countries --- a group of India, China, Brazil and South Africa – in August to garner more support against the decision.

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India's commercial services exports growth slows down: WTO

PTI

July 15, New Delhi: India's commercial services exports grew by six per cent in the first quarter of 2012, down sharply from 27 per cent in the year-ago period, the World Trade Organisation (WTO) and UNCTAD have said in a report.

However, this was much better than the worldwide commercial services exports growth rate of 3 per cent in the the quarter ended March 31, 2012, found the preliminary estimates for the period by the WTO and UNCTAD (United Nations Conference for Trade and Development).

According to experts, the growth rate declined largely because of global economic slowdown and the country needs to focus on increasing its global competitiveness in the commercial services exports, which mostly includes software services in case of India.

In the previous quarter, October-December 2011, India's commercial services exports had declined by five per cent, but managed to return to positive trajectory in Q1 of 2012.

"Economic slump in the US and Europe is the main reason for this low growth. The other reason include countries like China and Philippines are emerging as stronger players in the services sector," Rakesh Joshi, an international trade expert with India's prestigious Indian Institute of Foreign Trade (IIFT) said. Joshi said that without enhancing the country's competitiveness in the global market "we will have more problems both in goods and services exports".

India's commercial services imports grew by five per cent in the first quarter of 2012, down from 14 per cent in the year-ago period, the report said.

According to the RBI data, the country's services exports declined marginally by 3.3 per cent to USD 22.54 billion in the first two months of this fiscal.

The services exports during April-May 2011 were at USD 23.3 billion.

Export earnings were also affected as the information technology companies, which accounts for a major chunk in the services export, had to offer discounts to their clients due to rupee depreciation, an expert said.

The rupee has fallen by around 20 per cent against the US dollar from a year ago.

Software, business and financial services, communication services, travel, transportation, insurance are some of the major services that are exported.

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Pressed into service

T S Vishwanath, Business Standard

July 19, 2012: A group of 18 countries at the World Trade Organisation (WTO) recently issued a joint statement stating that they look forward to entering a “new phase” of negotiations on services from September this year.

In a broad statement, these countries have said that “a significant number of Members have made great advances in opening up their markets, both autonomously as well as through more than 100 services trade agreements notified to the WTO … We believe it is time to bring this progress back to Geneva with the ultimate aim of reinforcing and strengthening the rules-based multilateral trading system.”

The list of signatories includes some developed and developing countries, though India is not part of the group. The European Union (EU) and the US are both signatories to the statement.

The statement says the agreement should be comprehensive in scope, including substantial sectoral coverage; should include market access commitments that correspond as closely as possible to actual practice and provide opportunities for improved market access; and should contain new and enhanced rules developed through negotiations.

This statement is significant since negotiations on services have lagged most other discussions when countries were taking the Doha Round forward. Therefore, to signal that countries would be taking the services agenda forward in the coming months is a development that needs attention.

It is also important to note that according to preliminary estimates by the WTO and the United Nations Conference on Trade and Development (UNCTAD), in the first quarter of 2012, world exports of commercial services rose by three per cent year-on-year, following the same pattern recorded in the fourth quarter of 2011.

The joint statement also comes a few days after WTO Director General Pascal Lamy said at a meeting in Beijing: “it was time we put services at the heart of our trade opening agenda.” Lamy pointed out that for many developed countries, services account for more than 70 per cent of GDP; and that in many developing countries, this share has increased to around 50 per cent. He pressed China to drive a positive agenda in negotiations on services.

The joint statement is a reflection of the agenda that the US and the EU have been pushing with developing countries like India and China. There has been considerable pressure on India, for instance, to open up some areas of services for greater foreign participation — retail services, financial services and legal services. In all three sectors, there has been considerable political opposition within the country to opening up, and bilateral discussions have not yielded much result.

The WTO may help developed countries move this process forward in a meaningful fashion. As Lamy suggested to Beijing, when countries have an offensive agenda to open trade in services the WTO framework remains the best option.

If the services negotiations do gather momentum, as is suggested in the joint statement, then for the negotiations to bear fruit countries must look at regulations across the globe that hinder the flow of services. It is not just the opening up of the sector that is important. What is equally important is that the local regulations should not be stacked against foreign suppliers. Further, there is a very important introspection to be done by the US and the EU on whether they are keen to look at movement of professionals as part of the services negotiations.

There is considerable pressure within the US, for instance, to allow more Indians and Chinese to obtain green cards. Reports have said that over 300 technology companies from the Silicon valley and other places have petitioned the US Senate Subcommittee on Immigration, Refugees and Border Security to support a piece of legislation that seeks to remove the per-country limit in allotting green cards. Under the current law, 140,000 green cards are available, of which each country has a cap of seven per cent.

Given the current global economic environment, the services negotiations will need much support as work-related cross-border movement of professionals, which is an important demand for countries like India, could create concerns for some developed countries that are already under stress owing to unfavourable jobs data in their respective countries

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