

Pivoting to enhance India's services exports

India's exceptional performance in exporting information technology (IT) services has been instrumental in its integration with the global economy. However, this growth story has been under threat in the wake of anti-globalization and protectionist measures in major destination markets. So far, India's focus in trade negotiations has been mainly on temporary movement of professionals (mode 4) and outsourcing using telecommunication services (mode 1).

Mode 4 is always attached with some political sensitivity due to perceived fear of job losses in the destination country. Though such fears are mostly misplaced, countries put significant restrictions on mode 4 and many countries, including the US, UK and Australia, have increased such restrictions in recent times. With growing protectionism and political sensitivity, our efforts at accessing traditional markets through mode 4 have come up against a lot of resistance. While market diversification can provide some relief, it is likely to take much longer to materialize given the many hurdles the IT industry must cross in the new markets such as language, culture, political acceptance, etc.

The Indian IT industry is already witnessing the uncertainty caused by the Hire American-Buy American movement unleashed by the Donald Trump administration. The EU General Data Protection Regulation (GDPR), which is set to kick in from May, will also create difficult challenges for the outsourcing industry. One of the major stumbling blocks in the conclusion of the India-EU free-trade agreement negotiations has been the issue of data privacy. The GDPR has more advanced rules on data privacy, therefore, any relaxation from the EU on data privacy is unlikely. One needs to await the report of the Srikrishna Committee and consequent emergence of India's data privacy law to see if a convergence with the EU regulation is likely. Therefore, mode 1 trade is also likely to see significant hurdles soon. In such a scenario, what is the way forward for India for increasing its services exports?

India should focus on attracting more foreign consumers in its territory, referred to as mode 2 in services trade parlance. Such refocusing on mode 2 is required for more than one reason. First, most of the countries do not put severe restrictions on this mode and had also liberalized it in their World Trade Organization commitments. Therefore, enhancing trade through this mode is not dependent on importing countries, rather on the actions that are within the ambit of the exporting country.

Second, the three sectors that are most important for mode 2—tourism services, education services and medical tourism—also have a high employment multiplier. Hence, an increase in foreign consumers will not only lead to enhanced foreign exchange earnings but also an increase in employment opportunities, the top priority of the government.

Third, much required diversification in India's services exports basket could also be achieved through this refocusing. India's services exports are often termed a "one-trick pony" to indicate overreliance on IT services exports. An increase in mode 2 exports will lead to services exports diversification not only within the services sectors but also in terms of destination markets.

When it comes to the tourism sector, in spite of its rich potential, India is not able to attract foreign tourists and had a share of a mere 1.1% of international tourist arrivals in 2015. The fact that India attracted only around 13 million foreign tourists while having 36 Unesco World Heritage sites, whereas countries like Turkey, Malaysia and Thailand had more than double the arrivals with only half the number of heritage sites, is a telling commentary on India's capacity to convert its tourism resources to national wealth. No doubt the visa regime has been significantly simplified but there are many issues that need to be addressed urgently—most important among them, building an

image of a tourist-friendly globalized nation that warmly welcomes an outsider who might have different ethnicity, language or food habits. The state governments have a critical responsibility here.

India also has a potential for developing itself as an education hub for students from South and South-East Asia, and Africa. While establishing 20 world-class universities is an ambitious dream, it might not be achievable anytime soon. Here again, the role of state governments is very important as they are responsible for financing and operating these universities. Many reputed foreign educational institutions have not been able to set up their Indian campuses as relevant legislative amendments have remained as drafts. This sector seems to be waiting for a major push in the desired direction.

A number of hospitals in India are providing advanced treatment at much lower costs compared to the developed world. Hence, they are able to attract patients from neighbouring countries and Africa. Some very useful efforts are being made by the agencies involved in offering information and assistance. However, foreign patients are often tempted by touts who leave no stone unturned in fleecing them. There are still issues around obtaining health visas, accessing good quality hospitals, following up treatments, etc. This sector seems to have done the best so far, driven by the interest shown by private hospitals. An improved infrastructure, a more friendly national ethos to foreigners and a greater sense of commitment and ethics among professionals can work wonders in this sector.

Both of India's key demand areas (mode 1 and mode 4) are unlikely to see any positive momentum in the near future. It's time to shift gear and focus on mode 2 where enhancing efficiency and boosting services exports depend primarily on domestic measures and not on removing restrictive measures by foreign countries. The fact that reforms in all of these sectors will help national employment goals and benefit domestic consumers as well is, of course, icing on the cake.

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