Chapter 8

Issues, Problems and Prospects for Service Sector: An Indian Perspective

1. Introduction
2. Issues
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4. Prospects
5. Conclusion
6. References
1. **Introduction**

In the previous chapter a study of India’s services under the WTO ambit was made. It was analyzed that India’s services in terms of exports have increased under the WTO ambit. But the analysis of FDI inflows in terms of those services, which were committed under WTO, could not make impressive result on the exports as well as on employment. Nevertheless, it is expected that India’s services shall be able to increase its exports as well as employment in GATS in time to come. From a developing country’s perspective, the General Agreement on Trade in services (GATS) is one of the most vital agreements in the World Trade Organization (WTO). GATS encompasses trade and investment under its ambit. The mechanism of GATS provides galore opportunities for developing countries, but it is not without problems and complications. Under this backdrop, the current chapter makes an attempt to bring out the issues, problems and prospects relating to services with a focus on India.

2. **Issues**

Under the ambit of GATS, there are numbers of issues that need to be sorted out. The following paragraphs take into consideration five vital issues that need to be sorted out in order to obviate the fogy plane of GATS. These five issues are namely, Mode4 (Movement of Natural Person), Domestic Regulation, Government Procurement, Emergency Safeguards Mechanism and Subsidies.
a. **Mode 4 (Movement of Natural Person)**

Mode 4 (Movement of Natural Person) got its emergence from a grand North-South Bargain on the GATS definitions of trade in services.\(^1\) The fact that the population over 60 in the developed countries shall be 32 per cent of total population by 2050, which shall make the developed countries net receivers of international migrants approximated to be about 2 million per years over the next 50 years.\(^2\) This statistic provide the opportunities available to the developing countries.

Even the horizontal commitments that are bound are of higher level and are relied to Mode 3 (Commercial Presence Abroad). Number of GATS jargon falls short in terms of clarity. In terms of horizontal commitments too, there is a clear-cut biasness to foster the movement of higher-level service personal. GATS states that the movement of natural person is of temporary period but don’t indicate that how long will be the temporary period, thereby making it difficult to demarcate between Mode 4 and migration.

The developing countries face a lot of barriers under Mode 4, one of the main barriers is the limiting access to intra corporate transfer through horizontal commitment. The developed countries have made horizontal commitments that are associated with commercial presence which facilitate only the higher level of personnel of developed countries. The discretionary and opaque nature of economic needs, labour market and management needs test have also stemmed up as the cardinal barriers to free movement of natural person.
Citizenship requirement for working in several selected service sectors also put services providers of developing countries at back seat. Then there is non-uniformity in the content of social security taxes and benefit and government subsidies that discriminate between domestic and foreign service providers differently. It is quite pertinent that the various roadblock which have been cited in the of Mode 4 need to be obviated for enhancing the opportunities for developing countries including India.

Thus to assist the developing countries’ exports of Mode 4, it is quite important that the further rounds of commitment should be towards the sector specific commitment. The horizontal commitment should include commitment in those low skilled professional that shall assist the developing countries exportss.

A special visa for short-terms visit should be made which would be covered by sectoral and horizontal commitments by GATS members. Member country should be persuaded to bring transparency in their rules and procedures for those seeking temporary admission into their territories. Mutual recognition agreement will be effective way for addressing the difference work related academic qualification.

From view point of India, there is an urgent need to seek liberalization of Mode 4 in American European and Middle East countries. India should aim to pursue these countries to bind in sectoral rather than in the horizontal commitment.
b. **Negotiations on Domestic Regulations (Article VI)**

GATS provision relating to domestic regulations (Article VI) is one of the unclear provisions. Building up of domestic regulation is quite pertinent for increasing the commitments on market access and national treatment. The article entails that the regulation should rest on objective and transparent criterion and should not act as onerous. Countries are entailed to bring out information on their domestic regulation. But the article does not throw light on the criteria on which the need for domestic regulation is to be assessed and what constitute the process for review of domestic regulation. Further the article does not guide when remedies are justified and what constitute an appropriate remedy.

The developing countries face a lot of challenges in the proper designing of appropriate regulatory framework and its implementation on account of dearth of persons with expert knowledge with regulations. It is also feared that if the domestic regulation of developing countries are challenged, then the regulation of services shall be placed before the dispute panel, which shall tantamount to difficult and costly exercise for developing to convince the panel through a necessity test that the regulation relating to service were indispensable for ensuring the quality of services.

It is quite necessary that developing countries shall be provided appropriate guidance in designing of their domestic regulations. The council for trade in service should fasten the negotiations on services that are ought to be heavily regulated
and should strive to bring out annexes and reference paper similar to that of accountancy and telecommunications.

c. **Government procurement**

Government procurement is defined in GATS as “the procurement by governmental agencies of services purchases for governmental purpose and not with a view to commercial resale or with a view to use the supply of services for commercial sales”.\(^4\)

The agreement aims to eliminate discrimination among foreign products, services and suppliers and to increase the transparency of relevant laws and practices. The agreement applies to all laws, regulations, procedures and practices pertaining to procurement be specified central government, sub-central and other entities.\(^5\) Though the studies corroborates that transparency in government procedures shall bring efficiency and speed up the supply of services of government use. But the developing countries perceive that placing the government procurement under the WTO framework shall go against the infant industry argument.\(^6\)

From India’s perspective, the case for government procurement does not hold much relevancy. India’s domestic service suppliers are not in position to compete with foreign services provider, also the disciplines on government procurement would impede the power of government in designing and allocation of fund for social and education services.
d. Emergency Safeguard Mechanism (ESM)

Article X of GATS relates to emergency safeguard measures. The article provides rights to importing country members to temporarily discontinue their commitment provided that imports have increased more than domestic production and the surge in import is hampering the domestic industry. Negotiations on the purported article have been kicked off way back in 1996, but till now no satisfactory outcome have arrived. Though the GATS commitment on emergency safeguard mechanism (ESM) has been formed, but the article reveals degree of non-clarity in terms to its application. Applying EMS on mode 2 shall in terms affect the earning of supplier rather than other party. Applying ESM in Mode 3 shall stems up the problem of national treatment and MFN. Thus though the ESM have been brought out for the safeguarding of the importing country's domestic industry but the interface between ESM and trade in services has spawned a debate that needs the light of the day.

From the developing country perspective including India, emergency safeguard measure is not so vital as committing in this sector with a view that it shall address some of their concerns under GATS shall provide the other countries a relative ease in imposing restriction on delivery of services. This shall go against the exportss interest of developing countries. India should ignore this article at present as service has occupied a prime position in her exports structure and her service exportss lacks diversification and at moment the country falls short in having adequate capacity to explore investigations for ESM.
e. **Subsidies**

Article XV of GATS stipulates the member of WTO to form negotiations to develop the necessary multilateral discipline so as to ward off the trade distortion effect of subsidies. The main problem is lack of subsidy disciplines on across the abroad, with respect to subsidy amount or the specified sector to which subsidies are provided. Though the article calls on members to exchange information on subsidies affecting service trade and to request consultation with other member if it adversely affected by the latter's subsidy.⁷

But there is a lack of detailed information in respect to the existence of subsidies in services sector and as regards the extent to which they may have affect in international trade. Subsidies are granted in number of services sectors like audio-visual service, construction, distributes, educational services, environmental services, financial services, health-related services, transport services, research and development services and tourism.⁸ Table 8.1 provides a description on the subsidies provided in various type of services.

Thus it is quite important that clarity on these issues are needed very urgently which shall go a long way in making the architecture of GATS more clearly and thereby providing much needed stimulation to increase the pace of developing countries services. Along with the issues, there are number of problems faced by the countries including India. The following paragraph provides a detail on it.
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Table 8.1

Subsidies used in different Service Industries
(Number of WTO members)

<table>
<thead>
<tr>
<th>Industry</th>
<th>Tax Incentives</th>
<th>Direct grants</th>
<th>Preferential credit and guarantee</th>
<th>Equity injection</th>
<th>Duty free inputs and freeze</th>
<th>Other and unspecified measure</th>
<th>Number of WTO members (country the EU as na)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tourism</td>
<td>41(2)</td>
<td>12(4)</td>
<td>15(2)</td>
<td>2(-)</td>
<td>30(-)</td>
<td>11(1)</td>
<td>63(6)</td>
</tr>
<tr>
<td>Banking</td>
<td>13(2)</td>
<td>4(1)</td>
<td>6(1)</td>
<td>9(1)</td>
<td>10(-)</td>
<td>6(-)</td>
<td>33(4)</td>
</tr>
<tr>
<td>Telecom</td>
<td>3(-)</td>
<td>10(3)</td>
<td>1(-)</td>
<td>-</td>
<td>5(-)</td>
<td>4(-)</td>
<td>18(3)</td>
</tr>
<tr>
<td>Other financial services</td>
<td>9(3)</td>
<td>1(1)</td>
<td>3(1)</td>
<td>2(-)</td>
<td>3(-)</td>
<td>-</td>
<td>13(2)</td>
</tr>
<tr>
<td>Software, ICI and information processing</td>
<td>9(2)</td>
<td>3(2)</td>
<td>1(-)</td>
<td>-</td>
<td>8(-)</td>
<td>2(-)</td>
<td>15(2)</td>
</tr>
<tr>
<td>Air transport</td>
<td>7(-)</td>
<td>2(2)</td>
<td>1(-)</td>
<td>1(-)</td>
<td>4(-)</td>
<td>5(4)</td>
<td>14(4)</td>
</tr>
<tr>
<td>Real estate</td>
<td>3(3)</td>
<td>1(1)</td>
<td>1(-)</td>
<td>-</td>
<td>1(-)</td>
<td>-</td>
<td>5(3)</td>
</tr>
<tr>
<td>No of Subsidy programmes</td>
<td>165(24)</td>
<td>74(33)</td>
<td>44(6)</td>
<td>15(2)</td>
<td>112(1)</td>
<td>60(10)</td>
<td>-</td>
</tr>
</tbody>
</table>


3. Problems

Services in most of the countries are regulated by government policies, which are mostly designed to restricted services from foreign competition through intangible barriers. These barriers other than tariff are generally of seven kinds such as fiscal measures, credit measures, marketing reservations, capital and labor restrictions, technical standards, administrative regulations and environmental considerations. These barriers have direct impact on trade in services. The barriers due to intangible nature make it difficult to quantify the exchange of concession. The mechanism of GATS though fosters the liberalization of market access but it fails to guide in, liberalization and how to assist it.\(^9\)
Another major barrier relating to trade in services is the developing countries constraints in procuring information relating to trade in services. The international statistical reports divide services into four parts and the last part of component consists of “other services”, which includes a number of services on which statistics is not available.

The structure of GATS has not brought out standard classification for the restrictions applicable in trade in services. They are different termss applied with references to restrictions in trade in services. The contemporary GATS services sectoral classification list (W 120) does not permit sufficient details of the plane of services.\(^{10}\)

One of the major problems in GATS structure is the specific provisions for free movement of capital where as there is no such provision regarding the movement of labour.\(^ {11}\)

It is revealed from the GATS commitment that those services have got more momentum in which the developed countries have their forte where as sectors in which developing countries have potential to access have been left out.\(^ {12}\)

Most of the developing countries are short of hand, while designing the service agenda as well as setting the pace of service negotiations under the multi-lateral trading ambit. Many developing countrie..s research institutions are below par in comparison to developed countries in research capacity that are superb. Sub-Saharan African countries and the Caribbean countries were never able to actively participate only on account of poor research capacity.
As per the developing countries, the most common barriers for the movement of natural persons are strict visa, nationality, residency and licensing requirement, lack of recognition of qualifications and the existence of wage comparison and economic needs test. There are also price-based restrictions, which include visa fees, exit and entry taxes, airport taxes and licensing fees. Other relevant barriers that act as stumbling block are lack of clarity relating to existence, implementation and application of policy guidelines relating to work permit.

The GATS boosts of assisting the developing countries through its flexibility traits. But developing countries are short of pertinent information thereby fails to have futurist vision while designing service schedules. This creates a burdensome task for developing countries in including sectors of services that are to be liberalized and the set of limitations that are to be enforced.

The actual bargaining processes between developing and developed economies do not permit the developing economies to take benefits of the flexibilities and provision of GATS. It has been witnessed that the developing countries face intensive pressure to open their cardinal service sectors. Though GATS permits member countries to add new limitation to horizontal and specific schedule. But after making initial commitment, it is next to impossible to add new limitation. One of the stumbling blocks in future research trade and investment in services is owning to the handicap of authentic and timely interpretable of service data. The current data that is widely used in all the trade in services, mainly intra-firm trade in services is not recorded. There is lack of trade data on services at a more disaggregated
level, which are in consonance with value added and employment data.

One of the major barriers under Mode 2 is lack of portability of health insurance. The US federal and state government reimbursement of medical expenses is limited to license and satisfied facilities. In EU countries also public insurance do not cover electric cover receive aboard. The lack of long-terms portability of health coverage for retirees from OECD countries is also one of the major trade barriers.\textsuperscript{13}

One of the main reasons that hamper the growth of construction services firms in India is the outdated legal framework governing the acquisition of land as outlined in the Urban land ceiling and Regulation Act 1976. Indian consumers fail to acquire complete information about the quality of services that they are acquiring. Consumers are unable to gauge the competency of service providers. There are no independent regulators for most professional services.

The government has not instituted any Exports Promotion Council (EPCs) for different services like that of commodities. Further the problem occurs on account of fact that services do not fall under a single ministry or department.

Due to lack of data, the trade negotiators face a number of handicaps. In India, RBI is the nodal body for collection of data in trade in services. But most of the India’s committed services are under the head of miscellaneous services and the data on miscellaneous services do not reveal the detail of all the services.
that have been committed by the India. There is lack of complete
descriptions of the type of service provider sending remittances.

Macro-economic policies like high tariff rates; large fiscal
deficits, rigid labour regulations and restrictions on the entry of
foreign service providers hamper the sheen of service sectors.
The micro-echelon of Indian economy matches the deplorable
revenue, excessive regulation, discretion in the allocation of
licenses and permits, inordinate delay in legal procedures;
corruption and dilapidated infrastructure are some of prominent
traits of India’s service sectors.

Transfer pricing provision for BPO sector is another factor
that is acting as stumbling block. The attribution faced by ITES
industry ranges around 30-40 per cent work. The recent incident
of data theft in Indian BPO has brought a lot of criticism round
the world. Indian does not have a foolproof data protection law.
The Information Technology Act 2000 and Indian Penal code are
handicap in dealing with data security issues.

Owing to the fact, that India interest pertains specially in
Mode 3. Simultaneously most of the barriers due to the domestic
policies that represent a stumbling block to foreign participation.
Form of FDI (ceiling/prohibition, and type of foreign commercial
presence/form of logical entity are the main market access
restriction. In banking segment, FDI policy limits foreign
participation of 74 per cent of equity and allow foreign bank to
operate in India through branches. Similarly in the insurance
sector, there is a 26 per cent foreign equity ceiling on entry in
the insurance sector in the form of joint venture only. Similarly
in other sector related to financial services like in venture capital, mutual funds FDI restrictions act as the prime market entry barrier.

Lack of competition has intensified the cost of intermediation, lowered the efficiency of capital allocation, which have in turn led to under lending to private sector.\textsuperscript{14} Foreign banks are not permitted to keep PSUs surplus fund. Foreign banks have to pay more tax (40 per cent) than that of domestic banks (35 per cent). Further the government provides guarantees, subsidies and bail out to the public sector financial institutions that are not provided to the foreign banks. India’s financial service exports to face external constraints, which are in form of prudential regulations data protection requirement restriction in the form of economic need test. Under the banking sector, the Indian Banks have lot of problems owing to large government ownership, high non-performing assets (NPA). The Mchinsey report states that business productivity of retail banking is as low as 12 percent.\textsuperscript{15}

Piracy is one of main problems for Indian audio-visual and entertainment industry that impinges all the segment of industry from film production to music to live entertainment. The tourism faces a quite short tourist accommodation.\textsuperscript{16}

In India it is observed that there is dearth of independent regulators for most of the professional services. There is non-uniformity of standard in professional, educational, and financial and health services, which make a barrier in obtaining foreign recognition.\textsuperscript{17}
It has been witnessed that in India the economic policies have high tariff rates, large fiscal deficits, rigid labour regulation and restriction on entry of foreign service provide along it at micro economic level it is noticeable that there is excessive regulation, discrimination in allocation of licensing and permit, burdensome bureaucratic and legal procedure, corruption and poor quality of infrastructure also act as impediment in the growth of service sector.  

India though has introduced reforms substantially but it is felt that it has been brought out in impromptu way rather than in a coherent way. The less reforms sectors are characterized by domestic firm that run in a fragile regulatory and outdated environment and thereby unable to face the global competition.  

There are numbers of problems that foreign services providers face in India. Under the banking services the foreign banks are permitted to run as licensed branches or subsidiaries. There are restrictions for the foreign banks in terms of limited numbers of annual branch licenses, and an obligation to provide loan to priority sectors. Further the voting rights of share holders are permitted a paltry share of 10 per cent.  

The World Bank’s recent report, titled “Doing Business in 2005” is a well-acknowledged report having consent of world bigwigs. Taking this report in view, Indian economy still needs a lot to do at ground level. Table 8. reveals that India is miles away at the micro level and indicates as if only changes have arrived at macro level and the position of lower level is still of pre
liberalize era (Pre-1991). The worst condition is on credit information index where India has a score of zero.

**Table 8.2**

**Doing Business in 2005: Removing Obstacles to Growth**

<table>
<thead>
<tr>
<th>Parameters</th>
<th>India</th>
<th>South Asia</th>
<th>China</th>
<th>ECD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resolve Bankruptcies(Y)*</td>
<td>10</td>
<td>5.2</td>
<td>2.5</td>
<td>2</td>
</tr>
<tr>
<td>Recovery (% on Dollar)</td>
<td>12</td>
<td>66</td>
<td>66</td>
<td>666</td>
</tr>
<tr>
<td>Commercial contract (P/D)**</td>
<td>(40/425)</td>
<td>(29/375)</td>
<td>(25/241)</td>
<td>(19/229)</td>
</tr>
<tr>
<td>Credit information Index</td>
<td>0</td>
<td>1.7</td>
<td>3</td>
<td>5</td>
</tr>
</tbody>
</table>


Another report having the acceptance of world’s think-tank is the Globalization Index (2004) of management consultant AT Kearney in which India ranked 61 among the 62 countries surveyed.

The non-merit subsidies amount to 10.7 per cent of GDP or 20600 crores. Accountability and transparency are also the areas where the condition is quite glooming, as per the Transparency International (India), nearly 27000 is wasted due to corruption. Adulteration is also rampant and should be
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checked by concerned authority. These are few of many areas, which need lot of reforms in the immediate future to optimally exploit the benefits of globalization beyond 2005.

4. Prospects

GATS lend a hand to developing countries through facilitating them contact points of developed countries. Contact points of developed countries add up in making developing countries abreast of all the contemporary laws and regulations related to market access and discriminatory restrictions for all service sectors. GATS through its Article XIX look up to the venerable and fragile fabric of developing economies. Thereby providing the developing economies the liberty to open their selected sector, liberalize fewer types of transactions include termss and conditions. GATS through this article make it certain that the developing countries are provided the rights in designing indigenous service polices encompassing subsides and employment requirements. Another advantage for service exporters of developing county member is easy abreast on country domestic regulation and other prevailing barrier in other market.

Liberalization of trade in service under GATS umbrella shall foster the escalation of foreign direct investment and go a long way in decreasing incomes disparities of developing countries. Through GATS, developing countries have an opportunity to fetch technology and know-how from developed country.
Another opportunity that emerges through GATS for developing country in terms of efficiency gains firm the increase pace of competition in their domestic markets with the advent of foreign supplier in the sector like telecommunication financial services will bring fruit to not only general public but also manufacturing firm.

GATS opportunities will be thrown open in terms of better and more job prospects, increased income, broader consumer choice. Producer and Infrastructural services like telecommunication, banking, insurance and transport are vital ingredient for all the sectors of economy. GATS communities shall stimulate the competitiveness of these services.

The positive list approach facilitates the member country to opt the sectors and supply modes to be covered in their commitment. Each member has the liberty to lay down the terms and conditions for specific commitment on market access and national treatment. GATS provide numbers the flexibility to levy conditions, qualifications and standards for market access and national treatment in specific sectors.

The mechanisms of GATS foster the credibility of policy at home and assist to lock-in the access to market abroad through binding commitments. GATS ward off the discrimination between trading partners through effective application of most favored nation (MFN) principle.

Under the Mode 3 of GATS, the developing economies can avail physical capital, human capital and technology-factors, which are instrumental in assisting the development agenda of
developing countries. Influx of foreign capital assists on lowering the balance of payments constraint on growth and allows lower real interest rates. Latest technology and modern management techniques though mode 3 shall assist indigenous firms in producing new product.

Article IV of GATS acknowledges the top sided development between the developed and developing countries in context of services sector. The mechanism of GATS makes it certain that the developed countries assist the developing countries in assisting market landscape for their product.

Dee and Hanslow (1999) brought out that through eliminating all post Uruguay Round trade barrier. World as whole shall be richer by more than US$260 billion annually. The lion share of US$130 is stated toward the service sector.

It is expected that in years to come the outsourcing shall increase very rapidly. Table 8.3 reveals that the outsourcing shall increase in future. Numbers of services areas where the outsourcing shall increase is given in the table.

**Table 8.3**

*The Global Trends in Outsourcing Mode 1 Opportunities*

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Management</td>
<td>0</td>
<td>37,477</td>
<td>117,835</td>
<td>88,281</td>
</tr>
<tr>
<td>2</td>
<td>Business</td>
<td>10,787</td>
<td>61252</td>
<td>161,722</td>
<td>40028</td>
</tr>
<tr>
<td>3</td>
<td>Computer</td>
<td>27,171</td>
<td>108,991</td>
<td>276,954</td>
<td>72,652</td>
</tr>
<tr>
<td>4</td>
<td>Architecture</td>
<td>3,498</td>
<td>32,302</td>
<td>83,237</td>
<td>84,347</td>
</tr>
<tr>
<td>5</td>
<td>Life Science</td>
<td>0</td>
<td>3,677</td>
<td>14,478</td>
<td>36,770</td>
</tr>
<tr>
<td>6</td>
<td>Legal</td>
<td>1,793</td>
<td>14,220</td>
<td>34,673</td>
<td>74,642</td>
</tr>
<tr>
<td>7</td>
<td>Art, Design</td>
<td>818</td>
<td>5576</td>
<td>13,846</td>
<td>29,639</td>
</tr>
<tr>
<td>8</td>
<td>Sales</td>
<td>4,619</td>
<td>29,064</td>
<td>97,321</td>
<td>26,564</td>
</tr>
<tr>
<td>9</td>
<td>Office</td>
<td>53,987</td>
<td>295034</td>
<td>791,034</td>
<td>1,659,310</td>
</tr>
</tbody>
</table>

Source: US Development of Labor and Forester Research, Inc.
Table 8.4 provides a view on the growing opportunities in Knowledge Process outsourcing (KPO). It is noticeable through the table that KPO services in the form of basic data, Market research and animation shall grow at nearly the rate of 50\% in terms of Compound Annual Growth Rate. India has tremendous potential to fetch these opportunities toward herself.

**Table 8.4.**

<table>
<thead>
<tr>
<th>Services</th>
<th>2003 (Billion dollars)</th>
<th>2010 (Billion dollars)</th>
<th>CAGR (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic data search, integration and management</td>
<td>0.3</td>
<td>5</td>
<td>50</td>
</tr>
<tr>
<td>Market research, competitive intelligence</td>
<td>0.02</td>
<td>0.4</td>
<td>54</td>
</tr>
<tr>
<td>Engineering Design</td>
<td>0.4</td>
<td>2</td>
<td>29</td>
</tr>
<tr>
<td>Animation and Simulation</td>
<td>0.1</td>
<td>1.4</td>
<td>46</td>
</tr>
<tr>
<td>Medical Content and Services</td>
<td>NA</td>
<td>0.3</td>
<td>NA</td>
</tr>
<tr>
<td>Biotech and Pharmaceuticals</td>
<td>02.8</td>
<td>3</td>
<td>40</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1.2</strong></td>
<td><strong>15.5</strong></td>
<td><strong>43.5</strong></td>
</tr>
</tbody>
</table>

Source: The Economic Times, New Delhi, 8 April, 2005 p. 16

Under the GATS ambit, India can enhance the exports of health services by becoming a palatable hub through attracting foreign patients to domestic hospitals and doctors. Health treatment is quite low in comparison to developed countries. The cost of coronary bypass surgery could be as low as Rs. 70,000 to 1,00,000 in India, about 5 per cent of the cost in developed countries.\(^{24}\) Similarly, the cost of liver transplant is one-tenth of that in the United States. GATS facilitates access to markets abroad, also provides proper pathway for domestic reforms.
Indian exporters get opportunity to draw attention towards regulatory barriers in foreign markets that the form of burdens some licensing and qualification requirement for professionals.

Under the GATS arena, countries are permitted to embrace full commitments on market access and national treatment and are allowed to design permissible domestic objectives. Thereby India has opportunities to disallow all those countries that fails to meet her regulatory standards.25

Through the liberalization of services, the developing countries are sanguinely expected to succeed the industrial countries. According to an study, gain in welfare (as a percentage of GDP) were 1.2 per cent for United State and Japan and 1.0 percent for the EU. The gain for other countries are South Asia (3.0 per cent) Asean (2.9 per cent), new industrializing economies (2.5 per cent) and for India (1.4 per cent).26

UNCTAD estimates that India can gain as much as US$40 US$ 60 billion per year in exportss from the global outsourcing boom, with the ITES/BPO total market expecting to proliferate from US$774 billion to US$1049 billion between 2002-06. Another UNCTAD’s estimate reveals that in Mode 4, India can capture a lion share of US$50 billion in exportss of services from a mere 3 per cent increase in quote of temporary workers by the developed countries of the organization for Economic Cooperation and Development.

By reducing and eventually eliminating all forms of trade barriers, the emerging framework under the WTO is likely to
increase the pace of world trade in coming years. Greater opportunity for domestic producers, special for new technology and production capabilities, economies of state are becoming increasingly important in reducing costs and prices.

\textit{GATS shall simulate competition in services like telecommunication, banking insurance and transport. GATS shall assist the developing countries through assisting in making their exporters and producers access to world-class providers.}\textsuperscript{27}

The vision 2020 identifies a number of high employments potential service sectors into tourism, housing and construction, IT and IT enabled services, transport and communications, education, health and financial services. With development of India’s tourism infrastructure combined improvement in air transport, hotel rates and tax policies could generate an additional 25 million employment opportunities in this sector.\textsuperscript{28}

Outsourcing of services by OECD countries will fuel a rapid expansion of IT and IT enabled services, generating millions of jobs within the country.

Table 8.5 throws light on outsourcing trends in 2008. It is discernible that India shall gain maximum from customer care amounting to US$ 8.0-8.5. Next in line are HR and Payment services where earning shall be approximately be US$ 3.5-4.0 and US$ 3.0-3.7. The WTO commitments shall assist India that theses opportunities are not lost through the protectionist move of developed countries.
India shall transit into a predominantly service economy by 2020. The NASSCOM-McKinsey study in 1999 projected creation of US$ 70 billion IT industry, employing more than two million persons within 10 years. The worldwide market for IT services is expected to exceed $900 billion by 2010.29

Demand for health services is increasing worldwide. Already nurses and medical technicians are in short supply. Physicians, nurses, medical technicians and other scientific occupations will become growth industries for India.

Demographic trends in OECD countries will create acute labour shortage, opening up unprecedented opportunities for developing countries like India to provide manpower and outsourcing services. A UN Study released in March 2000 projects that 15 nation E.U. would have to accept 150 million new immigrants over the next 25 years for maintaining present level of working population.30

The world bank estimates that India will possess the fourth largest economy in the world by 2020. The emerging global scenario will open up greater opportunities.31 For countries with
a surplus of well-educated highly skilled labor. India’s recent boom in outsourcing of IT services further facilitated by declining cost of International communication and transportation, exports of highly educated and highly skilled individuals will also enhanced. Exports of highly educated and highly skilled individuals will also increase, significant migration of scientific, engineering and medical talent is likely to enhance.

India already commands an impressive 18.5 percent share in the global market for customized software and Indian software Industry is the fastest growing in the world A NASSCOM-McKinsey report estimated that by 2008, the global market for IT enabled services, alone will exceed US$1000 billion and that India’s exports of IT service will exceed US$ 50 billion alone.  

India has current potential endowments of both professionals and less skilled service providers. An study has estimated that an increase in developed countries quotas on the inward movement of both skilled and unskilled temporary workers equivalent to 3 per cent of their work forces would generate an increase in world welfare of over US$150 billion a year. Both developed and developing countries would share in these gains, and dividend shall be more substantial, provided that both high skilled mobility and low skilled mobility are signaled green.

According to Nasscom, BPO is growing at a ratio of 60 to 70 per cent per annum. McKinsey project that by 2008, the BPO industry shall generate a turnover of Rs. 57 billion. Nasscom-McKinsey report states that if India is able to occupy 1/6 of the
total outsourcing market, it will materialize into 5,40,000 jobs by 2010 with a revenue of $24.67 billion. Another Nasscom_Mckinsey study states that India’s IT industry will earn US $77 billion by 2008; provide employment to four million people and account for 7 per cent of India’s GDP and 30 per cent of India’s foreign exchange inflowss.\textsuperscript{34}

Under the media and entertainment services, In 2003-04, under Indian film industry, 5 films crossed the 2 million US $. At the domestic echelon, 16 films grossed more than Rs. 10 crores ($2.1 million) with the growth rate of 20 percent in 2004, it is expected that this rate will continue till 2007.

Under the Music industry, The FICCI-E&E and y reveal that music industry is expected to grow to Rs. 1217 crores ($270 million) by 2008. In US, nightclubs have started tapping to Indian music.

Study conducted by CII reveals that around 150,000 patients came to India for treatment in 2003-04. The major chunk came of SAARC, Middle East and Africa. Patients have started coming from UK and US out of every ten patients treated at Apollo hospital is form abroad. This sector registers an annual growth rate of 30 per cent. The health care industry provide employment over four million people, making it one of the largest service sectors in the economy. It is expected that at the current pace of growth, health tourism can earn over US $ 2-billion revenue by 2012. Health care spending in the country will double over the next 10 years. Private health care will form a
major chunk of this spending, rising from Rs. 690 billion ($14.86) to Rs. 1,560 billion ($33.6 billion) in 2012. It is sanguinely expected that this statistics would enhance by an additional Rs. 390 billion ($8.4 billion) if health insurance cover envelops the rich and the middle class. With the booming in pharmaceutical markets, it is expected that total health care market could enhance from US$22.2 billion currently 5.2 per cent of GDP to US$50 billion by 2012.

According to study by Price Water have copper titled “Global Entertainment and Media outlook 2004-08, the Indian newspaper market will increase from US$1869 million in 2004 to $2,404 million in 2008 at a CAGR of 6.9 per cent.

The stupendous performance of Indian services sector at the echelon of international trade has played a prime rate in increasing the ratio of external trade in goods and services to GDP from 31.3 percent in 2003-04 to 41.5 percent in 2004-05. According to IBEF study (2005), if the current growth rate of service that is 56.3 percent countries for number of year, then by the beginning of 2007, service sector shall supercede merchandise goods in terms exports. According to IMF study (2003) if the service growth sustains the current rate then by 2010, the share of services would increase to 58 percent.

Through WTO, India can have guarantee that her labor exports gets maximum leverage. Disputes settlement machinery of WTO shall help in reducing the uncertainty relating to exports of labor services thereby increase the India’s exports earning as well as help in reducing poverty. Under Mode 1 where outsourcing has witnessed, increase in the developing countries mainly India and
Malaysia. It is found that a number of benefits in terms of more employment creation better wage rates increase in joint ventures and local subsidies have made a spill over in terms of improving of skill and technologies.

Banking & financial services and United States are reported to benefit by about US$ 8 billion during the period 2001-03 in India.\(^{37}\) It is expected that India shall gain US$ 50 billion per year as exports of services from a mere 3 per cent increase in quota of temporary workers by the developed countries of the Organization for Economic Cooperation and Development (OECD) under Mode 4 in the WTO negotiations. It is expected that India can gain as much as US$ 40 to 60 billion annually in exports from the global outsourcing boom i.e., Mode 1 which covers business process outsourcing. India has opportunity to expand their services exports in skilled knowledge-based in number of communication and computer services. India have edge in number of services like computer services including software programming, database management, online support services, professional services including low cost architecture, consulting engineering, legal research and markets research services.\(^{38}\)

5. Conclusion

The present chapter dealt into the issues, problems and opportunities in services, mainly in relation to India. It is observed that the GATS ambit includes some agreements that need to be made clearer in nature, so that the developing countries may be able to march along with the developed
countries at the global level. In terms of problems, relating to India, India needs to make a holistic and synergetic approach into the plagued areas at the micro level entailing detoxification and filling the gaps of system, process and infrastructure. The chapter had also brought out the opportunities that are emerging in the services sectors. The mechanism of GATS is expected to provide the much needed assistance to the India’s services sector. To excel at the GATS, India needs to have a set of strategies in order to leverage her position in international services. The next chapter which is the epilogue of this research work brings out findings of study along with a strategies that should be embraced by the Indian negotiators at the various fora of WTO.

6. References:

2. UNCTAD, (India), (2005), “GATS Negotiations: Options for India”, p. 20
10. World Bank (2004), "Sustaining India’s Service Revolution", p. 45
12. Ibid.
14. Ibid.
15. Ibid. p. 17
18. Ibid. p. 29
19. Ibid. p. 31
22. Ibid.
23. UNDP, “Making Global Trade Work for People”, (2003), Earth Scan, Virginia, p.258
25. Ibid.
29. Ibid. p. 64
30. Ibid. p. 115
31. Ibid. p. 117
32. Ibid.
34. Yojana, p.35
35. Ibid
36. Ibid
37. Economic and Social Survey 2004, Trend and Policies in the world economy, United Nations, p. 149,
“Doing business in 2005” is well recognized report of World Bank which indicate the business ambience of global world. Taking this report into consideration it is revealed that India is on very poor scale in comparison to South Asia, China and OECD. India scores 0 on the scale of Credit Information Index. In India to sign a commercial contract it takes forty procedures and 425 days which is the most worst among the reporting countries. In India, to transfer a property, it take 67 days which is also very dismal in nature. The World Bank’s recent report, titled “Doing Business in 2005” is a well-acknowledged report having consent of world bigwigs. Taking this report in view, Indian economy still needs a lot to do at ground level. Table 8. reveals that India is miles away at the micro level and indicates as if only changes have arrived at macro level and the position of lower level is still of pre liberalize era (Pre-1991). The worst condition is on credit information index where India has a score of zero.

Table 8.2

<table>
<thead>
<tr>
<th>Parameters</th>
<th>India</th>
<th>South Asia</th>
<th>China</th>
<th>ECD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resolve Bankruptcies(Y)*</td>
<td>10</td>
<td>5.2</td>
<td>25</td>
<td>2</td>
</tr>
<tr>
<td>Recovery (% on Dollar)</td>
<td>12</td>
<td>66</td>
<td>66</td>
<td>666</td>
</tr>
<tr>
<td>Commercial contract (P/D)**</td>
<td>(40/425)</td>
<td>(29/375)</td>
<td>(25/241)</td>
<td>(19/229)</td>
</tr>
<tr>
<td>Credit information Index</td>
<td>0</td>
<td>1.7</td>
<td>3</td>
<td>5</td>
</tr>
</tbody>
</table>

It is sanguinely expected that in future the outsourcing business shall witness much escalation. Table 8.3 brings forth that the outsourcing activities are bound to proliferate in future. Management, business, computer, Architecture, Life Science, legal, Art, Design and Sale are some of the many services which will enhance.

Table 8.3

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Management</td>
<td>0</td>
<td>37,477</td>
<td>117,835</td>
<td>88,281</td>
</tr>
<tr>
<td>2</td>
<td>Business</td>
<td>10,787</td>
<td>61,252</td>
<td>161,722</td>
<td>480,28</td>
</tr>
<tr>
<td>3</td>
<td>Computer</td>
<td>27,171</td>
<td>108,991</td>
<td>276,954</td>
<td>72,632</td>
</tr>
<tr>
<td>4</td>
<td>Architecture</td>
<td>3,498</td>
<td>32,302</td>
<td>83,237</td>
<td>84,347</td>
</tr>
<tr>
<td>5</td>
<td>Life Science</td>
<td>0</td>
<td>3,677</td>
<td>14,478</td>
<td>36,770</td>
</tr>
<tr>
<td>6</td>
<td>Legal</td>
<td>1,793</td>
<td>14,220</td>
<td>34,673</td>
<td>74,642</td>
</tr>
<tr>
<td>7</td>
<td>Art, Design</td>
<td>818</td>
<td>5576</td>
<td>13,846</td>
<td>29,639</td>
</tr>
<tr>
<td>8</td>
<td>Sales</td>
<td>4,619</td>
<td>29,064</td>
<td>97,321</td>
<td>26,564</td>
</tr>
<tr>
<td>9</td>
<td>Office</td>
<td>53,987</td>
<td>295,034</td>
<td>791,034</td>
<td>1,659,310</td>
</tr>
</tbody>
</table>

Source : US Development of Labor and Forester Research, Inc.

Knowledge Process Outsourcing (KPO) is the latest dimension of business process outsourcing. KPO is basically concerned with outsourcing of highly skilled task through the information technology. In the near future it is expected that this sector shall witness considerable boom. Table 8.4 shows the future trend of growing opportunities in Knowledge Process outsourcing (KPO) in 2010. It is noticeable through the table that KPO services in the form of basic data, Market research and animation shall grow at nearly the rate of 50 per cent in terms of Compound Annual Growth Rate. India has tremendous potential to fetch these opportunities toward itself.
Table 8.4.

Market Potential for Emerging (KPO) Services

<table>
<thead>
<tr>
<th>Services</th>
<th>2003 (Billion dollars)</th>
<th>2010 (Billion dollars)</th>
<th>CAGR (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic data search, integration and management</td>
<td>0.3</td>
<td>5</td>
<td>50</td>
</tr>
<tr>
<td>Market research, competitive intelligence</td>
<td>0.02</td>
<td>0.4</td>
<td>54</td>
</tr>
<tr>
<td>Engineering Design</td>
<td>0.4</td>
<td>2</td>
<td>29</td>
</tr>
<tr>
<td>Animation and Simulation</td>
<td>0.1</td>
<td>1.4</td>
<td>46</td>
</tr>
<tr>
<td>Medical Content and Services</td>
<td>NA</td>
<td>0.3</td>
<td>NA</td>
</tr>
<tr>
<td>Biotech and Pharmaceuticals</td>
<td>0.28</td>
<td>3</td>
<td>40</td>
</tr>
<tr>
<td>Total</td>
<td>1.2</td>
<td>15.5</td>
<td>43.5</td>
</tr>
</tbody>
</table>

Source: The Economic Times, New Delhi, 8 April, 2005 p 16

Of late, it is witnessed that outsourcing activities have increased. Keeping into consideration the current pace of outsourcing business, it is expected that outsourcing trend shall be more in days to come. Table 8.5 corroborates statistics on the outsourcing trends in 2008. The majors service line are HR, Customer Care, Payment Services, Content Development, Administration and Finance. It is expected that India shall fetch the major amount from the customer care amounting to US$ 8.0-8.5. Next in line are HR and payment services where the revenue earning are expected to US$ 3.5-4.0 and US$ 3.0-3.7. India need to lock in these opportunities through WTO commitment which otherwise shall be lost through the protectionist move of the developed countries. Table 8.5 throws light on outsourcing trends in 2008. It is discernible that India shall gain maximum from customer care amounting to US$ 8.0-8.5. Next in line are HR and Payment services where earning shall be approximately be US$ 3.5-
4.0 and US$ 3.0-3.7. The WTO commitments shall assist India that theses opportunities are not lost through the protectionist move of developed countries.

Table: 8.5

<table>
<thead>
<tr>
<th>Service Line</th>
<th>Estimate Share in 2008 (US$ Billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>HR</td>
<td>3.5-4.0</td>
</tr>
<tr>
<td>Customer Care</td>
<td>8.0-8.5</td>
</tr>
<tr>
<td>Payment Services</td>
<td>3.0-3.5</td>
</tr>
<tr>
<td>Content Development</td>
<td>2.5-3.0</td>
</tr>
<tr>
<td>Administration</td>
<td>1.5-2.0</td>
</tr>
<tr>
<td>Finance</td>
<td>2.5-3.0</td>
</tr>
</tbody>
</table>

Source www.bpo.org