Coherent approach to Trade and Regulation of Services: India's experiences

SESSION # 5

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COHERENT APPROACH TO TRADE AND REGULATION OF SERVICES: INDIA’S EXPERIENCES

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New Delhi

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In this Presentation.....

- Overview of India’s Service Sector
- India’s Approach to Services Liberalization
- Liberalization and Reform Experience in Selected Services
- Key Takeaways and Role of UNCTAD
Overview of India’s Service Sector

• Services sector one of the fastest growing sectors of the Indian economy, main contributor to India’s higher growth trajectory since 1990s

• Growing share of GDP, more than 60%
  • Communication, financial, construction services most dynamic

• Contribution of services to India’s trade and FDI flows grown significantly over past decade
  • Share in world services exports grown, higher than for goods

• Relatively low share in employment
Services Contribution in India

Real Gross Value Added Growth

Employment

Source: RBI Annual Report, 2015

Source: Economic Survey, 2015-16, Govt. of India
Services Contribution in India

**Trade**

<table>
<thead>
<tr>
<th>Sub-Sectors</th>
<th>Value (US$ bn) 2013-14</th>
<th>Share (per cent) 2013-14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total services exports</td>
<td>151.5</td>
<td>100</td>
</tr>
<tr>
<td>Transport</td>
<td>17.4</td>
<td>11.5</td>
</tr>
<tr>
<td>Travel</td>
<td>17.9</td>
<td>11.8</td>
</tr>
<tr>
<td>Construction</td>
<td>1.3</td>
<td>0.9</td>
</tr>
<tr>
<td>Financial, insurance, &amp; pension services</td>
<td>8.8</td>
<td>5.8</td>
</tr>
<tr>
<td>Telecommunications services</td>
<td>2.4</td>
<td>1.6</td>
</tr>
<tr>
<td>Computer services</td>
<td>69.4</td>
<td>45.8</td>
</tr>
<tr>
<td>Other business services</td>
<td>28.5</td>
<td>18.8</td>
</tr>
<tr>
<td>R &amp; D services</td>
<td>1.1</td>
<td>0.8</td>
</tr>
<tr>
<td>Professional &amp; consulting services</td>
<td>15.5</td>
<td>10.2</td>
</tr>
<tr>
<td>Technical, trade-related, &amp; others</td>
<td>11.8</td>
<td>7.8</td>
</tr>
<tr>
<td><strong>Net services exports</strong></td>
<td><strong>73.0</strong></td>
<td>—</td>
</tr>
</tbody>
</table>

**FDI Inflows**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Services sector*</td>
<td>4443.3</td>
<td>14.4 (17.2)</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>2894.9</td>
<td>9.4 (6.7)</td>
</tr>
<tr>
<td>Trading</td>
<td>2728.0</td>
<td>8.8 (3.9)</td>
</tr>
<tr>
<td>Computer software &amp; hardware</td>
<td>2296.0</td>
<td>7.4 (7.1)</td>
</tr>
<tr>
<td>Construction</td>
<td>1639.4</td>
<td>5.3 (10.6)</td>
</tr>
<tr>
<td>Hotel &amp; tourism</td>
<td>777.0</td>
<td>2.5 (3.2)</td>
</tr>
<tr>
<td>Hospital &amp; diagnostic centres</td>
<td>567.9</td>
<td>1.8 (1.2)</td>
</tr>
<tr>
<td>Consultancy services</td>
<td>458.1</td>
<td>1.5 (1.2)</td>
</tr>
<tr>
<td>Sea transport</td>
<td>333.2</td>
<td>1.1 (0.7)</td>
</tr>
<tr>
<td>Information &amp; broadcasting</td>
<td>253.0</td>
<td>0.8 (1.7)</td>
</tr>
<tr>
<td>Top 10 service categories (1-10)</td>
<td>16392.8</td>
<td>53.0 (53.3)</td>
</tr>
<tr>
<td>Total FDI equity</td>
<td>30930.5</td>
<td>100.0 (100.0)</td>
</tr>
</tbody>
</table>

Source: Economic Survey, 2015-16, Govt. of India
India’s Approach to Services Liberalization

• Cautious, gradualist, and conservative stance, learning-by-doing approach

• Preserving policy space by first initiating unilateral liberalization, rolling back liberalization at times and over time binding this in, either to the full extent or below the autonomous level

• Political economy considerations have been a major determinant of the negotiating strategy
  • Where stiff domestic opposition, not tabled those services for negotiations
Services Liberalization in India

• Multilateral Liberalization
  • India committed six services under WTO
    • Business, Communication, Construction and related engineering, Financial, Health related and social services, Tourism and travel related services

• Autonomous Liberalization
  • Significant autonomous liberalization including negative list of services for allowing 100% FDI

• Bilateral Liberalization
  • Comprehensive FTA with Singapore, Japan, Korea, Malaysia and ASEAN
## Services Committed by India under GATS and FTAs

<table>
<thead>
<tr>
<th>SERVICE SECTOR/ AGREEMENT</th>
<th>GATS</th>
<th>India-Malaysia</th>
<th>India-Korea</th>
<th>India-Japan</th>
<th>India-Singapore</th>
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</thead>
<tbody>
<tr>
<td>Business Services</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>Communication Services</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>Construction And Related Engineering Services</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>Distribution Services</td>
<td></td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>Educational Services</td>
<td></td>
<td>√</td>
<td>√</td>
<td>√</td>
<td></td>
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<tr>
<td>Environmental Services</td>
<td></td>
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<td>√</td>
<td>√</td>
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<tr>
<td>Financial Services</td>
<td>√</td>
<td></td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>Health Related And Social Services</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>Tourism And Travel Related Services</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>Recreational Cultural And Sporting Services</td>
<td></td>
<td>√</td>
<td>√</td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>Transport Services</td>
<td></td>
<td>√</td>
<td>√</td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>Other Services Not Included Elsewhere</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>6</strong></td>
<td><strong>10</strong></td>
<td><strong>11</strong></td>
<td><strong>11</strong></td>
<td><strong>9</strong></td>
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</tbody>
</table>

Source: Author’s compilation
## Scope of Coverage: No. of Sectors Committed within each Sector

<table>
<thead>
<tr>
<th>SERVICE SECTOR/ AGREEMENT</th>
<th>GATS</th>
<th>India-Malaysia</th>
<th>India-Korea</th>
<th>India-Japan</th>
<th>India-Singapore</th>
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</thead>
<tbody>
<tr>
<td>Business Services</td>
<td>8</td>
<td>25</td>
<td>33</td>
<td>32</td>
<td>39</td>
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<tr>
<td>Communication Services</td>
<td>11</td>
<td>16</td>
<td>16</td>
<td>15</td>
<td>9</td>
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<tr>
<td>Construction and Related Engineering Services</td>
<td>1</td>
<td>5</td>
<td>1</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Distribution Services</td>
<td>2</td>
<td>2</td>
<td>4</td>
<td>2</td>
<td></td>
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<tr>
<td>Educational Services</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Environmental Services</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Financial Services</td>
<td>10</td>
<td>17</td>
<td>14</td>
<td>12</td>
<td></td>
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<tr>
<td>Health Related And Social Services</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Tourism And Travel Related Services</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Recreational Cultural And Sporting Services</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Transport Services</td>
<td>8</td>
<td>11</td>
<td>11</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td>Other Services Not Included Elsewhere</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>33</td>
<td>62</td>
<td>89</td>
<td>90</td>
<td>82</td>
</tr>
</tbody>
</table>

Source: Author’s compilation
Liberalization and Reform Experience: Telecom Services

**Liberalization Process**

- Showpiece of India’s liberalization and reforms, sector with most liberalization
- Roadmap for reforms laid down by major national policy frameworks, National Telecom Policy of 1994 and 1999, regulator established
- Aims were to expand and upgrade country’s telecommunications network, privatize telecom services, introduce a more liberal foreign investment framework, introduce new regulations and regulatory structures in this sector
- Consistent liberalization of FDI restrictions in both basic and value added segments, gradual removal of restrictions on private players
- Department of Telecommunications (DOT) restructured, its monopoly status gradually reduced and eventually eliminated
• Problems faced in initial years of reforms with insufficient opening up, conflicts of interest, regulatory challenges, and lack of political will

• Insufficient liberalization
  • Restricted number of licenses for private players
  • Foreign ownership was restricted to 49 percent
  • DOT retained its monopoly over long distance telephony
  • Although competition permitted, uneven playing field between public and private providers

• Regulatory framework problematic
  • Clear conflict of interest between the government and the regulator
  • Incumbent policy maker, DOT reluctant to cede monopoly status and revenues to private players
  • Several cases of conflict between DOT and TRA, latter lacked autonomy over various policy issues
  • Conflicts adversely affected credibility of the regulator

• Political instability at the centre further affected the progress of telecom reforms
• The second phase began with the introduction of the National Telecom Policy (NTP) of 1999
  • More clearly defined the role of the TRAI
  • In January 2000, national long distance telephony opened up to private operators
  • In 2001, unlimited entry was permitted in each policy circle for the provision of basic and mobile services
  • In April 2002, the international long distance service was opened up to competition by privatizing the public provider and removing restrictions on the number of operators in this segment

• Other liberalization measures undertaken post 1999 included
  • Opening up of internet telephony
  • Disinvestment and corporatization of public sector telecom providers in some metros
  • Introduction of new technologies and forms of service delivery
  • Approval to internet service providers to set up international internet gateways India
• Since February 2005, government increased foreign holding limit for various segments of telecom services

• Presently, 100 per cent FDI (Automatic up to 49%, Government route beyond 49%) permitted in all telecom services including telecom infrastructure providers

Thus, competition was encouraged, with the entry of both local and foreign providers, the granting of greater flexibility to existing players with the waiver of various obligations and permission to provide additional services, and substantial reductions in entry and licensing fee shares from providers
**Outcome of Reforms**

- Network expansion, productivity improvements, increased number of lines in operation, reductions in prices and waiting lists, increased demand for basic and value added services, and increased tele-density in both rural and urban areas
- Growing number of telecom operators, with private sector outnumbering public sector providers
- Changes in the sector’s profile, with value added and mobile telephony becoming the fastest growing segments and growth drivers
- Helped consumers through lower tariffs and increased competition, with the telecom service price index falling from 100 in 2009-10 to 70.59 in 2012-13

**Concerns and Future Challenges**

- Infrastructure, particularly the availability of spectrum which is currently in short supply
- Transparency in spectrum allocation, possible misuse of decision making power by authorities
- Quality of services, frequent call drops
- Urban-rural divide, which has increased post liberalization
Retail Services

*Liberalization Process*

- While non-retail segments, such as wholesale trading, export trading, cash and carry, and franchising are considerably liberalized, the retail segment is only partially open
  - FDI of up to 100 per cent through automatic route is allowed for Cash & Carry Wholesale Trading/Wholesale Trading (including sourcing from MSEs)

- In the retail segment, government allowed 51 percent FDI in single brand retailing in 2006 subject to FIPB approval and certain conditions, presently, 100 per cent FDI (Automatic up to 49%, Government route beyond 49%) permitted in single brand retail trading subject to conditions such as 30 per cent local sourcing
  - Relaxation in such conditions for high technology products – Apple iphone

- FDI in multi-brand retailing is allowed upto 51 per cent through government route and subject to conditions, such as minimum amount, investment in back-end infrastructure etc.
E-commerce

• No dedicated regulator for e-commerce in India

• Scattered regulations pertaining to e-commerce
  • An elephant and five blind men

• Very recently, the government defines various models of e-commerce and their applicable conditions
  • B2B E-commerce: 100 % FDI allowed
  • B2C E-commerce
    • Market place model: 100% FDI allowed with some conditions
    • Inventory based model: FDI not allowed
Outcomes of Reforms

- Emergence of new retail formats emerged in the form of department stores, supermarkets, hypermarkets, and non-store formats such as direct selling, e-marketing and television shopping.

- Concept of brands has developed, more and more manufacturers branding their products, many foreign brands have entered the Indian market.

- Indian business houses increasingly investing in this sector and many others planning to make huge investments.

- Retail boom not just concentrated in the cities, retailers also venturing into smaller cities and sourcing their products from local small scale industries.

- Some companies entering into rural markets to source directly from farmers, to ensure product quality, and to set up the supply chain from the rural to urban market.
Concerns and Future Challenges

- Lack of economies of scale in sourcing due to the presence of several intermediaries in the supply chain

- Lack of supporting infrastructure and facilities in other segments of the distribution services sector

- Coherence between ‘brick and mortar’ trade and e-commerce and possible adverse effects on retailers and consumers

- Restrictions on trade in some commodities, with different Indian states having their own policy with respect to production, distribution and taxation
  - Multi-point taxation makes it difficult to set up a centralized sourcing infrastructure causing most retailers in India tend to source their products locally and affecting their economies of scale in sourcing

- Access to institutional funding particularly to small retailers
Key Lessons and Takeaways

- Though reform process and associated challenges and issues have been different across different services some common features emerge.

- Reform experience has generally not been smooth, time taken to introduce new legislation on reforms and enacting related legislation, lack of political will.

- Reform experience has been an evolving and learning process, approach has been gradualist and hesitant-first getting evidence on benefits and challenges following partial liberalization, before liberalizing further.

- Services liberalization being experimental in nature, India does not hesitate to roll back measures not suitable for its domestic concerns:
  - Roll back in retail services: political economy concerns
  - Roll back in banking services: financial and economic stability concerns
• Conflicts of interest among different stakeholders
  • Government versus private players
  • Government versus independent regulators
  • Public sector entities versus private players
  • Large versus small private domestic players
  • Large domestic versus large foreign players
  • Regulatory bodies/professional councils versus the government or versus foreign players

• Difficulty in balancing equity and efficiency concerns, balancing public and private interests, ensuring right balance between institutional autonomy and regulation

• Market structure, domestic policies and frameworks have shaped the pace and extent of liberalization across different services
  • Fragmented private player dominated services have proved more difficult to reform than government dominated monopoly type services, given stakeholder influenced political processes
• Importance of instituting appropriate regulatory bodies, clearly defining their roles, and improving governance to support liberalization

• Managing public perception and removing misinformation vital for success of regulatory reforms
  • Public perception about GATS and Education services in India

• Important to open not only ‘at the border’ but also ‘behind the border’ to reap the benefits of liberalization
Role of UNCTAD

- Awareness of services trade specificities among policy makers and implementers not as what is needed
  - UNCTAD role in capacity building and awareness

- Preserving policy space very important for developing countries and LDCs
  - Making understand the policy makers the implications of new developments, such as e-commerce, GVCs etc. and the need for regulatory coherence

- Services liberalization and ‘New age FTAs’
  - Are they catering to the needs of all or to the selected few?
  - Advocating fine balance between prudential regulations and protectionism

- Promoting just and fair use of regulations for meeting SDGs
Thanks !!

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