

Trade-led Growth in Times of Crisis  
Asia-Pacific Trade Economists' Conference  
2-3 November 2009, Bangkok

## Session 7

**Trade Liberalization in Producer Services: Case  
Study of India?**  
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Asia-Pacific Research and Training Network on Trade

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# **Trade Liberalization in Producer Services: Case Study of India**

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# Overview

- Introduction
- What Regulations?
- Why Producer Services?
- Scope and Objectives
- Methodology
- Results of Empirical Work
- Limitations
- Conclusion and Policy Implications
- References

# Introduction

- Services are the fastest growing sector of global economy
  - Constituting majority of national output
  - Increasingly important in international trade and investment flows
- Trade in services grown faster than goods over past decade
  - Growing interest in understanding economics of services, including services trade, both conceptually and empirically
- Services trade requires special attention due to two distinguishing features of services
  - Manner in which trade in services occurs through four modes of delivery
    - Cross-border supply
    - Consumption abroad
    - Commercial presence
    - Movement of natural persons
  - Restriction of services trade with aid of domestic or 'behind the border' regulations as opposed to border measures such as tariffs used to restrict goods

- Many 'behind the border' regulations in services trade aimed at realizing public policy objectives
  - Yet can become impediments to trade and investment flows in services due to
    - Their onerous nature
    - Administration and implementation mechanism
  - Can undermine the effect of liberalizing border regulations, such as investment and immigration policies
- Significant welfare gains from liberalization of these regulatory barriers
  - Several times greater than eliminating protectionist barriers in goods trade (Mattoo and Stern, 2008)
  - 50 percent reduction in such barriers may lead to five times larger welfare gains than trade liberalization in non services sectors (Robinson et al, 2008)
  - Could be same as from eliminating all remaining barriers to trade in agricultural and industrial products (Dee and Hanslow, 2001)

- Gains arise in many ways like
  - Productivity improvements and increased returns for incumbent service providers
  - Lower costs , improved quality, and greater variety for users
  - Increased FDI flows and associated technology transfer and innovation
  - Spillover effects to other goods and services owing to lower costs and increased availability of various services after liberalization
- This paper is an extension of recent empirical literature on services trade protection
  - Estimates incidence of regulatory measures, both 'at the border' and 'behind the border' for selected producer services in India
  - Assesses likely implications of liberalizing these measures for trade and investment flows in selected services and in related areas of economy

# What Regulations?

- Two categories of regulations and protectionist measures in service sector
  - Restrictions or regulatory requirements affecting entry of foreign investors in host country (border level regulations)
    - Limits on foreign direct investment, restrictions on the form of entry, other entry level measures affecting foreign and domestic service providers differentially
  - Regulations affecting ongoing operations of foreign firms after their establishment in host country ('behind the border' regulations)
    - Licensing and authorization requirements, requirements concerning composition of Board of Directors, restrictions on purchase of immovable property
    - May or may not apply differentially to domestic and foreign service providers

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measures affecting services trade can also be  
o discriminatory and non-discriminatory

applying only to foreign providers and measures  
both domestic and foreign service providers

differentiates between ‘at the border’  
AtB) and ‘behind the border’ (henceforth BtB)

now these regulatory measures changed over  
period for four selected producer services in

Fixed and Mobile)

transport

ort

fferentiate between discriminatory and non  
y regulations

in regulations are non-discriminatory in content and  
, likely to affect foreign providers more due to  
tive and procedural complexities and limiting effect on  
testability