

# Sociology of Globalisation

*Perspectives from India*

EDITED BY  
SAKARAMA SOMAYAJI  
GANESHA SOMAYAJI



**RAWAT PUBLICATIONS**

Jaipur • New Delhi • Bangalore • Mumbai • Hyderabad

ISBN 81-316-0030-0  
© Contributors, 2006

No part of this book may be reproduced or transmitted in any form or by any means, electronic or mechanical, including photocopying, recording or by any information storage and retrieval system, without permission in writing from the publishers.

*Published by*

**Prem Rawat for Rawat Publications**

Satyam Apts., Sector 3, Jawahar Nagar, Jaipur 302 004 (India)

Phone: 0141 265 1748 / 7006 Fax: 0141 265 1748

E-mail: [info@rawatbooks.com](mailto:info@rawatbooks.com)

Website: [www.rawatbooks.com](http://www.rawatbooks.com)

*New Delhi Office*

4858/24, Ansari Road, Daryaganj, New Delhi 110 002

Phone: 011-23263290

*Also at Bangalore, Mumbai and Hyderabad*

Typeset by Rawat Computers, Jaipur

Printed at Chaman Enterprises, New Delhi

## Globalisation and India's Trade in Services

P.K. SUDARSAN

Until recently, it was believed that the service sector is a collection of mainly non-tradable activities with low productivity growth potential. According to World Bank, the internationalisation of services will lead the next stage of economic globalisation. Service sector contributes more than 50 per cent of its GDP in most of the countries. In developed countries it is above 60 per cent. Trade in services is going to play an important role in the future economic development of the many countries. Services were left out of multi-lateral trading system till the Uruguay round of negotiations launching WTO. GATT system restricted itself to trade in goods on the general belief that the services are non-tradable. The inclusion of services under WTO in 1995 and introduction of General Agreement on Trade in Services (GATS) was recognition towards the increasing importance of trade in services. India is a signatory to WTO and falls under GATS framework.

However, there is lot of confusion among developing countries about the role of WTO and GATS in promoting the trade in services. The debate is already on and it is mainly focused on the detrimental or beneficial effect of commitments under GATS on the economies of developing countries. In this context, the present paper focuses on the following areas and issues: (i) impediments in globalising trade in services, (ii) general framework of GATS and its implications, (iii)

globalising India's trade in services and major service exports which are of interest to India, and (iv) government initiatives in promoting trade in services and challenges ahead.

### **Barriers to Trade in Services: An Impediment to Globalisation**

Most countries resort to the policies of one kind or another that restrict the trade in services. Trade in services is faced with variety of restrictions in different markets. Some take the same form as those applied to goods such as tariffs, import licences and quotas or protection in the form of subsidies and discriminatory government procurement policies (Schott, 1983). Other restrictions in the form of monetary policy, foreign exchange controls, subsidies, etc., hamper investment opportunities in a foreign country. These restrictions discourage participation by foreign service industries in a market.

The regulatory regime can also act as trade barriers. The restrictions in financial services are the most important as it poses a special problem because most of the countries regulate their banking and insurance industries to ensure prudential business practices and to guarantee performance. Each country has its own regulatory regime, which lay down guidelines for foreign participation in the market. Restrictions on insurance transactions by foreign firms generally take the form of controls on investment, capital and foreign exchange and discriminatory trade and tax policies. Telecommunication and information services are subjected to a significant degree of government regulation through the control of main channels for the provision of these services, for example, leased line, inter-connect systems and satellites. The regulation limits the right of access to the data banks, information systems and communication network in many cases exclusively to domestic companies. If permitted, foreign participation is usually controlled through restrictive licencing policies and high taxes.

Different governments have also regulated transport industry for years in order to provide incentives for the development and maintenance of national flag carriers. Governments often supported their domestic maritime industry both through direct operating subsidies to maintain and operate domestic fleet and through construction subsidies to support domestic ship building industry. Governments can discriminate against national flag carriers in a

variety of ways, namely, through blatant quotas, by granting preferential rates or imposing discriminatory taxes.

There are a number of other kinds of services, which also face restrictions similar to the above, for example, (i) construction, engineering, consultancy services, (ii) professional services such as those performed by lawyers and accountants, and (iii) motion picture and other forms of entertainment. Subsidies, restrictive government procurement policies, quotas and other administrative measures have restricted the trade in above services also.

In the case of trade in services, the tariffs are not used so frequently and widely. It is used primarily to restrict trade that occurs via cross-border movement of natural persons, by charging visa fees or exit taxes or discriminatory airline landing fees and port taxes. Tariffs are important trade barriers when the services are either embodied in goods or goods are used as inputs in the production of services. Barriers to trade in services could be in the form of certification or licencing requirement in the case of professional and certain business services. Environmental standards can also come as a trade barrier, especially in the case of transportation and tourism. Government procurement policies and sourcing policies are designed to discriminate in favour of domestic service providers. In the case of services, the quantitative restrictions are often used in the form of quotas on the providers of services rather than services itself. Service markets may be reserved exclusively for domestic suppliers.

The question is how to deal with those restrictions in the context of international trading system. Some of the restrictions can probably be resolved through the development of new international trade rules. There is a real danger that unless rules on services are somehow incorporated into the framework of the international trading system, barriers are likely to grow. GATS was introduced with the objective of framing such rules in order to reduce the barriers to trade.

### **GATS and Trade in Services**

The General Agreement on Trade in Services (GATS) came into existence as a result of the Uruguay Round of negotiations and entered into force on 1 January 1995, with the establishment of WTO. India signed all WTO agreements and GATS is a part of that package. The main purpose for the creation of GATS was to devise a creditable and reliable system of international trade rules, which

would ensure fair and equitable treatment of all countries on the principles of non-discrimination. GATS has been introduced with a view to removing all barriers to trade in services. The main objectives of the GATS are: (i) expansion of trade in services, (ii) progressive liberalisation of such trade through negotiations, (iii) transparency of rules and regulations, and (iv) increasing participation of developing countries. GATS recognises the regulatory concerns of the member-countries. Under GATS member-countries voluntarily undertake to bind their policy regimes relating to trade in services.

GATS provides a comprehensive definition of trade in service in terms of four different modes of supply: cross-border supply, consumption abroad, commercial presence in the consuming country and temporary movement of natural persons (Government of India 2002).

Under the cross-border supply of services (model 1), service flows from the territory of one member-country into the territory of another member-country. This mode of service supply is similar to the cross-border movement of goods. The mode 2, 'consumption abroad' refers to a situation where the consumer of a service moves into the territory of another member-country to obtain the service. This will involve the consumer travelling to the supplying country. In the case of mode 3, the service suppliers of a member-country establishes a commercial presence in another member-country with a view to providing their services. Establishing branch offices or agencies to provide services such as banking, insurance, legal advice, etc., are examples of this mode of supply. The mode 4, i.e., the movement of natural persons, covers situations in which a service is delivered through persons of a member country. GATS covers only temporary movement and not citizenship, residence or employment on a permanent basis in the foreign country. National government has power to regulate this mode of service by granting or refusing visas to the prospective service providers.

### **Globalising India's Trade in Services: Potential Areas**

Global trade in services in the year 2000 has reached US\$1.4 trillion, which is 23 per cent of the merchandise trade (Government of India 2002). According to a forecast by NASSCOM, India's service sector exports are likely to touch \$35 billion by 2007. If China is considered as a manufacturing powerhouse, the same status is given to India in

the service sector. India has 49 per cent of its GDP accounted for by the service sector. India has set the target of achieving 1 per cent of the global merchandise trade by 2007. We can achieve this target by improving our competitiveness in the goods sector through an efficiently performing service sector. India has significant potential in trade in services. We should see multilateral negotiations under GATS as means for realising this potential. The sectors on importance to our country are computer and related services, professional services covering accounting, auditing and bookkeeping services, architecture services, medical and dental services, audio-visual services, construction and engineering services, educational services, and tourism and travel-related services. In these fields the Indian professionals have core competence and competitive advantage which needs to be actualised through liberalisation of delivery of services through mode 4 and also mode 1. There also exists significant opportunity for exports of services in mode 2.

The expansion of trade in services is going to help our country in many ways. The presence of an efficient service infrastructure is a pre-condition for economic success. Services, such as telecommunications, banking, insurance and transport, are strategically important inputs to all sectors of the economy making economic growth faster. Access to world-class services helps our country's exporters and producers to capitalise on their competitive strength. Growth in trade in services promotes employment within the country and to a larger extent growth in opportunities abroad. Liberalisation of services leads to lower prices, better quality and wider choice for consumers.

The above discussion reveals the significance of WTO in improving India's service exports. In most of the countries barriers to trade in service exist in one form or other. The commitments made so far towards trade in services are also not very encouraging. India has lot of opportunities and challenges in trade in services under WTO framework.

India's schedule under GATS provides for specific commitments covering business services, health-related and social services, communication, construction work for civil engineering, financial services and tourism services. India has not made any commitment on services relating to distribution, education, culture and sporting, transport, etc. India has made commitments in 33 activities compared with an average of 23 for the developing countries.

## **Movement of Natural Persons**

India has significant potential in the case of mode 4, i.e., the movement of natural persons. It is in this sector that the developed countries have not provided us with sufficient market. A plethora of regulations in the form of economic needs test, processing of visa applications, residency requirements, recognition of educational qualifications, social security contributions, etc., stand in the way of obtaining market access in sectors in which India definitely has an advantage. The main restriction to the movement of natural persons originates in immigration and labour market policies of individual countries (Chanda 1999).

The commitment under different modes of supply for trade in services has been uneven. The developed countries' commitments under mode 4 are minimum. The horizontal commitments under mode 4 are subject to limitations in the case of 100 countries as opposed to only four countries in mode 2.

The commitments under mode 4 are mainly horizontal, which are subject to many kinds of limitations. Many countries in their scheduling exercise have excluded important sectors. Even, when they scheduled such sectors, there exist only partial commitments with critical limitations.

There are various types of restrictions in the movement of natural persons, for example: (i) The immigration and labour market policies of the individual countries. The processing of visas and work permits takes a long time. Limitations on the length of safety and transferability of employment in the overseas market are another limitation. The temporary movement of labour is not separated from permanent movement of labour. (ii) There are also limits on visas in many developed countries for movement of professionals. (iii) The wage parity rule, which exists in many countries, nullifies the cost advantage of developing countries in exporting the services. (iv) The economic needs test is a major entry barrier in most of the countries. Such tests are used to ascertain the need for entry as well as number to be allowed to enter. Its application is also arbitrary. (v) Qualification and licencing requirements: on this ground, very often work permits or visa applications are rejected. (vi) Developing country professionals are being subject to payment of social security contributions in the host country.



## Software Services

Software service industry is one of the fastest growing service industries in the world as well in India. The industry comprises of software implementation services, system design, analysis, maintenance services, consultancy and support services, etc. India's performance in software exports is commendable. An export revenue of nearly US\$57 billion is expected from India's software industry by 2008, which is nearly 6 per cent of global market. India's software sector is in a truly globalised environment. We are able to attract large amount of FDI into India's software sector. Liberalising trade in software services within GATS framework is of great significance to India (Mukopadhyay 2002).

Trade in software services is carried out mainly through onsite services and offshore services. This classification is based on the movement of a producer of a service to its customer. Onsite services are also known as body shopping. In the case of offshore services, there is only limited movement of a producer of the service and customer of the service as the software is developed offshore and exported to the users. In the case of offshore packages or software product development, neither the producer nor the consumer of the service moves (Joseph and Harilal 2001). Therefore, the liberalisation of trade in services in mode 1 and mode 4 is going to help India's software service industry in many ways.

## Educational Services

India has great potential in exporting educational services. It has abundant manpower which can be used intensively to gain the comparative advantage with other countries in the case of educational service exports. GATS has identified five categories of educational services, viz., primary, secondary, higher, adult and other education. GATS also classifies educational services under four modes of supply: mode 1, distance education, online courses, educational testing services, etc.; mode 2, movement of students to other country for education; mode 3, presence of an educational service provider of a country in another country; and mode 4, movement of teachers going abroad to teach there.

India has not made any commitment in the case of educational services till recently. Considering the potential we have, our country

should make commitments in educational services and negotiate those commitments. India can effectively make use of the exemptions and safeguards to protect our interests like exemptions on MFN status, measures to control BOP problems, measures to protect public morals, maintain public order and national security.

It will be beneficial for India if we open up our secondary and higher education sector. But, it would be advisable to do this gradually. The major constraint is poor infrastructural facilities in our campuses. Therefore, government initiative is required on this front too. We should pay more attention towards liberalising mode 3 and mode 4. For the negotiations in trade in services, Indian authorities not only need to respond to the proposals and commitments made by others, but also put forward India's own proposals and select commitments that are in the best interests of the country (Deodhar 2002).

### **Government Initiatives and India's Service Trade**

Realising the importance of improving the service sector and the expansion of trade in service, India has liberalised the FDI policy towards services in the 1990s. In restaurants and hotels, support services for land and water transport, business services including software, health and medical services, parts of renting and leasing foreign equity participation up to 51 per cent is automatically allowed. Foreign equity participation up to 74 per cent is permitted in mining services, non-conventional energy generation and distribution, land and water transport, storage and warehousing. In domestic airlines it is 40 per cent and it is 20 per cent in banking services. The insurance sector is also opened up. The Government of India has increased the FDI limit for telecom service providers from 49 per cent to 74 per cent. The government has also opened up the construction sector. Government initiatives in the promotion of service exports include exemption from service tax for all services exported and it has also recently announced export promotion council for services.

Recently, the Government of India has made a formal proposal to the US Government demanding the increase in the quota of H1-B visas from the current ceiling of 65,000 to 1,95,000. If we succeed in this, it will be a great boost for IT and other skilled professionals heading for the US (Subramaniam and Venu 2005). In WTO parlance the work permits are called movement of natural persons (mode 4)

and if US concedes to it, it will be big step forward in liberalising the service trade in this mode. Liberalisation of visas is a key demand of India in current negotiations with US and EU and India emphasised on mode 4 which relates liberalisation of visas and mode 1 which is important for outsourcing as it deals with cross-border supply of services. Apart from IT professionals, teachers, lawyers and health professionals are the other beneficiaries from the increase in work permits. In case of services, the initial offers of India would pertain to liberalisation of business services, construction and related engineering services, health-related services, tourism and travel-related services, maritime services and transport services.

The Comprehensive Economic Cooperation Agreement (CECA) between India and Singapore is a landmark agreement as far as India's trade in services is concerned (Mathew and Venu 2005). In this agreement on the movement of professionals, both the countries have agreed to ease visa restrictions for professionals in wide range of areas including IT, medical/nursing and pharmacists, engineering across all streams, metallurgists, surveyors, botanists, zoologists, university teachers, accountants, financial professionals and advertising executives. As many as 127 professional categories are included in the list for grant of easy visas. Both Singapore and India would recognise the degrees issued by specified universities and technical education boards of each other for the purpose of issuing multi-entry/job or stay visas. The new pact exempts professionals working on temporary visas in Singapore or India from the mandatory contributions to the social security funds in the host country. Minimum salary requirement will no more prevent Indian professionals from obtaining visas to work in Singapore. CECA contains a provision in this regard. The salary benchmark was a key criterion that had to be met for grant of visa for Singapore. The Singapore government norm is that professionals seeking visa should draw salaries equal to the prevailing pay packet in the Singapore. A number of professionals were denied visas due to non-compliance with this norm. This will be initially available to all 127 service categories. The development is significant for India since it implies liberalisation of mode 4 in delivery of services, which under GATS is considered as a key area of market access in services for India.

Service sector companies in India will get a boost on account of CECA, especially in key areas like retail, health and education. The

pact paves the way for Indian companies to gain market access in various areas including telephone answering services, business services which cover opinion polls and market research, legal services, alarm monitoring, unarmed guard services, facilities incidental to forestry and agriculture, and services related to environment management. The significance in opening up these areas is that market access is being granted by Singapore without reciprocal offers from India, specially in distribution services, which include retail trade and franchising.

### **Concluding Remarks**

The future of economic globalisation in India depends to a large extent on the internationalisation of trade in services. Since there are many impediments to the trade in services, the globalisation of service trade is somewhat difficult. WTO, and particularly GATS, has to play an important role in this regard. All WTO member-countries should try to improve the international trade in services through proposals and commitments within the GATS framework.

India has a great potential in the case of international trade in services. Supply of services under mode 1 and mode 4 can provide a lot of benefits to India. The movement of natural persons, i.e., mode 4, is an area where India has to give more emphasis. The outsourcing, i.e., mode 1, is another area of interest to India. By attracting FDI in service sector, India can hope for better economic growth domestically also.

Government initiatives, in the direction of improving the trade in services, are not adequate enough. India should show more interest in GATS negotiations and should also try to strengthen its position by joining hands with other developing countries. Though, the negotiations in multilateral framework under GATS are of much interest to India, it should also move forward with bilateral negotiations and agreements similar to CECA with Singapore. India should provide market access to its partners only if they are willing to liberalise mode 4 and mode 1 under GATS.

## References

- Chanda, R. 1999. *Movement of Natural Persons and Trade in Services: Liberalising Temporary Movement of Labour under GATS*, Working Paper No. 51, Indian Council for Research on International Economic Relations, New Delhi.
- Deodhar, S.Y. 2002. 'Educational Services: Issues for India in WTO Negotiations', *Economic and Political Weekly*, May 11, pp. 1791-95.
- Government of India. 2002. Ministry of Commerce and Industry, *News Letter*, July-August, pp. 6-47.
- Joseph K.J. and Harilal, K.N. 2001. 'Structure and Growth of India's IT Exports: Implications for an Export Oriented Growth Strategy', *Economic and Political Weekly*, Vol. 34 (34), pp. 3262-70.
- Mathew, J. and Venu M.K. 2005. 'Open Ticket: Singapore, India to Lift Visa Restrictions', *Economic Times*, 29 June 2005.
- Mukhopadhyay, S. 2002. 'Globalization and Indian Service Sector', *Economic and Political Weekly*, October 5, pp. 4087-98.
- Schott, J.J. 1983. 'Protectionist Treat to Trade and Investment in Service', *World Economy*, Vol. 6 (3), pp. 165-213.
- Subramaniam, G. and Venu M.K. 2005. 'India Wants Visa Power, Seeks 1,95,000 H1B passes at WTO', *Economic Times*, 24 June 2005.