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Analysis of Trade in Services of India after GATS of WTO

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Abstract: India is a founding member of World Trade Organization (WTO) since January1, 1995. There were many multilateral trade agreements under the WTO regime. One of such very important agreement is The General Agreement on Trade in Services (GATS). The General Agreement on Trade in Services GATS is a multilateral agreement for the trade in services which applies to all 164 WTO Member Countries.

This agreement has three main objectives namely to increase the participations of developing countries in world trade in services and increase their services exports by developing their export capacity and securing export opportunities in sectors in which they are capable and interested, to liberalize trade in services through negotiations to promoting the interests of all members countries of the WTO and to increase economic growth and development by liberalization of rules and regulations of trade in services, as the same was done by the General Agreement on Tariffs and Trade (GATT) by liberalization of export import policy of trade in goods.

The purpose of this paper is to analyze the change in import and export of services pre and post GATS agreement of WTO with India.

Keywords: GATT, WTO, GATS, Uruguay Round, Services, Invisible

I. INTRODUCTION

The General Agreement on Trade in Services (GATS) negotiated during the Uruguay Round (1986-94). GATS were adopted by India to extend multilateral rules and disciplines to service trade with particular emphasis on non- discrimination and prohibition of quantitative restrictions.

It is a set of legally enforceable rules covering international trade in services. GATT members recognized the growing importance of trade in services for the growth of development of the world economy. They wished to establish a multilateral framework of principles and rules for Trade in Services. They desired the early achievement of progressively higher levels of liberalization of trade in services.

Keeping the needs of the developing and less developed countries in view they agreed on the provision of the agreement on trade in services. Services include Banking, Insurance, Transport, Accountancy, Telecommunications, Tourism, Software and Information Technology, Private Sector Participations and Movement of Natural Person etc.

GATS operates on three levels, the main text containing general principles and obligations, annexes dealing with rules for specific sectors and individual countries, specific commitments to provide access to their markets. At present 20 percent (World Trade Report 2019, WTO, P14,) of the world trade is in services.

In Individual Economies, Services accounts for a good deal more. Increasingly these services are being provided by suppliers outside the country in which they are consumed.

The regulation of services has up till now been a matter for individual countries. In many cases these regulations have not kept pace with the growth in service trade.

This has hindered the growth of the sector in some country, while in others it has allowed the sector to grow in an unregulated manner leaving consumers little protection against abusive practices.

Services are of increasing importance for the world economy. The traditional division between manufacturing and services is becoming increasingly blurred as trans- nationalisation, globalization gathers speed. As the services component of trade increases in importance so our conception of trade must change. As our conception of trade alters so must our regulation of that trade. New area brings new challenges.

List of Services Covered Under GATS Agreement of WTO	
• Business services and professional services	• Education services
o Accountancy services	• Energy services
o Advertising services	• Environmental services
o Architectural and engineering services	• Financial services
o Computer and related services	• Health and social services
o Legal services	• Tourism services
• Communication services	• Transport services
o Audiovisual services	o Air transport services
o Postal and courier, express mail services	o Land transport services
o Telecommunications	o Maritime transport services
o Construction and related services	o Services auxiliary to all modes of transport
• Distribution services	• Movement of natural person

Source -https://www.wto.org/english/tratop_e/serv_e/serv_sectors_e.htm#top

II. OBJECTIVES OF THE STUDY

The purpose of this paper is to study critically the GATS agreement in special reference to India. This research paper attempts to analyse India's position before and after WTO's GATS agreement. There are four modes of services export from one country to another country and an effort has been made to find out the thrust area of possibilities in services. An attempt has been done to find out the benefits which were gained from becoming member of the WTO in different mode of Service Trade. Critical examination of development in service export and import.

III. RESEARCH METHODOLOGY

The study is based on secondary data. The data and detail of agreements is collected from different publications and websites of WTO, IMF, UNTCAD, RBI and other online sources. Data is collected from 1970-2018 wherever possible. I have used tables and figures for presentation of data and absolute figures and ratios are used for analysis.

IV. Limitations of the Study

There is a conceptual classification of services in the International Business Transaction Reporting System. If we see Balance of payment data published by IMF and Reserve Bank of India both have different format. As per IMF data classification there is no term called "invisible" but as per RBI there is a category called invisibles other than merchandise / visible account. Separate data is not available for services, so data for "invisible" in "Table 1, Figure1 and Table 2, figure 2" is used which includes official transfer in addition to Travel, Transportation, Insurance, G.n.i.e., Miscellaneous, Investment income, Compensation of Employees, Private Transfers as per RBI. The data which is available on RBI database website is not compatible with GATS classification of services i.e. four mode of supply of services. So in this study only a macro view of services has been presented. Table 3 and figure 3 present the data from the year 1999-2000 to 2018-19 in US $ million but again this is not compatible with GATS classification of services.

V. HISTORICAL DEVELOPMENT

Since the beginning of the international trade, barriers such as ban on import, high tariffs or quotas or quantitative restrictions were used by many countries to safeguard own economy. So, to increase the international trade and eliminate the barrier of international trade, there was a need of an international organisation or forum to start negotiation among countries participating in international trade.

Thus effort were started for such type of international organisation or forum and The GATT was first discussed during the United Nations Conference on Trade and Employment due to failure of negotiating governments to create the International Trade Organization (ITO).

So we can say that The General Agreement on Tariffs and Trade (GATT) is a legal agreement between many countries, whose overall purpose was to promote international trade by reducing or eliminating trade barriers. the main purpose of the GATT was the "substantial reduction of tariffs and other trade barriers and the elimination of preferences, on a reciprocal and mutually advantageous basis."

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GATT was temporary without office. So to establish a permanent organisation "World Trade Organization" (WTO) was created on 1 January 1995 by signature of 123 nations in Marrakesh on 14 April 1994, of the Uruguay Round Agreements.

Multilateral trading system to service sector was one of the agenda of Uruguay Round negotiations. The debate surrounding the inclusion of services in the GATT system was one of the major issues of the Uruguay Round. A number of developing countries, led by India and Brazil of the G–10 developing countries (Argentina, Brazil, Cuba, Egypt, India, Nicaragua, Nigeria, Peru, Tanzania and Yugoslavia), flatly opposed putting services on the Uruguay Round agenda. A number of the large developed countries, led by USA and Europe pushed very strongly for the issue to be included. In the end, services made it onto the agenda, although they were dealt with as a separate group for negotiating proposes. Thus a treaty known as The General Agreement on Trade in Services (GATS) was done under the regime of World Trade Organization (WTO). All members of the WTO are parties to the GATS.

A. Four Modes of Service Trade

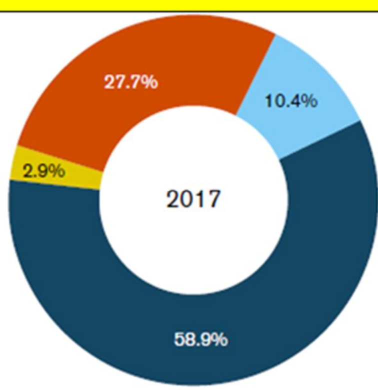
This was the major problem at the start of negotiations was a definition of services trade. The GATT resolved this problem by defining services trade in 4 modes. Services trade can thus involve any one, or a combination of the following:

1) *Mode 1 (Cross-Border Supply):* The supply of a service across a border. For example: An architect working for a company in India is contracted by a firm from USA. The USA firm requests a set of blueprints for a hotel complex in USA. When the architect sends those blueprints to USA firm, he is providing a service across a border.
2) *Mode 2 (Consumption Abroad):* The provision of a service in a country which is consumed by a national of another country. For example: After the work is completed and the local office is established the architect returns to India. A year later he decides to go on holiday in the hotel complex he designed. He spends two weeks in the hotel complex eating at local restaurant, hiring local scuba equipments and generally consuming the services of the local economy. Here he is exhibiting the final type of services trade.
3) *Mode 3 (Commercial Presence):* The establishment of a commercial presence in a country. For example: The said hotel complex is so beautiful that a number of other companies in USA approach the architect for their services. The architect decides to open an office in USA. Here, it is establishing a commercial presence in a country.
4) *Mode 4 (Presence of Natural Persons):* The transfer of a Natural Person from one country to another. For example: The said firm in USA receives the plans and likes them so much that they request the presence of the architect to observe the construction. The architect's firm contracts the architect out to the firm in USA and he travels to USA to observe the work. Here he is acting as a foreign national supplying a service in another country.

VI. ANALYSIS OF DATA

Below figure cum table shows the data of world trade in commercial services by mode of supply. We can conclude from the figure cum table that major trade of services is done thru commercial presence in a country another country (Mode 3) and Mode 1 cross-border supply**.** Presence of individuals in another country (mode 4) is on the least *i.e.* only 2.9%.

Figure cum Table- World Trade in Commercial Services by Mode of Supply, 2017



Cross-border transactions (mode 1)	27.70%
Consumption abroad (mode 2)	10.40%
Commercial presence in another country (mode 3)	58.90%
Presence of individuals in another country (mode 4)	2.90%

Source: World Trade Report 2019 by WTO: The future of services trade Page 24
Note: World trade is calculated as the average of world exports and world imports.

Table-1 shows the data of rations of Balance of Payment Indicators in percentage. Its first column shows the year, second column shows Invisibles Receipts to GDP ratio from 1971-72 to 2009-10 and third column shows ration of Invisibles Payment to GDP from 1971-72 to 2009-10.This table shows that invisible receipts are growing regularly since 1971-72 with some exception. The journey of growth of Invisibles Receipts to GDP has started from .09 percent of GDP and reached to 13.5 in 2008-09. This is a indication of no negative impact of GATS agreement of WTO on India. Thus pre WTO period as well as post WTO period shows the sign of progress in respect to services export. Now when we analyse the ratio of Invisibles Payments to GDP the trend is same as of receipts. Invisibles Payments to GDP ratio is growing regularly but the pace of growth is slow in comparison to receipts. The receipts have grown by 15 times (13.5/0.9) while the payments has grown by 8.25 times (6.6/0.8).

Table 1 : Balance Of Payments - Indicators (Ratio in Percent)

Year	Invisibles Receipts/ GDP	Invisibles Payments/ GDP	Year	Invisibles Receipts/ GDP	Invisibles Payments/ GDP
1971-72	1.1	1.2	1991-92	3.6	2.9
1972-73	0.9	1.2	1992-93	3.6	3.0
1973-74	3.4	1.0	1993-94	4.1	3.1
1974-75	1.3	0.8	1994-95	4.8	3.1
1975-76	2.2	1.0	1995-96	5.0	3.4
1976-77	2.4	1.1	1996-97	5.5	2.9
1977-78	2.7	1.0	1997-98	5.6	3.2
1978-79	2.9	1.1	1998-99	6.2	4.0
1979-80	3.6	1.2	1999-00	6.7	3.8
1980-81	3.9	1.2	2000-01	7.0	4.9
1981-82	3.3	1.2	2001-02	7.7	4.6
1982-83	3.2	1.4	2002-03	8.3	4.9
1983-84	3.1	1.5	2003-04	8.9	4.3
1984-85	3.3	1.8	2004-05	9.9	5.5
1985-86	2.8	1.5	2005-06	11.1	5.9
1986-87	2.6	1.5	2006-07	12.1	6.6
1987-88	2.6	1.8	2007-08	12.1	6.0
1988-89	2.6	2.1	2008-09	13.5	6.1
1989-90	2.6	2.3	2009-10	12.3	6.3
1990-91	2.4	2.4			

Source: Handbook of Statistics on Indian Economy, RBI, Different Issue

It is evident from the table and Figure-1 that in 1971-72, 1972-73 and 1990-91 the receipts and payments to GDP ratio were approximately same. in all other years invisible receipts are more in comparison to Invisibles Payments ratio to GDP. The gap between the receipts and payment is growing regularly. This is the indication of growth after WTO membership.

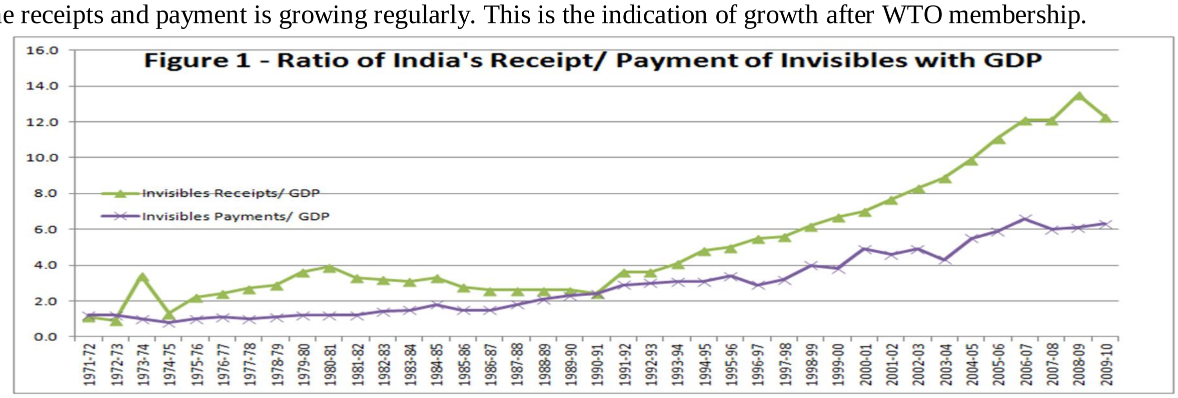


Table-2 shows the data of net export of Merchandise and Invisibles from 1970-71 to 2017-18 in US $ million. First column shows years of data, second column shows Merchandise Balance (Net) and third column Invisibles Balance (Net). It is evident from the data that in the year 1970-71, 1971-72, 1972-73 and 1990-91 the export of invisible was negative. Net export of invisible was positive in all remaining year. Net export of invisible in 1974-75 was 415 US $ million and after regular growth in the year 2014-15 it has reached to 118081 US $ million and in 2017-18 it has declined to 111319 US $ million. It has been grown to 284.53 time (118081/415) in 43 years. If we see pre and post WTO period it is always steady growing.

Table 2 - Trend of India's Net Export of Merchandise and Invisibles (US $ million)

Years	Merchandise Balance (Net)	Invisibles Balance (Net)	Years	Merchandise Balance (Net)	Invisibles Balance (Net)
1970–71	-545	-49	1994–95	-9049	5680
1971–72	-637	-32	1995–96	-11359	5449
1972–73	-217	-186	1996–97	-14815	10196
1973–74	-649	2093	1997–98	-15507	10007
1974–75	-1614	415	1998–99	-13246	9208
1975–76	-1367	1161	1999–00	-17098	12935
1976–77	-347	1347	2000–01	-12460	9794
1977–78	-698	2011	2001–02	-11574	14974
1978–79	-2696	2406	2002–03	-10690	17035
1979–80	-4259	3574	2003-04	-13718	27801
1980–81	-7869	5065	2004-05	-33702	31232
1981–82	-7273	4094	2005-06	-51904	42002
1982–83	-6979	3572	2006-07	-61782	52217
1983–84	-6715	3499	2007-08	-91467	75731
1984–85	-5654	3238	2008-09	-118650	89923
1985–86	-7834	2967	2009-10	-117328	78917
1986–87	-7316	2756	2010-11	-127322	79269
1987–88	-7168	2316	2011-12	-189759	111604
1988–89	-9361	1364	2012-13	-195656	107493
1989–90	-7456	615	2013-14	-147609	115313
1990–91	-9437	-243	2014-15	-144940	118081
1991–92	-2798	1620	2015-16	-130079	107928
1992–93	-5447	1921	2016-17	-112442	97147
1993–94	-4056	2898	2017-18	-160036	111319

Source: Handbook of Statistics on Indian Economy, RBI, Different Issue

The Figure-2 shows that up to 1976-77 net export of merchandise and invisibles were in correlation and from 1977-78 it has started moving in opposite direction. There was very less gap in net export of merchandise and invisibles till 1992-93 but after this net export of invisibles has grown like anything. Certainly the invisible export is growing regularly after WTO GATS Agreement.

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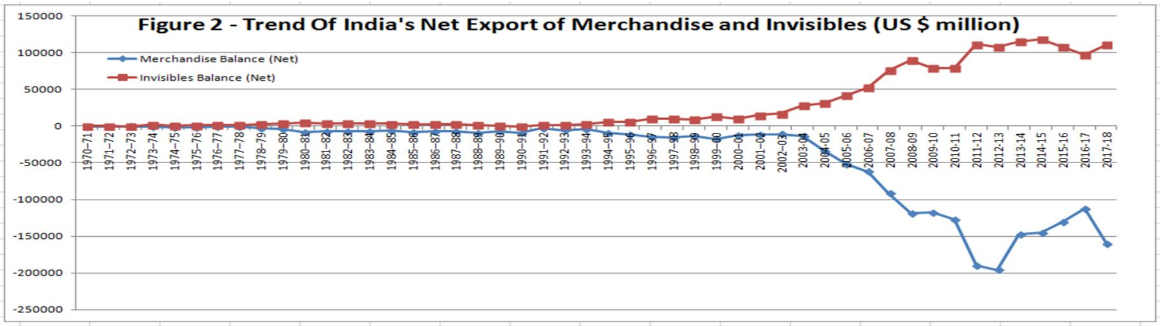

Table 3: Invisibles by Category of Transactions - US $ million					
Item/Year	1999-00	2000-01	2001-02	2002-03	2003-04
Travel, Net	897	693	123	-29	1435
Transportation, Net	-703	-1512	-1306	-736	879
Insurance, Net	109	47	8	19	56
G.n.i.e., Net	312	332	235	65	28
Miscellaneous, Net	3449	2132	4264	4324	7746
Investment income, Net	-3695	-4664	-3844	-3544	-3757
Compensation of Employees, Net	136	-340	-362	98	-748
Private Transfers, Net	12256	12854	15398	16387	21608
Item/Year	2004-05	2005-06	2006-07	2007-08	2008-09
Travel, Net	1417	1215	2439	2091	1469
Transportation, Net	144	-2012	-94	-1501	-1509
Insurance, Net	148	-54	553	595	292
G.n.i.e., Net	-10	-215	-150	-45	-404
Miscellaneous, Net	13727	24236	26721	37712	54069
Investment income, Net	-4095	-5262	-6762	-4433	-6626
Compensation of Employees, Net	-884	-593	-569	-635	-484
Private Transfers, Net	20525	24493	29825	41707	44567
Item/Year	2009-10	2010-11	2011-12	2012-13	2013-14
Travel, Net	2517	4768	4699	6176	6112
Transportation, Net	-756	366	1859	2528	2588
Insurance, Net	306	545	1134	818	1005
G.n.i.e., Net	-84	-285	-302	-239	-490
Miscellaneous, Net	34033	38687	56707	55632	63851
Investment income, Net	-7248	-17075	-16465	-22370	-23521
Compensation of Employees, Net	-791	-876	477	914	493
Private Transfers, Net	51791	53125	63469	64342	65481
Item/Year	2014-15	2015-16	2016-17	2017-18	2018-19
Travel, Net	5028	6476	6792	8839	6737
Transportation, Net	1308	-1076	1719	-166	-1065
Insurance, Net	1084	852	710	806	871
G.n.i.e*., Net	-418	-291	-11	-130	-504
Miscellaneous, Net	69526	63716	59134	68213	75902
Investment income, Net	-24962	-25737	-27697	-30839	-31219
Compensation of Employees, Net	821	1362	1395	2158	2358
Private Transfers, Net	66264	63139	56573	62949	70601
Source: Compiled from Handbook of Statistics on Indian Economy, RBI, Different Issue					

* Government not included elsewhere

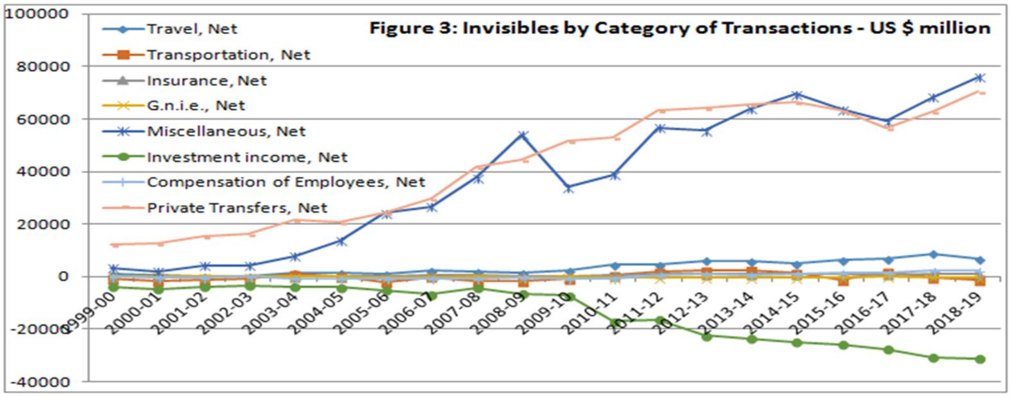

Table 3 and figure 3 present the data from the year 1999-2000 to 2018-19 in US $ million. It is evident from both that income from private transfer and miscellaneous is major contributor to service income. These incomes are also in increasing order regularly and providing support to India's BoP. Another component with positive growth is Travel. Investment income is negative since beginning because we are very big borrower of external debt. All other item has negligible effect on BoP data and income from invisible or services.

VII. CONCLUSION

It is evident that making liberalization commitments and allowing Foreign Service providers free entry in domestic markets will have far reaching implications. The internationalization of services will impinge on their rights for domestic policy especially related to free access and equity. Thus comprehensive policy reforms need to be undertaken at the domestic level to boost service export. As we see from the data, it is clear that export of services has jumped to a higher level, thereby marking a structural shift; this feature holds for the international trade scenario as a whole and for India too. As far as India's overall balance of payments is concerned, service trade is working as a sort of support; surplus on account of invisible trade has always partly offset the deficit on account of merchandise trade. World commercial services recorded a strong growth of 7.7 per cent in 2018 but were still lower than 8.4 per cent in 2017. However, goods related services growth shot up to 10.6 per cent in 2018, up from 8.3 per cent in the previous year (Economic Survey 2018-19, Volume 2 Page -130). Ultimately India has become one of the major players in today's trade in services. The service sector has turned into the main engine of India's development, placing it among the fastest growing economies in the world. Services contribute more than 60 percent to GDP and account for around 35 percent of total exports. In 2014, India was ranked the 6th largest exporter of commercial services (3.2 percent of global trade) and the 9th largest importer (2.8 percent of global trade). India is emerging as a natural choice for services. Its comparative advantage in terms of low cost manpower, high computer literacy more English speaking people. India should search and expand more product and more geographical areas for an export rise to be promoted from India.

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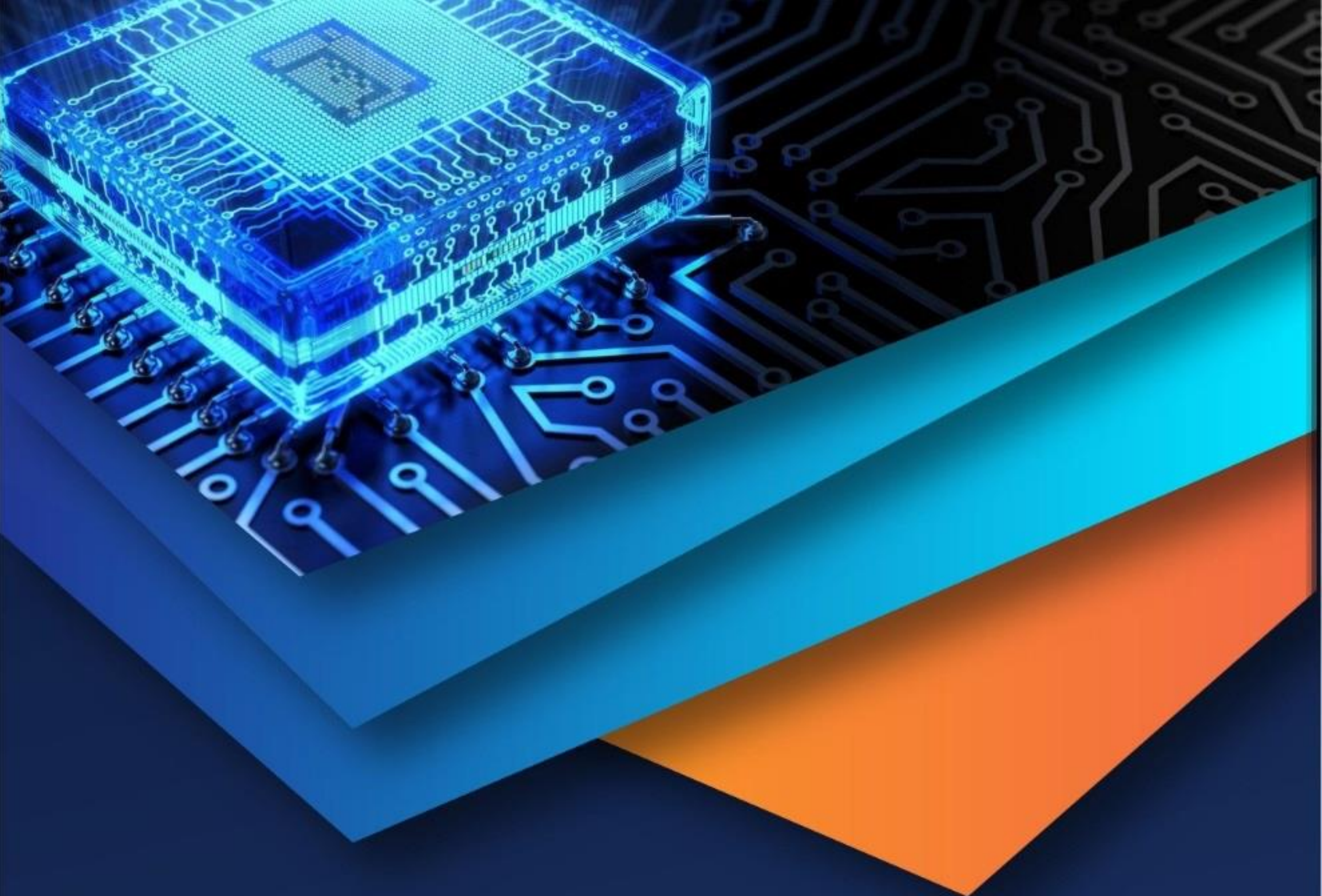

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