ROLE OF WTO IN THE PROMOTION OF TRADE IN SERVICES IN INDIA
(Abstract)

Economies, the world over designed their economic policies under the guiding torch of two ideologies i.e. capitalism and socialism. The configuration of world economy on these two philosophies per se paved way to polarization of outlook and orientation in respect of economic growth and development. The emergence of bi-polar world got nourishment on account of these very variances prevalent in these two driving philosophies. As grounds of these ideologies got more cemented, the world recognized how forthrightly Marshall in Principles of Economics (1890) substituted the term economics by political economy.

With the passage of time, some very remarkable events got place in economic history. The financial revolution of 1970s was major development that led to removal of capital control in many economies, thereby paving way for global financial system. The emergence of Multinational Corporations (MNCs) and Foreign Direct Investment (FDI) in the world economy brought the term “Economic Globalism” to its pinnacle. The international debt problems of 80’s that spread its tentacles in Latin America, African and East European countries induced them to comply to policies of Bretton–Wood Institutions which was better labelled as Washington Consensus. Imbibing the prescriptions of Washington Consensus spawned to deregulation, privatization and contracted role of state.
These events injected sinews to capitalist led developed economies. The tumbling of Soviet Union in 1990, brought socialism to its nadir. Thereby the developed economies became the flag-bearer of the world economy. Ultimately socialist led developing economies shifted from the policies of import substitution to export – led growth strategies. Thus the developing economies ultimately acknowledged the potential of international trading as panacea for prevailing ills at domestic echelon. The most detrimental issue that surfaced for the developing countries was carving their niche under the ambit of global trading system. With no grounding of nitty-gritty and intricacies of global trade led developing economies entail for a global mentor that can escort on landscape of International trade. The emergence of the WTO as a well globally acknowledged god-sent institution is earmarked to act as mentor for trading mechanism in the developing economies.

With the establishment of W.T.O at the global echelon of trade and investment, the hitherto sketchy patterns of Liberalization, Privatization and Globalization (LPG) have been escorted to concrete pathway. Trading and investment arenas have enhanced under the umbrella of WTO regime. The WTO prides itself in being a democratic institution fostering one member - one vote and assists the opening of developing economies as per their development level.

In case of India, opening of economy is appended with a sad story owing to plethora of faulty policies in the form of red-tapism,
license raj, subsidies and rampant corruption. These policies ultimately left Indian economy with modicum of foreign exchange reserves and at this juncture India had no alternative but to comply with austere economic measures and policies of Breton wood Institution's (IMF /World Bank). Thus India changed its track from socialist led economy and signaled green to the winds of market driven economy of globalization on July 24, 1991 as a compulsion not as an alternative. By becoming a signatory to the agreements of WTO on 1st January 1995, it has been manifested that India has made some noticeable strides in many fronts of the economy.\(^1\) Under WTO regime, tariff and quota will become mute and countries have to change their strategies from being comparative to competitive. In respect of India, there is a clarion call to come up with a set of strategies to hone her forte in consonance with global benchmarks to fully exploit her economic sinews to the possible optimum level.

India's signing of General Agreement on Trade in service (GATS) under WTO ambit has enhanced the internationalization of Indian service. Taking into account a span of a decade (1990's), the World Bank Study (2004) reveals that India's services exports grew at a Compounded Annual Growth Rate (CAGR) of 17.3 per cent with rank one.\(^2\) The GATS agreement guarantees against discrimination and address regulatory barriers in foreign markets. India gets opportunity to grab these facilities. The signing of GATS agreement by India is instrumental in making India achieve the target of 1 per cent share in global trade by 2007.
The following objectives have been set for the study to critically examine the role of trade in services in developing countries including India, to delve into the status quo of Indian service sector under WTO regime, to examine in detail the provisions in the GATS structure and threadbare GATS commitment in some selected services, to make an in depth analysis of role of WTO in promotion of trade in services in India, to detect and pick out the cross cuttings issues and gray areas relating to trade in services concerning India, to envisage the future prospects of GATS commitment on Indian service sector with special focus on Mode 1 i.e., cross border supply and Mode 4 i.e., movement of natural person and ultimately to come out with findings of study and to put forward some functional proposals and suggestions for leveraging the potential for Indian services under the WTO ambit.

The study seeks to test the following hypotheses.

$$H_01$$ - The study assumes that the employment and exports in business services have not increased on account of FDI inflows in India’s software services (business services) in the post WTO regime. On the other hand, the alternative hypothesis suggests that the employment and exports in software services (business services) have enhanced due to the FDI inflows in software (business services)

$$H_02$$ - The study assumes that the employment and exports in communication services have not increased on account of FDI
inflows in India’s communication services in the post WTO regime. Whereas, the alternative hypothesis suggests that the employment and export in communication services have enhanced due to the FDI inflow in communication services.

H\textsubscript{03} -The study assumes that the employment and exports in construction and related engineering services have not increased on account of FDI inflows in India’s construction and related engineering services in the post WTO regime. However the alternative hypothesis suggests that the employment and exports in construction and related engineering services have enhanced due to the FDI inflows in construction and related engineering services.

H\textsubscript{04} -The study assumes that the employment and exports in financial services have not increased on account of FDI inflows in India’s financial services in the post WTO regime. Nevertheless, the alternative hypothesis suggests that the employment and exports in financial services have enhanced due to the FDI inflow in financial services.

H\textsubscript{05} -The study assumes that the employment in health related and social services have not increased on account of FDI inflows in India’s health related and social services in the post WTO regime. On the contrary, the alternative hypothesis suggests that the employment in health related and social services have enhanced due to the FDI inflows in health related and social services.
It is assumed that the employment in tourism services has not increased on account of FDI inflows in India’s tourism services in the post WTO regime. Nevertheless, the alternative hypothesis suggests that the employment in tourism services has been enhanced due to the FDI inflow in tourism services.

The flag end of the decade of 80’s and more forcefully in the early part of ninety, the trade in services got acknowledgement at the plane of international trade and investment. It was noticeable that more than the change in the pattern of merchandise, the change in services was witnessed. The services in vogue covers a lot of areas and activities. The rise of trade in services got injected on account of rapid transformation and development in IT and telecommunications. With the advent of liberalization, services have shifted from being a part of cost to revenue generators. Due to the betterment and extension of transportation, the pace in services got more stimulated. Thus in the new millennium, the success of nations hinges on the trade in services. The main reasons attributed for the increase in trade in services are the high-income elasticity of demand for final product services, structural changes, and betterment in technology.

It has been witnessed that India’s services grew at an average annual rate of 9 per cent thereby contributing to nearly 60 per cent of overall growth rate of economy along with it, India’s export of services was one of the fastest in the world with growth rate of over 17 percent per annum. India’s services exports doubled from US
$24.9 billion in 2003-04 to US $51.3 billion in 2004-05 manifests the prowess of the service sector. It was observed that the growth of export of India’s services sector was 23.2 per cent in comparison to the world average of services exports being only 3.7 per cent. This growth rate was due to growth in IT, BPO, telecommunication and other services. India today accounts for 1.4 per cent of global exports in services as compared to 0.7 per cent in goods. India manifests a strong Revealed Comparative Advantage (RCA) between 1996 to 2000. The RCA index for services witnessed an increase by 74 per cent whereas the RCA index for goods observed a decline by 15 per cent. The RCA of “other business services” witnessed whopping increase by 327 per cent during 1996-2000.

India’s services increased due to high-income elasticity of demand, cost reduction and variety of enhancing technology development schemes and programmes, increased outsourcing, more access to external market along with reforms and deregulation. Liberalized services like FDI, telecommunication witnessed more growth, spawned more employment opportunities whereas those sectors, which were closed, fail to match the same performance. Those services, which were substantially opened, witnessed an increase in productivity. Telecommunication, information technology including software services experience productivity as high as 50 per cent to that of American Services Companies. Among the India’s entire services sector, the segment of miscellaneous services were the prime propeller of exports.
In quest to make India a protagonist in the realm of global realm, the Indian government has strived with comprehensive strategies. The government among other things has initiated the removals of controls and bringing an ambience of trust and transparency in economy. In drive to the develop India as a global hub for service, Government has permitted trade to receive payment in free foreign exchange in all 161 tradable services of GATS. India is already among the top 20 exporters of trade in services and among the top 5 in the developing countries. Under the WTO ambit, it is observed that India share increase from 34th in 1995 to 22th in 2004. The share of services in the total exports over 30 per cent. India’s share in world’s commercial services exports is only 1.5 per cent in 2004, which is double its share of goods trade. India has carved out niche for herself in export of knowledge-based services. Service exporters are to be registered themselves with Federation of Indian Exporters organization (FIEO). The government of Indian has vowed to set up Export Promotion Council for service in a drive to provide proper guidance and encouragement to the Indian service sector. The function of service export promotion council aim at targeting opportunities for Indian services to assist in brand building and marketing programmes make necessary intervention with regard to policies, procedure and bilateral/multilateral issues in co-ordination with recognized nodal bodies of the service industry.

The Indian government also aims to bring in the galore multitude of home-based professionals into the services export
areas. Under this backdrop, the government aims to foster the institutions of common facility centers for use by home-based service providers, mainly in areas like engineering and architectural design, Multi-media operations, software developers.

"Served from India" is another brainchild of the government of India in order to accelerate the pace of growth in export of services. All the service providers who have a total foreign exchange earning of at least Rs. 10 lakhs (for individuals service provider, the criteria is Rs. 5 lakhs) in the proceeding or current financial year shall be eligible to qualify for a duly credit entitlement.

Under the WTO ambit, India is signatory to GATS, where there are four modes of services supply. GATS consists of a) framework of general rules and discipline, Annexes addressing special condition relating to individual sectors and liberalization commitment specific to service sectors and sub sectors listed in each country's schedules. GATS covers 12 sectors that are further divided into 155 sub sectors. Under GATS, exception to MFN principle was provided in order to maintain the preferential treatment they extend to some countries in service sector under regional cooperation or other arrangement. Negotiation on services under GATS is an open-ended negotiation seeking commitments from the member states for sector specific liberalization rather than across the board liberalization followed in most other groups. Another interesting aspect of service negotiations is that most of the negotiations on services have shaped after WTO came into
force, thereby offering sufficient period to the members to negotiate on the cross-cutting issues over a reasonable period of time on the one hand, allowing much flexibility in national commitments based on national providers on the other. With the development of information technology there has been an increase in cross border trade. Under the Uruguay Round very limited liberalization took place. Countries did not bind their autonomous regime. Countries did not make commitment under Mode 1 on account of technical infeasibility. Under the Mode 4 too, virtually very meager commitment took place.

Among the all Modes of service supply, Mode 1 (cross-border supply) and Mode 4 (Presence of Natural Person) are the cardinal Modes reflecting India's comparative advantage. India's forte in Mode 1 is an account of principal supplier of IT services along with increased growth of exports of Business Process outsourcing (BPO) services. India's stock of natural person includes both professional and semi-skilled providers.

India has made request to all major developed countries and developing countries in sectors such as architectural, audio-visual, computer and related services, tourism and travel related services, health and maritime transport services across various modes with focus on Mode 4. India has received request in services like telecommunications, energy environment, financial, education, tourism, travel, computer related services, business services, distribution, accountancy, and architecture. Countries have made
horizontal request on Mode 3 and Mode 4 pertaining to transparency in domestic regulation, administrative procedures, clarification of criteria, definitonal issue etc. on the other hand India has made for full commitments under the Modes 1, 2, and 3. Horizontal request on Mode 4 on broadening the scope and coverage to include more categories of high skilled services providers, elimination of ENTs, transparency in visa and administrative procedure and extension of duration of stay for intracorporate transferees. The remittance from Mode 4 is more than those odd exports from textiles and garments.

India has made commitment in the Mode 3 in number of services. Under Mode 3 India has permitted 51 per cent of FDI inflow. The study made an endeavor to gauge India's services in respect to employment and exports with the inflows of FDI. Though it appears that India's export in terms of services have enhanced

India's services in respect to employment and export were gauged with the inflow of FDI in those sectors in which India has made commitment under WTO ambit. Though it appears that the export of India service sector have increased due to the better ambience provided by the GATS. India's exports of services have increased substantially and have improved her rank in the world. But the testing of hypotheses showed that the commitment made in Mode 3 which in turn brings in FDI have failed to show any positive relation between the increase in FDI with that of employment and exports of services where commitments have been made. Thus it
can be perceived that the growth of services in terms of employment and exports has been due to reasons other than the entry into the GATS arena. The other reasons which have forcefully increased the growth of exports and employment have been the incentive provided by the government in the form of tax holidays, establishment of EPZs and EOU's. Along with these, the structural reforms and the technological revolution were the main ingredients in increasing the employment and exports of service sector.

Services are the foremost source of employment and entrepreneurship. Service manifests the effect on the accomplishment of Millennium Development Goals (MDG). With the services getting the maximum lever in Indian economy, it is of paramount significance for India that the country gets involved fully in the ongoing GATS negotiations so as to fulfill the target of Millennium Development Goals as well as the growth in economy extrapolated by the Goldman Sachs study titled "Dreaming with BRICs: The path to 2050".

The unilateral liberalization of services gets a lot of boosts through the multilateral regime. The governments of the developing countries get opportunities to get market access in foreign countries. The multilateral mechanism assists to lock in the unilateral reforms thereby limiting the possibility of back sliding by other governments in future.

Under the GATS ongoing negotiations, the requests-and-offers approach should be pushed by a formula or model approach in
Mode 1 and Mode 4. The formula or model approach model shall assist India in reducing her costs of negotiations. The multilaterally applied formula shall assist India in ensuring credit to unilateral openness. A single window clearance system, developing more transparent inspection, designing electronic systems, flexible labour market more efficient legal system.

While to be under the banner of liberalization of the GATS ambit, India should lay the institutional foundation for reforms, chalk-out appropriate strategy that shall augment better dividend, whilst lessening the adjustment costs. In case of those public services, that have the potentials to garner foreign exchange in case of liberalization, the ground for opening of service sector should be chalked out.

Council of trade in services should make full assessment of impact of opening of services on various sects of developing countries. It should be overseen that the countries avoid creating “race to the bottom” in their quest too attract investment. Council for Trade in services should make it certain that the developing countries are able to engaged in service negotiations. Support should be facilitated to developing countries in opting for the sectors and sub-sectors along with the suitable modes. The government should form a group encompassing the representation of the Ministry of Commerce, RBI and Central Statistical Organization to materialse a mechanism for collection of data pertaining to detailed break up of exports of India’ services. India
should negotiate for automatic recognition of India’s professional degree in all the developed countries.

The government of India should carve out a promotional policy for fostering other business services. The government should create inventorying of professional. Incentive should be provided for improving the quality, improving critical high-end skills and increasing the local marketing network. Markets survey of Industries and marketing and advertising opportunities including mapping of global market should be made. The government should provide incentives to build up domestic learning organizations and create opportunities for global exposure business services should be provided state-of-the-art IT network facilities. The ministries should invite foreign companies for enhancing professional standard, training, transfer of skills, technologies and exchange of information and opening of joint offices in foreign land.

Along with improving the professional courses, language skills have a lot of importance thereby training in foreign languages should be provided to the professionals, a code of ethics should be designed in order to ensure the credibly of professionals for enhancing the export of software services a state-of-the-art telecommunication network with continuous technology up gradation shall facilitate in the trade in computer software and services. Arrangement should be made for continuous up gradation of technology by the firms and steps are needed to expand global network.
India has to make aggressive marketing in order to promote her tourism Industry, proper law and order is needed so those tourists do not feel any harassment in public places. India should invest in new areas like eco-tourism, adventurous tourism and related areas. Under the telecommunication services India has a lot of opportunity through exporting wide range of services. Under the GATS ambit, India has opportunity to secure market access. Cross border supply (Mode 1) and the movement of natural person are two cardinal modes through which the country can excel in trade in services.

The government should create a single window clearance system for approval of new projects, design more transparent inspection environment and develop electronic system for complaining with regulatory procedures. The government should improve the entry and exit procedure, make more flexible labour laws. The government of India should institute a number of regulators for services like transport, which includes terminal and infrastructure in a way similar to the one established in telecommunication. The competitiveness of India’s service sector hinges on creating a proper and enabling environment. This shall be possible through promoting voluntary retirement scheme in order to reduce excess labour, creating Asset management companies to end the non-performing assets. Along with all these a mechanism should be made to shift from costly quantities restrictions to more transparent fiscal interventions. India should institute regulatory bodies for services. It is sanguinely expected
that openness of India's government procurement producers is likely to enhance clarity of supply of goods for government use. Before agreeing to negotiate on government procurement, the go home message for India is to examine the impact of agreement on employment and income distribution.

Time has come for government to bring out specific laws governing the BPO-ITES workspace. BPO companies need to comply with data, security certificate like Data Protection Act and BS 7799 from UK and HIPA from US. Complete informations security and data primary, hire and retain people with right domains skills and to ensure that skills are updated. BPO companies should provide their employees a better understanding of US and UK equalities, maximum, and real estate market, US, GAAP Rules and ITS tax laws. Indian ITES-BPO should also know its workforce in language such as Spanish, German, French, Japanese, in order to unlock the appropriates available at Europeans and Asia Pacific markets. It is of paramount significance that Indian BPO companies start complying with number of regulating requirements like Gvalon-leach-Biley Act, Electronic Communications Privacy Act for US companies and Data protection Act.

On the domestic sphere, there is a clarion call for institution of proper regulatory mechanism, driven on the parameter of transparency and objectivity. International standards of service should be fostered. The government should facilitate more
information to service providers regarding latent opportunities lying in markets abroad. Under the WTO ambit, the country designs request on the basis of export baskets where as the offers are made taping the import composition in mind. There is need for India to bring out a road map relating to export potential services. India’s service export mainly lies in EU, US and OECD countries along with Gulf countries. The need of the hour is to evidence the market’s horizon and include African and Latin American countries too. The government should enter into number of agreements with the foreign countries in term of short span of contracts which shall facilitate the movement of natural person mainly inform of Doctors, Teachers, Hi-tech Professionals. This process shall stop the pace of brain drain, which is currently witnessed the country.

India has been able to act as a flag bearer of developing countries at the various Ministerial Conferences including Hong-Kong Ministerial Conference .Though at this conference nothing very fruitful in terms of services could be managed by the developing countries, but the formation of group G-33, G-110 was a silver lining indicating that the developing countries including India should form group having similar interest in services too.