

Policy steps can promote trade in Mode I and Mode 4 services, says Dr. Chanda

The COVID crisis has severely affected global trade in services, especially tourism, hospitality and aviation. The crisis will also have medium to long term impact on trade in other services with the expected shift in global value chains and protectionist policies of various countries.

In an interview to MVIRDC World Trade Center Mumbai, Dr. Rupa Chanda, RBI Chair Professor in Economics, Indian Institute of Management Bangalore (IIMB) shares her views on this subject.

Dr. Chanda explains how Government of India should use its data localization policy and trade agreements to boost trade in Mode I and Mode 4 services respectively (for explanation on modes of services, see the box below).

Excerpts of the Interview:

1) Could you provide us an overview of India's trade in services viz-a-viz International trade in service as a result of COVID-19?

It is too early to say as data is not yet out on this quarter's trade in services. The latest press release by the RBI on April 15, 2020 provides information for exports till Feb 2020 and estimated exports for March 2020. These do not show any major trend. However, figures from January itself suggested a decline in foreign tourist arrivals and in air transport services in India.

Data after February is likely to show a more severe impact on tourism and aviation services sector, both globally and in India. As the November-March period is our peak international tourism period, we should see the effects soon in the next RBI release. For the world, as the peak international tourism period is in summer, the effects are yet to be seen, but are likely to be large. Already, we are seeing huge declines in major tourism exporting countries like Italy and France.

Overall, the immediately hit services will be hospitality, air transport, logistics while over time, the economic slowdown and restrictions on travel and lockdowns will affect other services such as professional, business, IT, BPO, transport (relating to trade in goods), and financial services.

Without concrete data, one can only project the effects at this time.

2) How is COVID-19 now going to redefine globalisation?

There are likely to be two effects. The first and immediate one will be a backlash to globalisation (trade, FDI and mobility) along with a dispersion of trade and investment. Countries will no longer want to be too dependent on global value chains and risk supply chain disruptions or reliance on one or two countries for essential supplies. Hence, there could be a shift towards some localisation of value chains,

some dispersion of activities to more countries, and a search for more countries to which investment can be relocated.

There could be more restrictions on imports to increase self-sufficiency in strategic and essential goods, or restrictions on exports on national security and such grounds. There will be more restrictions on immigration. Countries may also impose more conditions on FDI depending on the source country and target sector. Globalisation will slow down.

3) How can MSMEs take advantage of the growing needs of the global healthcare sector?

There will be and have been growing opportunities (even pre-COVID) for MSMEs and startups in the healthcare sector. These range from being parts of the supply chain in manufacturing of health sector related products (masks, gowns, gloves, kits) to providing innovative and niche services like monitoring apps, data analysis, diagnostics etc. There are opportunities for health-tech startups where MSMEs can play a role. However, to take advantage of these growing needs, the usual constraints that affect MSMEs, mainly access to credit, technology upgradation, access to markets and information networks, links to lead firms and branding, have to be addressed with support from government and industry bodies.

4) How should India reposition itself in the post-COVID-19 world economic order with respect to services trade?

In services trade, India is likely to be affected in different ways depending on the mode of supply. Mode 1 could see growth going ahead as there is a shift to online consumption of services and travel restrictions increase, forcing a substitution to cross-border supply. However, this will also mean that India needs to be better prepared with data protection regulation as our services exports will counter this regulatory challenge in other countries. Also, our own proposed data localisation requirements could affect export opportunities through Mode 1.

Mode 2 will take a hit in case of tourism services and medical value travel. India will need to invest in infrastructure, standards, and perception management to overcome challenges that this mode will face from travelers. Mode 3 could see new opportunities as companies look to relocate from China to other countries, both in manufacturing and services. India will need to compete with other developing countries to attract these investments. Its success will depend on its business environment. There could also be Mode 3 services export opportunities for Indian companies with more countries looking to attract investments and declining asset costs due to economic slowdown.

Finally, Mode 4 will face challenges with likely restrictions on mobility and visas. India will need to find partners which complement India's demographics and availability of manpower in different services. It needs to leverage its existing and prospective bilateral agreements in services to facilitate Mode 4 exports in selected services and occupations. Bilateral labour agreements with well-defined return provisions, limits on stay could be a way forward.

The General Agreement on Trade in Services (GATS), which came into force in 1995, under the aegis of the World Trade Organisation, has categorized global trade in services under four modes. These four modes can be explained with example as follows:

Examples of the four Modes of Supply (from the perspective of an “importing” country A)

Mode 1: Cross-border

A user in country A receives services from abroad through its telecommunications or postal infrastructure. Such supplies may include consultancy or market research reports, tele-medical advice, distance training, or architectural drawings.

Mode 2: Consumption abroad

Nationals of A have moved abroad as tourists, students, or patients to consume the respective services.

Mode 3: Commercial presence

The service is provided within A by a locally-established affiliate, subsidiary, or representative office of a foreign-owned and — controlled company (bank, hotel group, construction company, etc.)

Mode 4: Movement of natural persons

A foreign national provides a service within A as an independent supplier (e.g., consultant, health worker) or employee of a service supplier (e.g. consultancy firm, hospital, construction company).

Source: WTO

Notifications

Press Information Bureau, Government of India

Agro MSMEs should produce goods using local raw materials

<https://pib.gov.in/PressReleasePage.aspx?PRID=1623324>

Champions portal to transform Indian MSMEs as Global Champions

<https://pib.gov.in/PressReleasePage.aspx?PRID=1623201>

Rebooting economy through science and technology

<https://pib.gov.in/PressReleasePage.aspx?PRID=1623332>

Industrial production declines 16.7% in March 2020

<https://pib.gov.in/PressReleasePage.aspx?PRID=1623300>

Daily Bulletin on COVID-19

<https://pib.gov.in/PressReleasePage.aspx?PRID=1623323>

DGFT

Procedure for availing Transport and Marketing Assistance

https://dgft.gov.in/sites/default/files/PN%20eng_0.pdf