

India-EU BTIA: Implication for the Services Sector

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- ▶ India and EU are negotiating a comprehensive bilateral trade and investment agreement
 - To reduce market access, discriminatory and regulatory barriers to trade and enhance cooperation between India and EU member states
- ▶ Services is an integral part of the Agreement
- ▶ Services negotiations began in June 2007 and are on-going
- ▶ Positive list approach as in the GATS
- ▶ Discussions on text & sharing of sector information

- ▶ Comprehensive study of service sectors in India and the EU member states
- ▶ Objective
 - Analyze bilateral trade and investment flows
 - Analyzing future trade potential
 - Identifying areas of current and future collaborations
 - Examining market access, discriminatory, regulatory and other barriers
 - Examining autonomous/regional/multilateral (WTO) liberalization
 - Stakeholders Consultation
 - Formulate negotiating strategies
 - Reform requirements

Coverage

▶ Thirteen services sectors

- IT/BPO
- Health
- Financial
- Legal
- R&D
- Energy
- Logistic
- Accountancy
- Construction & Consultancy
- Postal & Courier
- Audio-visual
- Telecom
- Environment

- ▶ EU(27) comprises of Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovak Republic, Slovenia, Spain, Sweden, United Kingdom.
- ▶ Next in line - Croatia
- ▶ Single integrated market for goods
- ▶ Free movement of labour & capital
- ▶ Services - integration is on-going – Directives
- ▶ Services accounts for over 60% of GDP in EU – important driver of economic growth & employment

- ▶ In 2007, EU was the top exporter (27.7%) and importer (24%) of commercial services. India's share was 3.7% (rank 5 for exports) and 3.4% (rank 7 for imports) respectively
- ▶ Intra-EU trade accounts for over half of EU's total services trade
- ▶ Enjoys trade surplus in services
- ▶ US is the most important trading partner, EFTA
- ▶ Comprehensive trade agreements
- ▶ Sector negotiations/agreements: air transport with US, maritime with China

- ▶ Largest sector of the economy - contribution to GDP increased from 41% in 1990-91 to 61.8% in 2006-07
- ▶ Since 1991, the services sector has grown at a faster pace than the economy as a whole
- ▶ Between 2002-03 and 2006-07, services contributed 69% to India's overall GDP growth
- ▶ Share of services in total trade of India increased from 20.9% in 1997 to 28.9% in 2006
- ▶ Services exports as percentage of total exports nearly doubled – 20.3% in 1997 to around 39% in 2006
 - Nearly two-third of the revenue of IT/BPO sector is through exports
- ▶ Services import as percentage of total imports was 21.4% in 2006
- ▶ India currently enjoys trade surplus in services

- ▶ In 2007 India's share in extra-EU bilateral services trade was around 1.5 %
- ▶ India's share in EU's outward FDI was 1% in 2005
- ▶ EU is India's second largest trading partner in services
- ▶ It is a major source of FDI into India in sectors like power/energy, telecommunications, finance & transportation
- ▶ Technical Collaborations
 - Indian companies have benefited from inflow of technology in infrastructure sectors such as renewable energy, environment services
- ▶ Complementary skills: EU - superior in technology but high cost of production, India has competence in supply of highly skilled manpower at competitive rates
- ▶ Trade potential exists not only in EU but also in third country markets

- ▶ Both India and EU are proponents of multilateral liberalization in services
 - EU has offensive interest in Mode 3 and in sectors like logistic, energy, distribution, express delivery, telecommunication
 - India has offensive interest in Modes 1 and 4 and sectors such as computer related services, architecture and engineering services
 - Defensive sectors : Audio-visual for EU, Legal for India
 - Out of 22 plurilateral requests, EU was the requesting member in 13 and received 8, India was the requesting member in 4 and received 12
- ▶ The revised offers are close to the unilateral liberalization – what's more?

Our exports concentrate in a few countries

Out of India's total export of IT/ITES services in 2007, share of EU is around 30% (compared to over 60% of that of US), majority of which is UK

- ▶ EU is not a harmonized market for services
 - 27 countries, over 11 languages, conflicting interests
- ▶ EU *versus* non-EU treatment
- ▶ Subsidiary *versus* Branches
- ▶ Almost no commitments in Independent Professional and Contractual Service Supplier category
- ▶ Work permit, visas, taxes are under the purview of individual countries
- ▶ Difficulties of MRAs - Architect *versus* Engineers

Barriers.....



- ▶ Recognition of qualifications
- ▶ Residency/nationality conditions
- ▶ Unlike India, barriers are regulatory in nature and not market access
- ▶ Economic Needs Tests
- ▶ Language
- ▶ Lack of market knowledge & entry strategy – Chinese *versus* Indian Companies
- ▶ High cost of setting up operations
- ▶ High taxes
- ▶ Intense Competition
- ▶ Restrictions on ownership of real estate
- ▶ Rigid Labour laws
- ▶ Government Procurement

Expectation from BTIA



- ▶ A Harmonized market
- ▶ Liberalization beyond revised offer - in terms of sectors (audio-visual) and coverage
- ▶ BTIA should be futuristic and focus across all modes
- ▶ Commitments in IP and CSS
- ▶ Easier movement across EU member states
- ▶ Equal treatment for all forms of operations
- ▶ Enhance scope for investment and collaborations

Thank You