

# **WTO NEGOTIATIONS ON TRADE IN SERVICES**

**(A BACKGROUNDER)**

## **Introduction**

The creation of the GATS was one of the landmark achievements of the Uruguay Round, whose results entered into force in January 1995. The GATS for the first time extended internationally agreed rules and commitments into the rapidly growing area of international trade viz., service, which was never done before.

The GATS was based on the same objectives as that of GATT of creating a credible and reliable system of international trade rules; ensuring fair and equitable treatment of all participants (principle of non-discrimination); stimulating economic activity through guaranteed policy bindings; and promoting trade and development through progressive liberalization.

Further negotiations for progressive liberalisation commenced by 1.1.2000, as mandated under GATS.

The Doha Ministerial Conference has given a further direction to these negotiations by mandating that members should submit initial requests for specific commitments by 30 June 2002 and initial offers by 31 March 2003. According to the paragraph 15 of the Ministerial Declaration, there is an agreement on

*"... negotiations on trade in services shall be conducted with a view to promoting the economic growth of all trading partners and the development of developing and least-developed countries. We recognize the work already undertaken in the negotiations, initiated in January 2000 under Article XIX of the General agreement on Trade in Services, and the large number of proposals submitted by Members on a wide range of sectors and several horizontal issues, as well as on movement of natural persons.*

*"... with a view to achieving the objectives of the General Agreement on Trade in Services, as stipulated in the Preamble, Article IV and Article XIX of that Agreement. Participants shall submit initial requests for specific commitments by 30 June 2002 and initial offers by 31 March 2003."*

To take stock of the progress of the Doha Round of trade talks, a Ministerial meeting was held in Hong Kong from 13th-18th December, 2005, in which the following timelines were agreed to:

- a) 28th February, 2006, for submitting plurilateral requests;
- b) 31st July, 2006, for submitting the second round of Revised Offers; and
- c) 31st October, 2006, for submitting the draft final schedule of commitments

The Hong Kong Ministerial declaration provided guidance to WTO Members to take forward the Services negotiations as per the provisions included in Annex C of the declaration. In a sense, Hong Kong was a watershed in the Services negotiations in a number of aspects, some of which are:

- Guidance on the various Modal targets aimed at making services trade less restrictive and more transparent
- Agreement to begin plurilateral negotiations, which would be complementary to the bilateral Request-Offer process
- Agreement on developing disciplines in domestic regulations before the end of the current Round

In pursuance of the Hong Kong Ministerial Declaration, the plurilateral process has begun in Geneva. 21 plurilateral groups have been formed in various service sectors and two plurilateral group meetings have been held so far.

### **Importance of Service Sector**

Broadly defined, a service is a product of human activity aimed to satisfy a human need, which does not constitute a tangible commodity. There are many types of services, ranging from heart surgery to road

construction, electricity transmission to education, and childcare to water purification.

Services are important for employment and employment growth. This is because many traditional services, including distribution, education and social services, are labour intensive. In many services sectors it has also proved more difficult to substitute capital for labour than in manufacturing. The expansion of services and the emergence of new services have been driven by income-related demand shifts, technological developments, falling costs of communications and the increased presence of transnational corporations. In particular, the new information and communication technologies and the incessant compulsion on companies to cut costs have led to the growth of outsourcing of services. In recent years this outsourcing is now being off-shored to low-cost countries such as India, Philippines etc.

Services are coming to dominate the economic activities of countries at virtually every stage of development, making services trade liberalization a necessity for the integration of the world economy. In the high-income industrialized economies, the value added by services generally exceeds 60 per cent of total output.

In many developing economies, even allowing for the fact that governments are major service providers (education, healthcare, sanitation, etc.), the commercial market for services is huge and growing and the trend is clear: as national economies develop and incomes rise, the commercial service sector accounts for an ever-larger share of GDP. It is widely recognised that liberalisation of trade in Services has manifold benefits. Some of them can be listed as the following,

Freer trade in services enables countries to better enjoy the benefits of globalization and improves economic efficiency just as freer trade in goods does. It contributes to job creation, higher incomes, more consumer choice, downward pressure on inflation, and a better quality of life.

More, better and lower cost services are important because services are the "enablers" that permit economies to function and prosper. Some form essential infrastructure - transport, communications, finance,

information. Capital markets, for example, cannot function efficiently without abundant, high-quality information that can be quickly and frequently communicated. Other services are critical to the success of manufacturing and agriculture.

For some manufacturers, services provide a large second source of revenues and contribute significantly to company growth and job creation. The manufacturing process and the business of running manufacturing industries are infused with services functions from beginning to end: research and development, inventory management and control, transport, marketing, advertising, insurance, and "backroom" functions, such as accounting and legal services.

Liberalization of trade in services is an important means to encourage the continued rapid expansion of foreign direct investment, to integrate national economies more effectively and to reduce income and other disparities among countries. Because services production and consumption normally are proximate and simultaneous, services trade usually entails a significant transfer of technology and know-how from country to country. This is critical, especially for developing and emerging markets, which can acquire state-of-the-art skills relatively quickly and inexpensively through trade - at least in comparison with the time and expense that would be required to develop them de novo.

## **Domestic Services Sector**

India's services trade has witnessed consistently high levels of growth in recent years. Over the past two decades, the service sector has replaced agriculture as the dominant sector in India. The share of service sector in GDP has risen from 38 percent in 1980's to around 54.1 per cent in 2005-06. The average annual growth rate of the sector increased from 7 per cent in the 1980's to 8 per cent in the 1990's making it one of the driving forces of the Indian Economy.

The Services sector also contributes to improving efficiencies in the manufacturing sector in addition to playing a significant role in employment generation. India's comparative advantages and strengths are in Mode 1 (Cross border trade) and Mode 4 (Movement of natural persons).

## **Recent Policy Reforms and Issues under Consideration:**

Economic reforms are taking place in India in a number of Services sector such as Financial Services, Telecom Services, Air Transport Services, Education Services, Health Services, Postal Services, Professional Services. Brief details of some of the recent developments in this regard are indicated below: -

Financial Services	<ul style="list-style-type: none"><li>- RBI road map for liberalizing presence of foreign banks in India.</li><li>- Reforms undertaken by IRDA: Foreign equity upto 26% permitted in Insurance sector.</li></ul>
Telecom Services	FDI limit raised to 74% in recent policy reforms
Postal Services	Amendment to the Indian Postal Act proposed with the objective to regulate Courier Services.
Air Transport Services	<ul style="list-style-type: none"><li>- Private sector participation in Delhi and Mumbai airports clears</li><li>- Air Transport Regulatory Authority proposed</li></ul>
Education Services	Foreign Education Providers Bill under consideration of the Government

Health Services	<ul style="list-style-type: none"><li>- MRAs being proposed with Singapore</li><li>- Proposal mooted to raid various private hospitals</li></ul>
Professional Services	<ul style="list-style-type: none"><li>- Limited Liability Partnership (LLP) Act enacted enabling legislations in various Acts governing Professional Services are underway.</li><li>- A new Companies Bill, 2009 based on the recommendations of the J.J.Irani Committee report has been introduced in the Lok Sabha on 3<sup>rd</sup> August, 2009 by the Ministry of Corporate Affairs for its enactment.</li></ul>

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