

Chapter 5

Specific case studies from EU–India

To assess the impact of a possible EU–India services agreement on excluded low-income developing countries, one would also have to examine the competition that India faces from such countries in sectors of its strategic interests with the EU, exactly as we did above for the goods markets. It is important to note here that services are a more skill-intensive sector compared to agriculture and industry and the nature of any competition that India faces from other low-income developing countries would be governed by the ability of such countries to compete with India's relatively more-skilled and cheap English-speaking work force. The services sector in India has also been witness to rapid growth, especially since the 1990s, which has now led to India becoming an 'outlier' in terms of its services sector performance in the years since the turn of this century (Shingal, forthcoming). As noted above, services now contribute more than half of the country's GDP, which is higher than the share for countries at a comparable level of per capita income as India. Amongst the top 20 services exporters in 2003, India had the fastest growth of services exports over 1994–2003 and services trade now accounts for a quarter of the country's total trade.

Against this background, as things stand, with the possible exception of construction workers and maybe nurses, other low-income developing countries would hardly be a threat to Indian presence in services in the EU especially in sectors like IT, health, banking and financial services. Moreover, while Indian IT services and medical professionals are globally recognised, it will be some time before Indian banking services, for instance, can win the confidence of European clients. Even in the case of construction workers and nurses, since trade here pertains to the movement of relatively less-skilled labour, which is a politically sensitive issue, India itself is unlikely to get much from the EU in such services in a possible agreement. To that extent, the impact of a possible EU–India services agreement on excluded low-income developing countries would be limited. However, given that India already has a substantial revealed comparative advantage in the export of IT and telecom services into OECD markets, any regulatory harmonisation and removal of non-tariff barriers (NTB) between the EU and India would arguably render market access for excluded low-income developing countries into the EU in such services that much more difficult in future. In addition to the incumbency advantages discussed above, the exemption from any wasteful sector-specific services regulation for Indian service suppliers would translate into reduced costs for such suppliers establishing their presence in European markets and a consequent decline in EU prices for those services. Assuming some degree of substitutability with services from excluded countries this would put competitive pressure on excluded country suppliers who would suffer lost sales and, most likely, a decline in their terms of trade as they reduced their prices on all their

sales. This is the terms of trade effect discussed in the last section of Part II for goods.

In what follows, we look at a few areas/sectors where they may be possibilities of an agreement between the EU and India and consider the ramifications of each for excluded countries:

IT: The Indian IT sector is already significantly liberalised and India also has a huge revealed comparative advantage in exporting IT services to the OECD. The composition of exports has also changed from a predominance of Mode 4 to an almost equal distribution between Modes 1 and 4. Any possible agreement could therefore involve pro-liberal provisions on both modes of delivery. This could further consolidate India's RCA in this sector, based as it is on India's highly skilled and cheaper workforce, to the detriment of excluded low income developing countries if they too had potential comparative advantage in the sector. However, most low income countries have little prospect of establishing software export capacity in the next couple of decades, so the damage is potential more than actual.

Banking, insurance and financial services: Given that the sector is moderately liberalised in India already, European firms would certainly seek greater market access, including the raising of investment caps and relaxation of regulatory requirements. A possible agreement could use the mechanism of the India-Singapore CECA wherein three specified Singapore banks have been allocated a separate quota of fifteen branches over four years, over and above the quota for all foreign banks. This would certainly facilitate European presence in the Indian market although whether this would be at the expense of banks from low-income countries is very unclear given the latter's weakness in the sector. Moreover, while Indian firms may also reciprocally get more *de jure* market access into Europe, one cannot be certain whether this would translate into actual market penetration in Europe, as it would be some time before Indian firms in this sector could win the confidence of European clients. Finally, if the FTA led to greater EU investment in India, this may raise fears of there being correspondingly less European investment in the excluded countries. The evidence of such re-orientation of investment is weak however – see below.

Mode 2: India has an interest in the export of health services and this manifests itself in the inflow of foreign patients to domestic hospitals and doctors. Such trade results in significant cost savings for patients and health insurers – see Mattoo and Rathindran (2005). Similarly, thousands of Indian students explore educational opportunities in Europe every year while European academic institutions are equally keen to set up shop in India or get into academic alliances with Indian schools⁶⁵. Both these areas could be covered by liberal provisions in a possible agreement but in either case, excluded low income developing countries are likely to be adversely affected by such a development.

Notes

65 For instance the France-based ESCP-EAP European School of Management is looking at academic tie-ups with business schools in India and is also holding executive education programmes for corporates in India. Similarly, the European Business School, Germany was on a tour to India with the purpose of starting a business school in the country.