

Export-Import Bank of India

India's Services Trade Liberalisation and Export Promotion

A Study for Government Policy Making

This Study has been undertaken by Export-Import Bank of India [EXIM Bank] in collaboration with Dr. H.A.C. Prasad, Former Senior Economic Advisor, Ministry of Finance, Government of India

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IEI [Institution of Engineers India], AHPI [Association of Healthcare Providers India], HFI [Healthcare Federation of India], INSA [Indian National Ship Owners Association], ACTO [Association of Container Train Operators], AITWA [All India Transporters Welfare Association], BIF [Broadband India Forum], COAI [Cellular Operators Association of India], FAITH [Federation of Association in Indian Tourism and Hospitality], IATO [Indian Association of Tour Operators] and professionals like Dr Devi Shetty [Narayana Healthcare], Raju Bhatnagar [former Secretary General, BCIC], Ramachandra Bhatt [SRC Bhat & Associates], etc for their valuable inputs and suggestions. Our sincere thanks also to the OECD for clarificatory inputs provided to us.

India's Services Trade Liberalisation and Export Promotion: Executive Summary

This report examines India's Services Sector Performance and Restrictiveness in the International Context and also critically analyses the methodology of Services Trade Restrictiveness Index being adopted by various agencies like OECD. This report compares the STRI Index segregating it into Horizontal and Sector Specific Restrictions in select 9 countries viz. India, USA, UK, Russia, South Korea, Brazil, China, South Africa, Indonesia. With specific focus on India's Services Trade Restrictions, it analyses the Sector-wise STRIs, the potential for services exports and suggests liberalisation policies for services and reforms both General and in Key Services Sectors: viz IT-BPM, Maritime Transport (Shipping), Tourism, Telecommunication, and Healthcare.

India's Services Sector Performance and Restrictiveness in the International Context

Importance of services in the Indian Economy

India's services sector is a key driver of the Indian Economy with a share of 54.2 percent in Gross Value added (GVA) and a growth of 7.4 percent contributing nearly 58.7% of the overall GVA growth in 2018-19. In line with overall GDP growth, services GVA also decelerated to 7.4% in 2018-19 from 8.1% in the previous year. The share of services sector in total gross capital formation (GCF), at current prices had increased over the last five years from 53.3 percent in 2011-12 to 61.0 percent in 2017-18. While services GDP growth was modest, services export growth, after a fall in 2015-16 and a lull in 2016-17 rebounded with a robust 18.8% growth in 2017-18, powered by the 22% growth in travel, 10% growth in transportation and 13.4% growth in Business services. Software services with a share of nearly 40% in India's services exports also saw some pickup in growth

compared to the tepid growths in the previous 2 years. However, in 2018-19 H1, Services exports grew by only 5.3 per cent with a sharp deceleration in export growth of travel (2.1%) and also Business services (7.4%) though there was a further pickup in software services export growth (7.4%) and good growth in Transportation (13.6%). Net services grew robustly at 13.5% in 2017-18 after two consecutive years with negative growth. In 2018-19, it grew by 6.2 per cent financing 40.6 per cent of Merchandise Trade Deficit. The share of services is 57.1 per cent of the cumulative FDI equity inflows during the period April 2000-Sept 2018 and 58.8 per cent of FDI equity inflows during 2018-19 H1.

International Comparison of Services

Among the world's top 15 economies (in terms of overall GDP) China (8.0 pp) recorded the highest increase in services share to Gross Value Added (GVA) during 2007-17, followed by India (5.8 pp). Services GVA growth rate (at constant prices), was also highest in China at 8.3 per cent followed by India at 7.9 per cent. As per the ILO's estimates, among the top 15 economies, the services sector accounted for more than two-thirds of total employment in 2016 in most of them except India and China, with India's share of 33.5 per cent being the lowest. While China had the highest increase in the share of services employment (17.1 pp) during the period 2007 to 2017, increase in India was only 7.8 pp. Services export growth, both World and India, which had dipped to negative territory in 2015 after an interregnum of 6 years from 2009, returned to positive territory in 2016 and further accelerated in 2017. As per the latest World Trade Organization (WTO) data for first half of 2018, services export growth for the World was 12.4 per cent and robust at 13.7 per cent for India, though

the highest growth was registered by China at 22.5 per cent. Global foreign direct investment (FDI) flows fell by 23 per cent to US\$1.43 trillion in 2017. While FDI activity was lower across all sectors, the fall in value of greenfield projects announced in 2017 was concentrated in services.

Services Negotiations and Services Trade Policies: Recent International Developments

Multilateral

India's Submission on Trade Facilitation in Services (TFS) at WTO : India tabled the "Concept Note for an initiative on Trade Facilitation in Services" in September 2016 at the WTO. The objective behind India's proposal for an Agreement on Trade Facilitation in Services (TFS) was to initiate discussions at the WTO on how to comprehensively address the numerous border and behind-the-border barriers, across all modes of supply, which are impediments to the realization of the full potential of services trade. There have been comments on this proposal of India by different countries. While India has to hold firm on S&D issues, regarding domestic regulations there is a need to see that there is no overlapping between negotiations on Domestic Regulation disciplines and Trade Facilitation in Services. This is because some issues in the TFS are related to domestic regulations.

India's Submission on Mode 4 (trade through movement of natural persons) at WTO : India submitted a paper on "Mode 4: Assessment of Barriers to Entry", in March 2016 at the WTO highlighting the increasingly complex nature of barriers to mode 4 entry. These include subjective definitions of sub-categories under the Intra-corporate transferees resulting in rejection of bonafide applications and undermining the commitments, and non-portability of social security benefits.

Trade in Services Agreement (TISA) and India's stand: At present there are 23 members participating in the plurilateral TISA discussion with none of the BRICS

and ASEAN member states participating. India and some other like-minded developing countries have expressed concern from time to time on this plurilateral agreement as it will endanger the conclusion of the Doha Round by disturbing the delicate balance arrived at between Agriculture, NAMA and Services after years of intense negotiations. With the withdrawal of the US from Trans-Pacific Partnership (TPP), the future of TISA, which is led by developed countries like the US has also become uncertain.

Developments in OECD: Meanwhile to help in WTO negotiations and also to help in the domestic reforms in services sector, the OECD has prepared a Services Trade Restrictiveness Index (STRI) for different countries including India. STRI is a new initiative for services by OECD and has a wealth of information in a sector where data and information are scarce. A certain degree of overlapping can also be seen in STRIs, negotiations on domestic regulations and TFS.

Bilateral/ Plurilateral Agreements and India

India has signed comprehensive bilateral trade agreements, including Trade in Services, with the Governments of Singapore, South Korea, Japan and Malaysia. The ASEAN-India Trade in Services Agreement (AITISA) was signed on 13 November 2014 on the sidelines of the 25th ASEAN Summit in Myanmar and entered into force on 1 July 2015 for six ASEAN Member States. The AITISA contains provisions on transparency, domestic regulations, recognition, market access, national treatment and dispute settlement. India's offers cover professional services, medical and dental, computer related services, communication, construction, financial, healthcare, tourism and transport services. India has also joined the Regional Comprehensive Economic Partnership (RCEP) plurilateral negotiations which is the only mega-regional FTA of which India is a part and includes services also.

Relative Restrictiveness of India's Services Trade Policy

The various reports on India's Services Trade restrictiveness gives an idea of the restrictiveness of India's Services Trade Policy.

OECD's STRI: The STRI for India shows that there is a large variation in trade restrictiveness across sectors and also as far as the relative importance of the five policy areas are concerned. India has relatively high scores on the STRI largely because of a general regulatory frame work which controls the flow of capital and natural persons. The general framework amounts to a floor for the STRI score in all sectors before sector-specific restrictions are added. Leaving Road Transport and Engineering Services, all other sectors are restricted.

USTR's National Trade Estimate Report on "Foreign Trade Barriers" 2018: As per the USTR, the Indian government has a strong ownership presence in major services industries such as banking and insurance. Foreign investment in businesses in certain major services sectors, including financial services and retail, is subject to limitations on foreign equity. Foreign participation in professional services is significantly restricted and in the case of legal services is prohibited entirely. In the case of information and communications technology sector, there are in-country testing requirements and data- and server-localization requirements.

WTO's India Trade Policy Review, April 2015: TPR 2015 has also pointed out some restrictions in India's services sector related to domination by public sector banks (PSBs) and need for license for domestic and foreign banks in the case of the banking sector. It has also pointed out some of the restrictive policies in Insurance, Securities, Telecommunications, Maritime Transport and Ports, Air Transport, Road Transport, Tourism and Professional Services. However, these are dated and many changes have taken place in India since 2015.

Thus, India has many restrictions in different services. Some of these are found in other countries as well. Some may be needed from the regulatory angle and some to meet social obligations. However, there are many restrictions which need to be considered for liberalization in the different sectors.

Methodology of Services Trade Restrictiveness Index (STRI)

Early Studies : Historically, the work on services trade restrictiveness was pioneered by C. Findlay and T. Warren, from the Australian Productivity Commission (APC) in the late 1990s, covering a wide range of sectors in both developed and developing countries in all regions of the world. Information on regulation was assigned scores and a weighted average was calculated using expert judgement for assigning weights. The restrictiveness indices were, however, only calculated for one year.

World Bank's Indices : The World Bank's 'Global Monitoring Report 2008' has the services trade indices. These were estimated for 32 developing and 24 OECD countries in financial services, telecommunications, retail trade, transport and professional services. However, indices are published by country groups classified according to income level rather than individual countries. Later it was published for 103 countries. The indicators are based on a questionnaire filled in by law firms in each country. Later these were further expanded to cover 103 individual countries.

OECD's STRI: OECD launched the Services Trade Restrictiveness Index (STRI) project in June 2007 and in 2014 it launched the OECD Services Trade Restrictiveness Index (STRI). STRI provides an up-to-date snapshot of services trade barriers in 22 sectors across 44 countries (35 OECD and 9 non-OECD), representing over 80% of global services trade. The STRI is intended to serve as a useful tool for identifying areas for further trade liberalisation

and reforms and for benchmarking best practices. The purpose of the restrictiveness index is also to provide a basis for comparing performance and policy reforms efforts across services sectors within the national economy. The OECD has also indicated that the STRI can help in assessing the likely effects of trade restrictions in services for trade negotiators and to clarify those restrictions that most impede trade. For businesses, it can also shed light on the requirements that traders must comply with when entering foreign markets.

Methodology of OECD-STRI: The OECD STRIs are composite indices derived by quantifying the qualitative information in the regulatory database as binary scores. The resulting sectoral indices take values between zero (complete openness to trade and investment) and one (total market closure to foreign services providers). To reconcile the complexity of services trade restrictions with binary scoring, non-binary measures are broken down to multiple thresholds; complementary measures are grouped and scored as zero only if all measures in the bundle are not restrictive. Finally, in cases where one restriction renders others irrelevant, those measures that are rendered irrelevant are automatically scored one. The policy measures are grouped under the following five policy areas in all sectors: (i) Restrictions on foreign entry, (ii) Restrictions to movement of people, (iii) Other discriminatory measures, (iv) Barriers to competition, (v) Regulatory transparency. The weighting scheme for the STRI indices is derived from an online survey and relies on expert judgment.

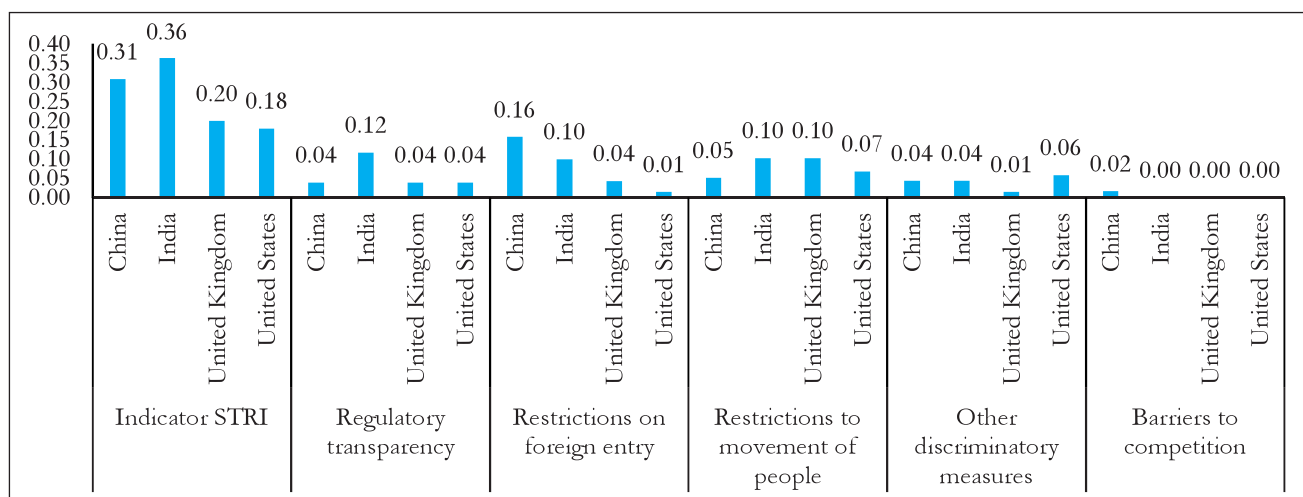
Horizontal measures in OECD's STRI : The major horizontal measure is related to maximum foreign equity share. There are four thresholds here: Less than 100%, less than 50%, less than 33% and zero. If there is a foreign equity limit of 49%, there will be two scores of one: less than 100% and less than 50%. If foreign investment is not allowed at all, there will be four scores of one. Foreign equity restrictions have implications for other measures as well.

Sector-Specific Measures in OECD's STRI : There are sector-specific measures as well. For example, in regulated professions, a license is required to provide a service. The sector-specific measures relate to conditions & requirements for obtaining a license and the scope of activities reserved for licensed professionals. Similar sector-specific restrictions are found in other sectors as well.

Critique of the OECD's STRIs: The OECD's STRI is a good and informative database. However, the STRI methodology needs to be modified substantially if it has to be used for trade negotiations. The weighting scheme is also based on expert judgements which need to be made less subjective. The team of experts should be well balanced and represent different groups of countries. For transparency purpose, the names of experts should also be in public domain. The OECD's STRI also does not include important services like Tourism, Healthcare and Real Estate Services though Construction is included. OECD's STRI needs to be examined carefully, as for example, in the case of Computer Services, not only is India's STRI higher than that of UK and USA, it is even higher than that of USA and equal to that of UK in the sub-indicator of restrictions to movement of people! (Figure 1)

Similarly, for Maritime Transport Sector, OECD's Services Trade Restrictiveness Index (STRI) value for India is at 0.398 compared to USA's 0.371, even though the restrictions in USA are relatively higher, while India has less restrictions on ground.

The genuine STRIs need to be examined and measures taken, while there is a need for careful examination regarding others. Looking at the tariff equivalents of the services restrictions based on STRI as done by OECD is premature, particularly when the data is imperfect, methodology is subjective and less transparent. While it is important for every country to examine the STRIs from their perspective, changes in methodology; greater transparency in selecting experts who give opinions on the different indicators for different countries;

Figure 1: STRI for Computer Services (2017) : Comparison of China, India, US and UK

making the selection more balanced by including experts from developing countries like India as well; and providing better data can help in making the STRI more useful in trade policy.

STRI : Horizontal and Sector Specific Restrictions

Horizontal Restrictions: There are some horizontal measures under the STRI which are cross-cutting across sectors. The restrictiveness of these measures automatically gets reflected in the sectoral STRI. As a result, even if a sector is less restrictive as per sector – specific measures, the horizontal measures make the whole sector restrictive. The OECD has included the following under the horizontal measures – Maximum foreign equity shares which includes other policy measures which are automatically scored one when foreign equity limits are in place; Statutory monopolies; duration of stay for temporary services suppliers; public procurement; and some administrative procedures. We have arrived at a list of 55 horizontal measures by segregating the policy measures which are common in most of the sectors. Out of the 55 Policy Measures selected by us, 44 Policy Measures are found in all the 22 sectors for India and the remaining for majority of sectors. Some of them come more than once in a sector as in the case of accounting sector where it appears separately for

accounting and auditing and air transport where it appears separately for domestic and international air transport. These horizontal measures are given under the five policy areas.

Horizontal Restrictions under the five Policy Areas

1. Restrictions on Foreign entry

Foreign Investment: These include the following. Restrictions related to Maximum Foreign Equity Share. While FDI has been liberalized in many services sectors, there are restrictions related to maximum foreign equity share allowed, where despite 100% foreign equity share being allowed, 49% is through the automatic route (i.e. without prior approval) while investments beyond 49% is through the government route (i.e. the foreign investment is subject to prior approval by the government).

Restrictions on cross-border mergers and acquisitions (M&A) wherein a foreign company needs the prior approval of the Reserve Bank of India to merge into a company registered under The Companies Act, 2013.

Limits to the proportion of shares that can be acquired by foreign investors in publicly-controlled firms, wherein the Government must retain at least 51% equity and management control in all cases of disinvestment of central public sector enterprises.

Screening without exclusion of economic interests wherein proposals for investment by foreign investors under the "Government route" (i.e., with FDI exceeding 49% foreign equity) are considered by the relevant Ministries and regulatory departments and the Cabinet Committee on Economic Affairs (CCEA). The former review all proposals with foreign equity less than Rs.5000 crore. All investment above Rs.5000 crore is reviewed by CCEA. Screening is not explicitly based on economic interests.

Conditions on subsequent transfer of capital and investments, wherein transfers of shares between persons resident in India and persons resident outside India are subject to pricing guidelines.

Restrictions on acquisition and use of land and real estate by foreigners, wherein Branch/Project Offices of a foreign entity are permitted to acquire immovable property, other than agricultural land/farm house/plantation property, by way of purchase for their own use and to carry out permitted/incidental activities. However, entities from Pakistan, Bangladesh, Sri Lanka, Afghanistan, Iran, Bhutan or China are not allowed to acquire immovable property in India for a Branch/Project Office without prior RBI approval. This is not a blanket restriction on all countries, but only on few due to strategic concerns.

Restrictions related to legal form like only a natural person, who is an Indian citizen and resident in India shall be eligible to incorporate a One Person Company.

Restrictions on the type of shares or bonds held by foreign investors. While a person resident outside India can purchase shares or convertible debentures issued by an Indian company, there are some conditions.

Other Restrictions like performance requirements and need for commercial presence to provide the service, etc.

Residency Requirements: The restriction that at least one of the Board of Directors must be resident

and the restriction that Managers must be resident. The requirement in this case is that no person shall be eligible for appointment as manager of a company unless he is a resident of India.

Regulations and limitations on location and transfer of data: In India, personal data can only be transferred to countries that ensure the same level of data protection as India does and the data transfer is necessary for the performance of contract or where the relevant person has consented to data transfer. More stringent rules apply to financial information and information on health conditions.

2. Restrictions to movement of natural persons

In most of the sectors in India there are basically two conditions - Labour Market Tests and Limitation on Duration of Stay. Multi-entry business visas for up to five years validity are available and each entry can last a maximum of six months. But foreigners who seek to provide a service in India need an employment visa. Such visas are available to highly skilled or qualified professionals if the work they are to perform cannot be undertaken by a qualified Indian citizen. The minimum salary or fee is US\$ 25000 per year. Employment visas are issued for one year and can be extended for up to five years.

Some other conditions are related to laws or regulations establishing a process for recognizing qualifications gained abroad.

Similar conditions are also found in other countries. Infact, the labour market tests are more rigorous in some developed countries. The limitation on duration of stay in India is more of a formality.

India has infact taken the initiative of liberalizing its visa regime for Least Developed Countries (LDCs), and even notifying this in the WTO. India is the only member which has offered waiver of visa fees. This is a unique and almost path-breaking offer by India. So far, visa issues have remained untouched in the WTO/free trade agreements (FTA). India's offer should give significant advantage to service

suppliers from LDCs vis-à-vis service suppliers from any other country.

3. Other Discriminatory measures

Public procurement : The Central Government may, by notification, provide for mandatory procurement of any goods or services from any category of bidders, or provide for preference to bidders on the grounds of promotion of locally manufactured goods or locally provided services. However, for services, unlike goods there are no thresholds above which tender is mandated.

Taxes and subsidies : Taxes and subsidies are in principle non-discriminatory, although there are some sector- specific deviations from this principle.

4. Barriers to Competition

Regarding the policy measure that decisions by the regulatory body can be appealed. There are no specific restrictions against foreigners, though the competition (Amendment) Bill 2012 has not been passed in Parliament and has lapsed.

Regarding the policy measure that firms have redressal mechanism when business practices restrict competition in a given market, any person can request competition commission to enquiry into anti-competitive practices and decision of competition commission can be appealed to the competition Appellate Tribunal. While compensation for damages suffered due to anti-competitive behaviour of other enterprises can be claimed from the Appellate Tribunal, the competition commission cannot order such compensation.

Some other restrictions are related to minimum capital requirements though the Companies Amendment Act 2015 has removed minimum capital requirements; Government control of at least one major firm in the sector and restrictions on advertising.

5. Regulatory Transparency

Regarding the policy measure that there is a legal obligation to communicate regulations to the public

within a reasonable time prior to entry into force, Acts of Parliament are published in the Gazette but there is no minimum statutory time period between publication and entry into force.

Regarding the policy measure that there is an adequate public comment procedure open to interested persons, including foreign suppliers, in India, the proposed legislations must be published but there is no obligation to hold consultations with all stakeholders about them. **Other restrictions are 'Ease of Doing Business' issues** like range of visa processing time (days), multiple entry visa for business visitors, cost to obtain a business visa (US\$), number of documents needed to obtain a business visa, number of working days to complete all mandatory procedures to register a company, total cost to complete all official procedures required to register a company and number of mandatory procedures to register a company.

Thus, all the issues in this policy area are procedural issues and many are related to 'Ease of Doing Business' rather than restrictions.

Contribution of Horizontal Restrictions to STRI Values – Sector-wise

The share of horizontal contributions to total STRI value of each sector shows that they are the major contributors to total STRI value in a sector. Total STRI values are very high in India for Rail Freight transport [1.000], Legal Services [0.906] and Accountancy [0.886] and very low in Sound Recording [0.267], Road Freight Transport [0.285], Logistics Freight Forwarding [0.290] and Engineering [0.290].

In terms of numbers in total restrictions, the highest restrictions are found in Air Transport [89], Insurance [80], Legal and Accounting Services [74] and Rail Freight Transport [73]. They are very low in Computer and Engineering services [22], Sound Recording [23], Logistics Freight Forwarding [24], Road Freight Transport [25] and Logistics Customs Brokerage [26].

The segregation of Horizontal Restrictions from total restrictions shows that in terms of value in all the sectors, the major contribution to STRI is due to horizontal restrictions. It is very high in some sectors like Computer Services (100%), Engineering Services (100%), Sound Recording (91.8%), Broadcasting (90.4%), Motion Pictures (87.9%), Road Freight Transport (87.8%), Logistics Freight Forwarding (86.3%), Logistics Storage and Warehouse (84.9%) and Logistics Customs Brokerage (81.6%) which implies that in these sectors, the STRIs are mainly due to horizontal restrictions.

In terms of numbers also the major restrictions are horizontal restrictions and these are very high in Air Transport (57), Courier and Rail Freight Services (55), Legal Services (47) and Insurance and Accounting Services (45). They are low in Construction (18), Logistics Customs Brokerage (21), Logistics Freight Forwarding (21), Sound Recording (21), Road Freight Transport (21) and Computer and Engineering Services (22).

In the total STRI and also horizontal restrictions for different Sectors, Policy Area-wise, restrictions on foreign entry and restrictions to movement of people followed by regulatory transparency are the major policy areas.

Some Inferences

The Horizontal Restrictions get reflected in the total restrictions of each sector and thus are the major contributors in many sectors. The presence of some of the Policy Measures like foreign equity restrictions automatically leads to STRI scores in some other related Policy Measures even if there are no restrictions in these other Policy Measures. These need to be examined first and addressed. If some of the horizontal restrictions are removed or relaxed, the STRI values of many sectors will automatically fall. India has many horizontal measures related to Foreign Entry, which are comparatively restrictive and given higher weightage in the STRI by OECD. These get reflected in the STRIs of the sectors also, thus resulting in a higher STRI for India.

There are some measures which are just formalities and not really restrictive and need not be included under STRI unless they are really restrictive. These are related to visa processing time, cost to obtain a business visa, etc., which are also found in other countries and are more in the form of Ease of Doing Business Issues.

The higher weightage for some parameters related to foreign entry and also the high number of parameters of a similar nature in some Policy Measures for different services have also resulted in India's STRI values being higher in many sectors.

There are some restrictions which can be streamlined by India, which can help in lowering the STRI score of many sectors and in turn in the total STRI of India. These include the legal obligation to communicate regulations to the public within a reasonable time prior to entry into force; adequate public comment procedure open to interested persons; cost to obtain a business visa which is US\$ 16770 for US Citizens. In many countries it is lower and for most of the countries it is below or around US\$ 100. This can be lowered for India which can help in facilitating business visitors. The fees could also be made uniform instead of varying depending on reciprocity as well as the country. In the case of cross border M&As, the New Companies Act prohibits any loan guarantee to subsidiaries of Indian companies outside India. Since this provision is likely to affect leveraged buyout by Indian companies outside India, there is a need to see if this can be relaxed.

Sector Specific Restrictions

Sector-wise restrictions include both the horizontal restrictions and sector specific restrictions. If the horizontal restrictions are segregated and only the contribution of sector specific restrictions to STRI are considered, then their contribution to STRI value would be much lower ranging from a high of 43.6% for Commercial Banking Services to a low of 0% for Computer and Engineering Services. The other

Sectors in which the sector specific restrictions to total STRI of the sector is low are Sound Recording, Motion Pictures, Road Freight Transport, Logistics Freight Forwarding, Logistics Storage and Warehousing and Logistics Custom Brokerage. In terms of numbers, the sector-specific restrictions are in single digit in the following sectors - Sound Recording, Broadcasting, Motion Pictures, Road Freight Transport, Logistics Freight Forwarding, Logistics Customs Brokerage, Logistics Storage and Warehousing and Courier Services. Thus, horizontal restrictions contribute greatly to the total STRI value in these sectors.

The analysis in this chapter shows that in all the sectors, the horizontal restrictions have a higher share in terms of value and also in terms of numbers. Out of total 1001 Restrictive Policy Measures found in all 22 sectors, 713 are Horizontal Policy Measures and 288 are sector specific Policy Measures. Thus, tackling the horizontal restrictions wherever possible can automatically lead to low STRIs in the different sectors.

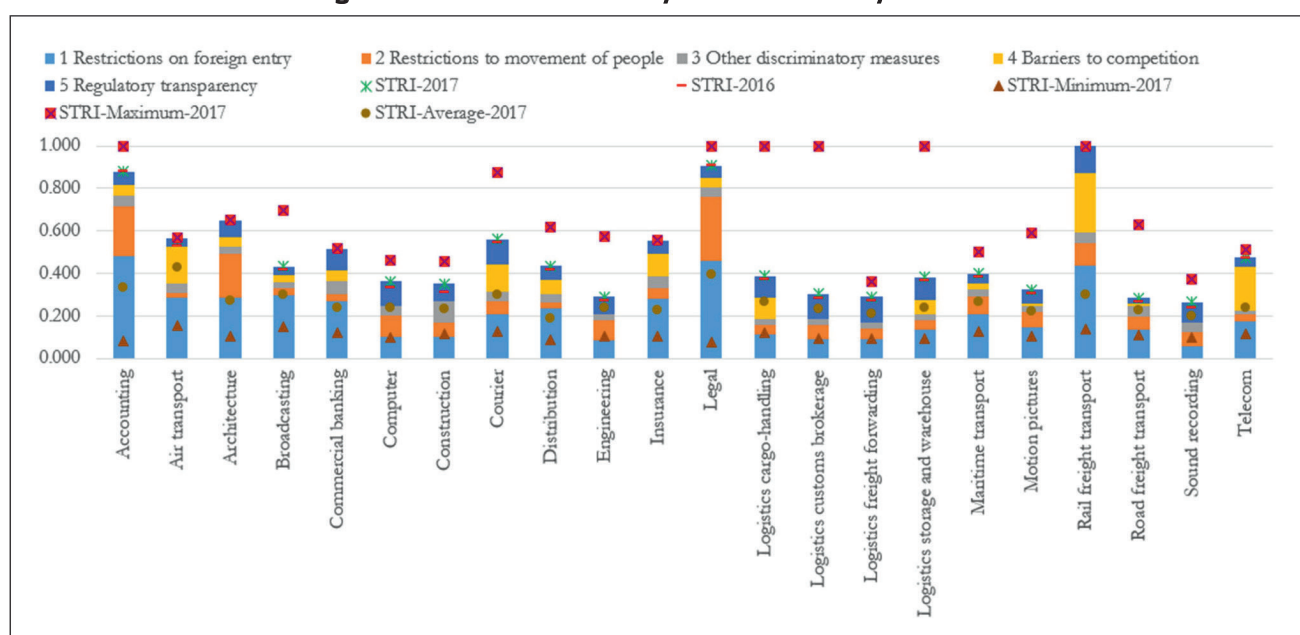
India's Services Trade Restrictions : Sector-Wise STRIs

STRIs by Sectors: Comparison with the other Countries in the Select 9

The STRI values by sectors and policy areas are given for the 22 sectors for India for the latest available year i.e. 2017 in Figure 2. The minimum, maximum and average STRI scores among the 44 countries in the OECD database are also given. India has a STRI score above average in all sectors and the highest in 3 services out of a total 7 services. Among the sectors, Rail Freight Transport has the highest STRI value (1), which is the maximum STRI value. The other two sectors with high STRI values are Legal Services (0.906) and Accounting Services (0.880).

Accounting services, legal services and rail freight transport, are the three sectors with the highest scores relative to the average as accounting and auditing are reserved for licensed accountants and auditors and a license is required to own and manage an accounting or an auditing firm and only

Figure 2 : India's STRI Score by Sector and Policy Area-2017



Note: The STRI indices take values between zero and one, one being the most restrictive.

Indian nationals may obtain a license; legal services, both national and international law, are reserved for licensed Indian lawyers; and railway operations are in the list of prohibited sectors and reserved for Indian Railways, a state-owned enterprise. The other services with STRI value above 0.5 are Architecture Services [0.651], Air Transport [0.563], Courier Services [0.560], Insurance [0.556] and Commercial Banking [0.517]. The lowest STRIs are in Sound Recording [0.267], Road Freight Transport [0.285], Engineering [0.290] and Logistics: Freight forwarding [0.290]. All these four sectors follow the automatic route upto 100 per cent equity share. Policy Area-wise, restrictions on foreign entry followed by restrictions to movement of people are the two major categories in most of the sectors.

A comparison of India's STRIs with the other countries in the Select 9 countries (USA and UK- Developed; Korea and Indonesia- ASEAN; and Brazil, Russia, China and South Africa- BRICS) for the different services sectors shows the following: **US** has relatively high STRI values in sectors like Air Transport, Courier Services and Maritime Transport and UK has relatively high STRI values in Air Transport and Accounting. But in most sectors for these two countries, the STRI Values are near or below average STRI of the sector. **Russia** has very high and maximum STRI values in Logistics: Cargo Handling, Logistics: Storage and Warehouse and Rail Freight Transport. It also has relatively high and maximum STRI values in Air Transport. **South Africa** has low STRI values in many sectors which are near or below average STRI. STRI values are relatively high only in sectors like Courier Services and Air Transport. **Korea** has very high and maximum STRI values in Accounting (which is higher than that of India) and Rail Freight Transport (similar to India). It has relatively high STRI values in Air Transport, Legal Services and Courier Services. But in many services, STRIs are at the minimum/below or near the average. **China** has high and maximum STRI values in Courier Services, Broadcasting and Motion

Pictures which are even higher than that of India. There are relatively high restrictions even in Air Transport, Insurance, Legal Services, Logistics/Cargo Handling, Maritime Transport and Telecom Services. Out of the 22 sectors, STRI values for China are lower than India in 15 sectors (viz Accounting, Air transport, Architecture, Commercial Banking, Computer, Construction, Distribution, Engineering, Insurance, Legal, Logistics: storage and warehouse, Rail freight transport, Road freight transport, Sound recording, and Telecom). However, China is considered to have many invisible barriers to services particularly related to low exchange rates, IPRs on technology, cross-border data flows, etc. **Brazil** has high and maximum STRI value in Air Transport and near to maximum STRI value in Commercial Banking. In Courier Services and Broadcasting also it is relatively high. But in most sectors, it is near or below the average. **Indonesia** has very high STRI values in Legal Services. It has high and maximum or near maximum STRI values in Distribution Services, Commercial Banking, Maritime Transport, Construction and Telecom. In Air Transport and Insurance also it is high. In terms of Policy Area, restrictions on foreign entry is the major restriction in all countries in most of the sectors followed by restriction to movement of natural persons. In developed countries like the US and UK, the contribution of the restrictions to movement of people to STRI is relatively high.

STRIs in Different Sectors in India

1. Accounting Services (Accountancy and Auditing): Auditing is subject to heavy regulations in most countries. In fact, all countries in the STRI database regulate the Auditing profession while Accounting is regulated in 25 out of 44 countries. The highest STRI value in the sector is for Korea [1.0] and Turkey [1.0] followed by India [0.88]. The lowest STRI value is for Chile [0.081]. A large portion of STRI measures are horizontal in nature with their contribution being 60.6% in terms of value and 60.8% in terms of numbers. In the Select 9 countries, India and Korea can

be classified as more restrictive with Korea having similar and same level of restrictions as India. Indonesia is another country with many restrictions which are also found in India. USA and UK are less restrictive. The two major policy areas with high STRIs in India are Policy Area 1: Restrictions on Foreign Entry and Policy Area 2: Restrictions to Movement of People.

2. Air Transport: The highest STRI value in this sector is for Norway [0.571], followed by Russia [0.570], Turkey [0.564], India [0.563] and USA [0.534]. Even these are of medium range compared to some other sectors. The lowest STRI value in this sector is in Chile [0.157] followed by Colombia [0.286]. In India, the share of horizontal contributions to total STRI of this sector is 66% in value terms and 64% in terms of numbers. Among the Select 9 countries, Russia has the highest STRI value in this sector followed by Brazil, India and USA. UK has the lowest STRI values among these countries in this sector. The two Policy Areas where the STRI Values are high for India are Policy Area 1: Restrictions on Foreign Entry and Policy Area 4: Barriers to Competition.

3. Architecture Services: The highest STRI value in this sector is for India [0.651] followed by the Slovak Republic [0.567], France [0.469] and Poland [0.439]. The lowest STRI values are for Latvia followed by Chile, Australia and the US. In this sector, the contribution of horizontal restrictions to total STRI of the sector is 69.8% in value terms and 73.5% in terms of numbers. Among the Select 9 countries, India has the highest STRI value in this sector distantly followed by Indonesia. Korea has the lowest STRI. Among the Select 9 countries, except India, all other countries fall in the low-medium range of STRI values. The highest STRI for India in this sector is mainly due to Restrictions on Foreign Entry [Policy Area 1] and Restrictions to Movement of People [Policy Area 2].

4. Broadcasting: The countries with highest restrictions in this sector with high STRI values are Colombia [0.698], China [0.678] and Mexico [0.643]. The lowest STRI values are for Latvia [0.148], Luxembourg [0.152], Lithuania [0.165], Netherlands [0.167], New Zealand [0.173] and UK [0.195]. India is in the medium range [0.434]. The major restrictions in this sector are the horizontal restrictions. The contribution of the horizontal restrictions to total STRI in this sector is 90.4% in value terms and 88.9% in terms of numbers. Among the Select 9 countries, China has the highest STRI in this sector followed by Brazil and India. UK has the lowest STRI. The major Policy Area in India in this sector with relatively high restrictions is the Restrictions on Foreign entry [Policy Area 1].

5. Commercial Banking: India has the highest STRI value [0.517] in the sector followed by Indonesia. The lowest STRI value is in Latvia [0.124] followed by Ireland [0.145], Spain [0.146] and Korea [0.148]. In India, the contribution of horizontal restrictions to total STRI value in this sector is 56.4% in value terms and 58% in terms of numbers. Among the Select 9 countries, India has the highest STRI value followed by Indonesia and Brazil. Korea followed by UK have the least restrictions. The high STRI value in this sector in India is mainly due to restrictions on foreign entry [Policy Area 1] and regulatory transparency [Policy Area 5].

6. Computer Services: The highest STRI Value in this sector is in Iceland [0.462] followed by India [0.364], Switzerland [0.350], Russia [0.328], Israel [0.321], Belgium [0.318] and China [0.309]. The lowest STRI Value is in Korea [0.100] followed by Latvia [0.114] and Chile [0.139]. In Computer Services, horizontal restrictions contribute almost 100% both in terms of value and numbers. Among the Select 9 countries, India has the highest STRI value followed by Russia and Indonesia. Korea has the lowest. While India has

few restrictions, countries like USA and UK have fewer restrictions with the STRI value of two developed countries, US [0.180] and UK [0.200] being lower than that of India. STRI Values are relatively low in India compared to other sectors and the major components contributing to India's STRI are Regulatory Transparency (Policy Area 5), Restrictions to Movement of People (Policy Area 2) and Restrictions on Foreign Entry (Policy Area 1).

7. Construction: In this sector, the highest STRI Value is for Iceland [0.454] followed by Indonesia [0.402], Ireland [0.356] and India [0.353]. Compared to other sectors STRI is low in this sector even for the countries with top STRIs. The lowest STRI is for Korea [0.125]. Horizontal restrictions contribute 67% of the total STRI in this sector in value terms and 69.2% in terms of numbers. Though India has relatively less restrictions in this sector and is broadly in line with other countries, among the Select 9 countries, India has the second highest STRI value in this sector after Indonesia. The STRI Values of India are mainly due to Restrictions on foreign entry (Policy Area 1) and Other Discriminatory Measures (Policy Area 3).

8. Courier Services: The highest STRI value in this service sector is for China [0.877] followed by India [0.560], Chile [0.486] and Israel [0.485]. The lowest STRI value is in Netherlands [0.128] followed by Germany [0.130]. In India, horizontal restrictions contribute 76.7% in terms of value and 70.5% in terms of numbers. India has the second highest STRI after China which has a very restrictive regime in this sector. All other countries in the Select 9 except UK are in the medium range in terms of STRI. Only UK has liberalized these services. The high STRI value in this sector in India is mainly due to Restrictions on Foreign Entry (Policy Area 1), Barriers to Competition (Policy Area 4) and Regulatory Transparency (Policy Area 5).

9. Distribution Services: The countries with the highest STRI values in this sector are Indonesia [0.621] followed by India [0.436]. The countries with least restrictions are Korea [0.089] followed by Latvia [0.090]. In this sector, the share of horizontal restrictions to total STRI is 55.2% in terms of value and 57.1% in terms of numbers. This implies that sector-specific restrictions are equally important in this sector. Among the Select 9 countries, the highest restrictions are in Indonesia, followed by India and China. While Indonesia has more restrictions than India, countries like US, UK, Korea, Brazil, Russia, South Africa have fewer restrictions than India. The restrictions are mainly in Policy Area 1 : Restrictions on foreign entry, particularly retail trade. In some parameters like number of sales outlets per firm, India has no restrictions, while USA, has it. In Policy Area 2: Restrictions to movement of persons, India has restrictions as is the case with most other countries.

10. Engineering Services: In Engineering services, the highest STRI values are for Slovak Republic [0.573] followed by Poland [0.432], Portugal [0.404] and Slovenia [0.390]. The lowest value is for Latvia [0.105] followed by Chile [0.113]. India is in the medium range [0.290], along with China [0.234] and Indonesia [0.265]. In this sector, the restrictions are only horizontal in nature, with the share of horizontal restrictions in total at 100% both in terms of value and numbers. Among the Select 9 countries, the highest STRI value in this sector is for India closely followed by Russia, Indonesia and Brazil. The lowest STRI is in Korea. In India, the restrictions are mainly in 3 Policy Areas, namely, Restriction to Movement of People (Policy Area 2), Restrictions on Foreign Entry (Policy Area 1) and Regulatory Transparency (Policy Area 5). There are no restrictions under Barriers to Competition (Policy Area 4).

11. Insurance: The highest STRI values in this sector are for India [0.556] followed by Indonesia [0.484], China [0.451] and Russia [0.442]. In India, the contribution of horizontal restrictions is 59.3% in terms of value and 56.3% in terms of numbers. This implies that the contribution of sector specific restrictions are equally important in this sector. This sector is a restricted sector in India. Among the Select 9 countries, India has the highest STRI value followed by Indonesia, China and Russia. Korea is the most liberal in the Select 9 countries with the lowest STRI value [0.105]. The major restrictions in India are under Restrictions on Foreign Entry (Policy Area 1) and Barriers to Competition (Policy Area 4).

12. Legal Services: The highest STRI value in this sector is in Luxembourg [1.0] and Poland [1.0] followed by India [0.906] and Indonesia [0.879]. The lowest STRI value is in Latvia [0.078]. In India, horizontal restrictions contribute around 61.7% to STRI in value terms and 63.5% in terms of numbers. India's legal services are highly restrictive. Among the Select 9 countries, USA, UK and Russia have less restrictions and India has the highest restrictions in Legal services followed by Indonesia. The very high values in this sector in India are mainly due to Policy Area 1: Restrictions on Foreign Entry and Policy Area 2: Restrictions to Movement of People.

13. Logistics – Cargo Handling: The highest restriction in this sector is in Russia [1.0] distantly followed by China [0.437] and Indonesia [0.423] and then India [0.389]. The lowest restriction is in Portugal [0.152] followed by Germany [0.153]. In this sector, the contribution of horizontal restrictions is around 72.7% in terms of value and 73% in terms of numbers. Among the Select 9 countries, Korea has the least restrictions followed by UK and USA. Russia, China and Indonesia have higher STRIs than India in this sector. In the

Indian case, the STRI values are relatively high in Policy Area 1: Restrictions on foreign entry, Policy Area 4: Barriers to competition and Policy Area 5: Regulatory transparency.

14. Logistics-Customs Brokerage: The highest STRI value in this sector is in Mexico [1.0] followed distantly by Iceland [0.374], Chile [0.346], Russia [0.334], Costa Rica [0.317], China [0.314] and India [0.303]. The lowest STRI values are in Latvia [0.094], followed by Korea [0.114] and UK [0.157]. Restrictions are relatively low in this sector in India compared to other sectors. The contribution of horizontal restrictions is high at 81.6% in terms of value and 80.8% in terms of numbers. Thus, there are very few sector specific restrictions. Among the Select 9 countries, the highest STRI is in Russia followed by China and then India. Korea followed by UK have the lowest STRIs. The Policy Areas with relatively higher STRI values for India are Policy Area 5: Regulatory transparency, Policy Area 1: Restrictions on foreign entry and Policy Area 2: Restrictions to movement of people.

15. Logistics - Freight Forwarding: STRI scores are low in this sector for all countries. The highest STRI value for this sector is in Iceland [0.360] followed by Indonesia [0.328], China [0.317], Costa Rica [0.307], Russia [0.294] and then India [0.290]. The lowest STRI is in Korea [0.116]. In this sector, the contribution of horizontal restrictions to total STRI is 86.3% in terms of value and 87.5% in terms of numbers. Thus, sector specific restrictions are few. Among the Select 9 countries, Indonesia, China and Russia have higher STRI values than India. Korea has the lowest values followed by UK. While the STRI value for India is low in this sector, the restrictions are mainly in Policy Area 5: Regulatory Transparency and Policy Area 1: Restrictions on Foreign Entry.

16. Logistics-storage and Warehouse: The highest STRI value in this sector is in Russia [1.0] distantly

followed by India [0.383]. The lowest STRI value is in Germany [0.141]. The share of horizontal restrictions in total STRI is 84.9% in terms of value and 85.3% in terms of numbers. Thus, the sector specific restrictions are few. Among the select 9 countries, Russia has the highest STRI Value distantly followed by India. However, in the Indian case, STRI value is not high compared to other sectors. The next highest STRI value is for Indonesia followed by China and Brazil. Korea has the lowest STRI value. The major Policy Areas contributing to the STRI values are Policy Area 1: Restrictions on Foreign Entry and Policy Area 5: Regulatory Transparency.

17. Maritime Transport: In this sector, the highest STRI values are for Indonesia [0.499] followed by China and Russia [0.405 for both], India [0.398] and then US [0.371]. The lowest STRI value is for Latvia [0.127] followed by Germany [0.176] and France [0.180]. In India, the contribution of horizontal restrictions to total STRI of this sector is 68.2% in value terms and 68.6% in terms of numbers. Among the Select 9 countries, Indonesia, China and Russia have higher STRI scores than India while USA has marginally lower STRI value. UK has the lowest STRI value among these countries. In the case of India, the major restrictions are in Policy Area 1: Restrictions to Foreign Entry and Policy Area 2: Restriction to Movement of People.

18. Motion Pictures: The highest STRI values in this sector are in China [0.591] followed by Iceland [0.376], India [0.325] and Russia [0.303]. The lowest STRI value is in Japan [0.105]. Horizontal restrictions contribute 87.9% in terms of value and 88.9% in terms of numbers. Thus, sector specific restrictions are few. Among the Select 9 countries, China has the highest restrictions. Other countries have much lower restrictions with India having the second highest STRI closely followed by Russia, Brazil and Indonesia. Korea

has the lowest STRI in this sector. The major policy areas contributing to India's STRI value in this sector are Policy Area 1: Restrictions on foreign entry, distantly followed by Policy Area 2: Restrictions to movement of people and Policy Area 5: Regulatory transparency.

19. Rail Freight Transport: India, Korea and Israel have the maximum and highest STRI value [1.0] in this sector, followed by Russia [0.994]. China has a low STRI value [0.286]. The lowest STRI value is in Australia [0.139] followed by the US [0.157]. In India, the contribution of horizontal restrictions to STRI in this sector is 73.8% in terms of value and 75.3% in terms of numbers. Thus, sector specific restrictions are less in this sector. Among the Select 9 countries, India and Korea have the highest and maximum STRI scores followed by Russia. All the other countries in this group have low STRI values in this sector, USA having the lowest followed by UK. The high STRI values in India are due to Policy Area 1 : Restrictions on foreign entry followed by Policy Area 4 : Barriers to Competition and Policy Area 2 : Restrictions to Movement of People.

20. Road Freight Transport: The highest STRI value is in Mexico [0.630], followed by Iceland [0.418] and Costa Rica [0.402]. The lowest STRI value is in South Africa and Australia [0.136 for both]. India also has a relatively low STRI value [0.285] in this sector. In India, the share of horizontal restrictions in total STRI is 87.8% in terms of value and 84% in terms of numbers. There are no major sector specific restrictions. Among the Select 9 countries, Indonesia has the highest STRI in this sector. Though India has a very low STRI in this sector, among the Select 9 countries, India has the second highest STRI followed by Russia. Korea has the lowest STRI among these countries. The major Policy Areas with restrictions are Policy Area 1: Restrictions on foreign entry followed by Policy Area 2: Restrictions to movement of people.

21. Sound Recording: The highest STRI value in this sector is in Iceland [0.372] followed by Italy [0.290], Belgium [0.288], Israel [0.282] and Switzerland [0.282]. The lowest STRI value is in Japan [0.107] followed by Korea [0.111]. India has a relatively low STRI value [0.267] in this sector. In India, the contribution of horizontal restrictions to total STRI is 91.8% in terms of value and 91.3% in terms of numbers. Thus, sector specific restrictions are very few. This sector is more open with few restrictions. While the STRI value in this sector of India is low, among the Select 9 countries, India has highest STRI value followed by China and Russia. Korea has the lowest STRI value among these countries. The contribution to the STRI value in this sector is mainly due to Policy Area 5: Regulatory Transparency followed by Policy Area 2: Restrictions to Movement of People & Policy Area 1: Restrictions to Foreign Entry.

22. Telecommunication: The highest STRI Value in this sector is in Indonesia [0.513] followed by India [0.475], Russia [0.437] and China [0.436]. The lowest STRI Value is in Denmark [0.114] followed by Ireland and US [0.124 for both]. Despite substantial liberalization in recent years, the sector continues to have relatively high restrictions compared to other countries. In India, the contribution of horizontal restrictions to total STRI in this sector is 64.8% in terms of value and 69.1% in terms of numbers. Among the Select 9 countries, Indonesia has the highest STRI value followed by India, Russia and China. USA has the lowest STRI value followed by UK. The relatively high STRI values in India for this sector are due to Policy Area 4: Barriers to Competition and Policy Area 1: Restrictions on Foreign Entry.

Mapping the STRIs: Sector-Wise

An attempt has been made to map the restrictions and classify them in each sector by using the data in OECDs STRI database. The contribution of Services

Trade Restrictions in terms of both Value and Number of Policy measures under each category of restrictions (HR, MR, LR and NR) for the 5 policy areas for all the 22 sectors are given in Table 1.

Inferences and Suggestions : General

Only 6 Sectors have Policy measures falling under HR. They are [1] Accounting Services, [2] Architecture Services [3] Courier Services, [4] Legal Services, [5] Rail Freight Transport and [6] Road Freight Transport. Except Road Freight Transport, all the other sectors are highly restricted sectors as indicated by the total STRI values of these sectors. HR Category appears 19 times [19 policy measures] across sectors under the 5 policy areas. In all these sectors, the Policy Measures under the HR Category fall mainly under Policy Area 1: Restrictions on Foreign Entry. In all these sectors, except Road Freight Transport, the Policy measures under HR category under Policy Area 1 are related to foreign equity restrictions. In the case of Road Freight Transport which actually has low total STRI values, the 6 Policy measures falling under HR are the restrictions like Managers and atleast one of the Board of Directors should be residents, conditions related to acquisition and use of land and real estate by foreigners and subsequent transfer of capital and investments, restrictions on cross-border M&As and cross-border data flows. None of these are considered as highly restrictive in other sectors and indicates a basic flaw in the OECD method of giving weights. Sometimes for the same Policy Measure with similar conditions, different weights are given. Leaving this exception, the high restrictions in these sectors are basically related to foreign equity restrictions. In Accounting and Legal Services, there is one policy measure falling under HR category, which is related to limitation on duration of stay of intra-corporate transferees. Here also the conditions are the same as in other sectors but the weightage given is higher. **Thus, the High Restrictions (HR) are mainly due to Foreign Equity restrictions. In Accountancy and Legal Services, out of the 84 and 81 policy measures, 5 restrictions under**

**Table 1 : Policy Measures and Contribution of India's STRIs (2017) :
Sector Wise and Policy Area Wise by Categories**

| Sector/ Policy Areas | Number of Policy Measures | | | | | STRI Contribution | | | |
|--------------------------------------|---------------------------|----------|-----------|-----------|-----------|-------------------|-------------|-------------|-------------|
| | Total | HR | MR | LR | NR | Total STRI | HR | MR | LR |
| Accounting services | | | | | | | | | |
| 1:Restrictions on foreign entry | 34 | 4 | 28 | | 2 | 0.48 | 0.16 | 0.32 | |
| 2:Restrictions to movement of people | 26 | 1 | 21 | | 4 | 0.24 | 0.02 | 0.22 | |
| 3:Other discriminatory measures | 7 | | | 7 | | 0.05 | | | 0.05 |
| 4:Barriers to competition | 7 | | | 6 | 1 | 0.05 | | | 0.05 |
| 5:Regulatory transparency | 10 | | | 7 | 3 | 0.06 | | | 0.06 |
| Accounting services Total | 84 | 5 | 49 | 20 | 10 | 0.88 | 0.18 | 0.54 | 0.16 |
| Air transport | | | | | | | | | |
| 1:Restrictions on foreign entry | 65 | | | 40 | 25 | 0.29 | | | 0.29 |
| 2:Restrictions to movement of people | 10 | | | 6 | 4 | 0.02 | | | 0.02 |
| 3:Other discriminatory measures | 9 | | | 6 | 3 | 0.04 | | | 0.04 |
| 4:Barriers to competition | 45 | | | 30 | 15 | 0.17 | | | 0.17 |
| 5:Regulatory transparency | 14 | | | 7 | 7 | 0.04 | | | 0.04 |
| Air transport Total | 143 | | | 89 | 54 | 0.56 | | | 0.56 |
| Architecture services | | | | | | | | | |
| 1:Restrictions on foreign entry | 29 | 1 | 22 | | 6 | 0.29 | 0.03 | 0.25 | |
| 2:Restrictions to movement of people | 18 | | 13 | | 5 | 0.21 | | 0.21 | |
| 3:Other discriminatory measures | 6 | | 3 | | 3 | 0.03 | | 0.03 | |
| 4:Barriers to competition | 7 | | 4 | | 3 | 0.04 | | 0.04 | |
| 5:Regulatory transparency | 10 | | 6 | | 4 | 0.08 | | 0.08 | |
| Architecture services Total | 70 | 1 | 48 | | 21 | 0.65 | 0.03 | 0.62 | |
| Broadcasting | | | | | | | | | |
| 1:Restrictions on foreign entry | 30 | | 16 | | 14 | 0.30 | | 0.30 | |
| 2:Restrictions to movement of people | 10 | | | 6 | 4 | 0.03 | | | 0.03 |
| 3:Other discriminatory measures | 19 | | | 3 | 16 | 0.02 | | | 0.02 |
| 4:Barriers to competition | 9 | | | 4 | 5 | 0.03 | | | 0.03 |
| 5:Regulatory transparency | 16 | | | 7 | 9 | 0.04 | | | 0.04 |
| Broadcasting Total | 84 | | 16 | 20 | 48 | 0.43 | | 0.30 | 0.14 |
| Commercial banking | | | | | | | | | |
| 1:Restrictions on foreign entry | 34 | | 22 | | 12 | 0.27 | | 0.27 | |
| 2:Restrictions to movement of people | 10 | | | 6 | 4 | 0.03 | | | 0.03 |
| 3:Other discriminatory measures | 14 | | | 7 | 7 | 0.06 | | | 0.06 |
| 4:Barriers to competition | 20 | | | 5 | 15 | 0.05 | | | 0.05 |
| 5:Regulatory transparency | 15 | | 10 | | 5 | 0.10 | | 0.10 | |
| Commercial banking Total | 93 | | 32 | 18 | 43 | 0.52 | | 0.37 | 0.14 |
| Computer services | | | | | | | | | |
| 1:Restrictions on foreign entry | 22 | | 7 | | 15 | 0.10 | | 0.10 | |
| 2:Restrictions to movement of people | 11 | | 6 | | 5 | 0.10 | | 0.10 | |
| 3:Other discriminatory measures | 5 | | 3 | | 2 | 0.04 | | 0.04 | |
| 4:Barriers to competition | 8 | | | | 8 | 0.00 | | | |
| 5:Regulatory transparency | 10 | | 6 | | 4 | 0.12 | | 0.12 | |
| Computer services Total | 56 | | 22 | | 34 | 0.36 | | 0.36 | |

**Table 1 : Policy Measures and Contribution of India's STRIs (2017) :
Sector Wise and Policy Area Wise by Categories (continued)**

| Sector/ Policy Areas | Number of Policy Measures | | | | | STRI Contribution | | | |
|--------------------------------------|---------------------------|----------|-----------|-----------|-----------|-------------------|-------------|-------------|-------------|
| | Total | HR | MR | LR | NR | Total STRI | HR | MR | LR |
| Construction | | | | | | | | | |
| 1:Restrictions on foreign entry | 24 | | 7 | | 17 | 0.10 | | 0.10 | |
| 2:Restrictions to movement of people | 16 | | 6 | | 10 | 0.07 | | 0.07 | |
| 3:Other discriminatory measures | 11 | | 7 | | 4 | 0.10 | | 0.10 | |
| 4:Barriers to competition | 8 | | | | 8 | 0.00 | | | |
| 5:Regulatory transparency | 10 | | 6 | | 4 | 0.08 | | 0.08 | |
| Construction Total | 69 | | 26 | | 43 | 0.35 | | 0.35 | |
| Courier services | | | | | | | | | |
| 1:Restrictions on foreign entry | 24 | 1 | 7 | 16 | | 0.21 | 0.02 | 0.11 | 0.08 |
| 2:Restrictions to movement of people | 11 | | | 11 | | 0.06 | | | 0.06 |
| 3:Other discriminatory measures | 5 | | 4 | 1 | | 0.05 | | 0.04 | 0.00 |
| 4:Barriers to competition | 21 | | 6 | 15 | | 0.13 | | 0.07 | 0.06 |
| 5:Regulatory transparency | 17 | | 7 | 10 | | 0.12 | | 0.08 | 0.04 |
| Courier services Total | 78 | 1 | 24 | 53 | | 0.56 | 0.02 | 0.30 | 0.24 |
| Distribution services | | | | | | | | | |
| 1:Restrictions on foreign entry | 30 | | 17 | | 13 | 0.23 | | 0.23 | |
| 2:Restrictions to movement of people | 10 | | | 6 | 4 | 0.03 | | | 0.03 |
| 3:Other discriminatory measures | 11 | | | 5 | 6 | 0.04 | | | 0.04 |
| 4:Barriers to competition | 21 | | 7 | | 14 | 0.07 | | 0.07 | |
| 5:Regulatory transparency | 16 | | | 7 | 9 | 0.06 | | | 0.06 |
| Distribution services Total | 88 | | 24 | 18 | 46 | 0.44 | | 0.30 | 0.13 |
| Engineering services | | | | | | | | | |
| 1:Restrictions on foreign entry | 29 | | 7 | | 22 | 0.08 | | 0.08 | |
| 2:Restrictions to movement of people | 18 | | 6 | | 12 | 0.10 | | 0.10 | |
| 3:Other discriminatory measures | 6 | | | 3 | 3 | 0.03 | | | 0.03 |
| 4:Barriers to competition | 7 | | | | 7 | 0.00 | | | |
| 5:Regulatory transparency | 10 | | 6 | | 4 | 0.08 | | 0.08 | |
| Engineering services Total | 70 | | 19 | 3 | 48 | 0.29 | | 0.26 | 0.03 |
| Insurance | | | | | | | | | |
| 1:Restrictions on foreign entry | 67 | | 3 | 37 | 27 | 0.28 | | 0.04 | 0.24 |
| 2:Restrictions to movement of people | 16 | | | 8 | 8 | 0.05 | | | 0.05 |
| 3:Other discriminatory measures | 15 | | | 8 | 7 | 0.05 | | | 0.05 |
| 4:Barriers to competition | 26 | | | 17 | 9 | 0.10 | | | 0.10 |
| 5:Regulatory transparency | 13 | | | 7 | 6 | 0.07 | | | 0.07 |
| Insurance Total | 137 | | 3 | 77 | 57 | 0.56 | | 0.04 | 0.52 |

**Table 1: Policy Measures and Contribution of India's STRIs (2017) :
Sector Wise and Policy Area Wise by Categories (continued)**

| Sector/ Policy Areas | Number of Policy Measures | | | | | STRI Contribution | | | |
|----------------------------------------------|---------------------------|----------|-----------|-----------|-----------|-------------------|-------------|-------------|-------------|
| | Total | HR | MR | LR | NR | Total STRI | HR | MR | LR |
| Legal services | | | | | | | | | |
| 1:Restrictions on foreign entry | 36 | 4 | 30 | | 2 | 0.46 | 0.15 | 0.31 | |
| 2:Restrictions to movement of people | 22 | 1 | 20 | | 1 | 0.31 | 0.03 | 0.28 | |
| 3:Other discriminatory measures | 6 | | | 6 | | 0.04 | | | 0.04 |
| 4:Barriers to competition | 7 | | | 6 | 1 | 0.04 | | | 0.04 |
| 5:Regulatory transparency | 10 | | | 7 | 3 | 0.06 | | | 0.06 |
| Legal services Total | 81 | 5 | 50 | 19 | 7 | 0.91 | 0.17 | 0.59 | 0.14 |
| Logistics cargo-handling | | | | | | | | | |
| 1:Restrictions on foreign entry | 25 | | 9 | | 16 | 0.11 | | 0.11 | |
| 2:Restrictions to movement of people | 10 | | | 6 | 4 | 0.04 | | | 0.04 |
| 3:Other discriminatory measures | 6 | | | 3 | 3 | 0.03 | | | 0.03 |
| 4:Barriers to competition | 22 | | 10 | | 12 | 0.10 | | 0.10 | |
| 5:Regulatory transparency | 24 | | 9 | | 15 | 0.10 | | 0.10 | |
| Logistics cargo-handling Total | 87 | | 28 | 9 | 50 | 0.39 | | 0.32 | 0.07 |
| Logistics customs brokerage | | | | | | | | | |
| 1:Restrictions on foreign entry | 22 | | 6 | | 16 | 0.09 | | 0.09 | |
| 2:Restrictions to movement of people | 12 | | | 8 | 4 | 0.07 | | | 0.07 |
| 3:Other discriminatory measures | 7 | | 3 | | 4 | 0.03 | | 0.03 | |
| 4:Barriers to competition | 9 | | | | 9 | 0.00 | | | |
| 5:Regulatory transparency | 25 | | 9 | | 16 | 0.12 | | 0.12 | |
| Logistics customs brokerage Total | 75 | | 18 | 8 | 49 | 0.30 | | 0.24 | 0.07 |
| Logistics freight forwarding | | | | | | | | | |
| 1:Restrictions on foreign entry | 24 | | 6 | | 18 | 0.09 | | 0.09 | |
| 2:Restrictions to movement of people | 10 | | | 6 | 4 | 0.05 | | | 0.05 |
| 3:Other discriminatory measures | 7 | | 3 | | 4 | 0.03 | | 0.03 | |
| 4:Barriers to competition | 8 | | | | 8 | 0.00 | | | |
| 5:Regulatory transparency | 24 | | 9 | | 15 | 0.12 | | 0.12 | |
| Logistics freight forwarding Total | 73 | | 18 | 6 | 49 | 0.29 | | 0.24 | 0.05 |
| Logistics storage and warehouse | | | | | | | | | |
| 1:Restrictions on foreign entry | 26 | | 10 | | 16 | 0.14 | | 0.14 | |
| 2:Restrictions to movement of people | 10 | | | 6 | 4 | 0.05 | | | 0.05 |
| 3:Other discriminatory measures | 7 | | | 3 | 4 | 0.03 | | | 0.03 |
| 4:Barriers to competition | 14 | | 6 | | 8 | 0.07 | | 0.07 | |
| 5:Regulatory transparency | 24 | | 9 | | 15 | 0.11 | | 0.11 | |
| Logistics storage and warehouse Total | 81 | | 25 | 9 | 47 | 0.38 | | 0.31 | 0.07 |
| Maritime transport | | | | | | | | | |
| 1:Restrictions on foreign entry | 31 | | 12 | | 19 | 0.21 | | 0.21 | |
| 2:Restrictions to movement of people | 11 | | 7 | | 4 | 0.09 | | 0.09 | |
| 3:Other discriminatory measures | 8 | | | 5 | 3 | 0.03 | | | 0.03 |
| 4:Barriers to competition | 14 | | | 4 | 10 | 0.03 | | | 0.03 |
| 5:Regulatory transparency | 14 | | | 7 | 7 | 0.04 | | | 0.04 |
| Maritime transport Total | 78 | | 19 | 16 | 43 | 0.40 | | 0.29 | 0.10 |
| Motion pictures | | | | | | | | | |
| 1:Restrictions on foreign entry | 28 | | 10 | | 18 | 0.15 | | 0.15 | |
| 2:Restrictions to movement of people | 11 | | 6 | | 5 | 0.07 | | 0.07 | |
| 3:Other discriminatory measures | 16 | | 3 | | 13 | 0.03 | | 0.03 | |
| 4:Barriers to competition | 9 | | | 1 | 8 | 0.01 | | | 0.01 |
| 5:Regulatory transparency | 15 | | | 7 | 8 | 0.07 | | | 0.07 |
| Motion pictures Total | 79 | | 19 | 8 | 52 | 0.33 | | 0.25 | 0.08 |

**Table 1 : Policy Measures and Contribution of India's STRIs (2017) :
Sector Wise and Policy Area Wise by Categories (continued)**

| Sector/ Policy Areas | Number of Policy Measures | | | | | STRI Contribution | | | |
|--------------------------------------|---------------------------|----------|-----------|-----------|-----------|-------------------|-------------|-------------|-------------|
| | Total | HR | MR | LR | NR | Total STRI | HR | MR | LR |
| Rail freight transport | | | | | | | | | |
| 1:Restrictions on foreign entry | 27 | 1 | 26 | | | 0.43 | 0.06 | 0.38 | |
| 2:Restrictions to movement of people | 11 | | 3 | 8 | | 0.11 | | 0.05 | 0.06 |
| 3:Other discriminatory measures | 6 | | | 6 | | 0.05 | | | 0.05 |
| 4:Barriers to competition | 18 | | 18 | | | 0.28 | | 0.28 | |
| 5:Regulatory transparency | 11 | | 11 | | | 0.13 | | 0.13 | |
| Rail freight transport Total | 73 | 1 | 58 | 14 | | 1.00 | 0.06 | 0.83 | 0.11 |
| Road freight transport | | | | | | | | | |
| 1:Restrictions on foreign entry | 23 | 6 | | | 17 | 0.13 | 0.13 | | |
| 2:Restrictions to movement of people | 11 | | | 7 | 4 | 0.07 | | | 0.07 |
| 3:Other discriminatory measures | 6 | | 3 | | 3 | 0.05 | | 0.05 | |
| 4:Barriers to competition | 12 | | 1 | | 11 | 0.01 | | 0.01 | |
| 5:Regulatory transparency | 14 | | | 8 | 6 | 0.03 | | | 0.03 |
| Road freight transport Total | 66 | 6 | 4 | 15 | 41 | 0.28 | 0.13 | 0.06 | 0.09 |
| Sound recording | | | | | | | | | |
| 1:Restrictions on foreign entry | 25 | | | 7 | 18 | 0.06 | | | 0.06 |
| 2:Restrictions to movement of people | 11 | | 6 | | 5 | 0.07 | | 0.07 | |
| 3:Other discriminatory measures | 14 | | 3 | | 11 | 0.05 | | 0.05 | |
| 4:Barriers to competition | 11 | | | | 11 | 0.00 | | | |
| 5:Regulatory transparency | 15 | | 7 | | 8 | 0.10 | | 0.10 | |
| Sound recording Total | 76 | | 16 | 7 | 53 | 0.27 | | 0.21 | 0.06 |
| Telecommunication | | | | | | | | | |
| 1:Restrictions on foreign entry | 36 | | | 19 | 17 | 0.18 | | | 0.18 |
| 2:Restrictions to movement of people | 11 | | | 6 | 5 | 0.03 | | | 0.03 |
| 3:Other discriminatory measures | 5 | | | 3 | 2 | 0.02 | | | 0.02 |
| 4:Barriers to competition | 40 | | | 21 | 19 | 0.21 | | | 0.21 |
| 5:Regulatory transparency | 12 | | | 6 | 6 | 0.05 | | | 0.05 |
| Telecommunication Total | 104 | | | 55 | 49 | 0.48 | | | 0.48 |

Source: Computed from OECD STRI database

Note: Here the STRIs have been divided into 4 categories based on the binary scores as follows. No Restrictions [NR] [STRI Value=0], Low Restrictions [LR] [0<STRI Value <= 0.0099], Medium Restrictions [MR] [0.0099 < STRI Value<=0.0199] and High Restrictions [HR] [0.0199 < STRI Value]

HR Category contribute around one fifth of the total STRI Value in these sectors. In Architecture Services and Courier Services and Rail Freight Transport there is only one policy measure under HR.

Leaving the No Restrictions (NR) Category, the bulk of the restrictions in most of the sectors fall under MR. Only in Air Transport and Telecommunications, there are no policy measures under MR Category and all policy measures with restrictions are in LR Category. In Computer Services, all the policy measures with restrictions fall under the MR Category only. In terms of contribution to STRI Value, bulk of the contributions are from MR

Category in most sectors. Leaving the NR category where there are no restrictions, Policy Area-wise, bulk of the Policy measures in most of the sectors fall under Policy Area 1 : Restrictions on Foreign Entry and Policy Area 2: Restrictions to Movement of People under the MR and HR Categories and many are horizontal restrictions. In general, horizontal measures in all sectors wherever possible need to be considered for liberalization.

Inferences and Suggestions: Sector-Wise

Accountancy: Most of the restrictions under different Policy Measures including Foreign equity restrictions are due to only one condition

that only locally licensed individuals i.e. CAs can practice in India. Because of this condition there are restrictions under many parameters. There is a need to see whether this condition can be relaxed. There is a need to see if foreign auditors or accountants can be allowed to provide services in India not just on a short-term basis through limited licensing, but based on certain criteria. There are restrictions under many policy measures because of the condition that corporation is prohibited in the case of this sector. Commercial association between accountants and auditors is prohibited. Commercial association is possible only with locally licensed CAs. Reforms in this area are needed particularly if India wants to make accounting and auditing a major area for exports. There are also restrictions relating to recognition of foreign degrees. While this is on a reciprocity basis, foreigners can completely redo the University degree, exam and compulsory practice in India. This is another area which can be considered for reforms. While Internal Audit and Concurrent Audit can be considered for liberalization, Financial Accounting and Management reports may not be considered for liberalization at present taking into account the regulatory angle.

Air Transport : One major area of liberalization is related to disinvestment of Air India which is now being considered by the Government. Rationalization of slot allocation is another area of reforms, as at present it is on the basis of historic rights. While pricing regulation is there on certain domestic routes under UDAN scheme, this cannot be considered as a restriction as it serves a social obligation. There is also a need to modify the OECD methodology where the same or similar parameter appears again and again adding to the STRI value as in the case of slot selection. If some parameters are clubbed and social welfare measures not considered as restrictions then, STRI of India will fall substantially in this sector.

Architecture services : The major restriction in this sector is that only locally licensed individuals i.e. 'Architect' shall become partners and hold equity shares in Architect firms and the nationality condition that no person other than a citizen of India shall be entitled to practice as an architect in India. There is a need to consider relaxation in this condition instead of giving just a temporary license for a specific project as a consultant or designer as at present. There is also a condition related to recognition of qualifications as there are no established procedures for individual applications from Indian or foreign applicants to recognize degrees earned from other universities. There are conditions like need to take local exams and completely redo the university degree to practice in India. There is a need for reforms in this area. In India there is also a condition prohibiting Architects from advertising professional services or allowing the name to be included in advertisement or to be used for publicity purposes. There is a need to see whether this condition could be relaxed.

Broadcasting : The major restriction in this sector is that terrestrial television is monopolized. However, this restriction is also found in other countries as well and may be needed due to various concerns. However, exemption to Prasar Bharati from tax on income is affecting the competition of private players. There is a need to see whether this disparity can be removed. There is also a condition to allow registering of only one copyright society to do business with respect to same class of works. There is a need to see if this condition can be relaxed. Some issues related to FM Radio Broadcasting include the issue of removal/reduction of minimum reserve price for Phase 3 auctions; freedom of airing news/current affairs other than exact rebroadcast of AIR citing serious security issue as India is perhaps the only free democracy in the world today wherein news on radio is not allowed; allowing Sports Broadcast

as currently only local sport events can be covered by private FM and National and international events are barred; and equating national caps of 15% with the city caps of 40%. which is forcing many larger operators to focus on larger metros, ignoring smaller towns.

Commercial Banking : There are many restrictions in Banking sector. While reforms are needed in this sector, given the experience of sub prime crisis in the recent past, careful analysis is needed while relaxing restrictions in this sector. Regarding Foreign Equity, at present 74% foreign equity investment is allowed of which 49% is through the automatic route and remaining through the government route. There is a need to see whether this can be relaxed by allowing the full 74% foreign equity through automatic route, given the fact that the performance of private sector banks is better than public sector banks with PSBs contributing 86.14% of the total NPAs of SCBs in 2017-18; and also the fact that the public sector banks are being strengthened by mergers. Regarding licensing requirements, the criteria says that relevant forms needed for licenses are annexed to banking regulation 3 of the scheme for Wholly Owned Subsidiaries (WOS). However, it states that these criteria are minimum and not an exhaustive list and the final decision will be that of RBI. Licensing procedures can be streamlined. In the case of commercial presence for deposit taking and payment services, there is the condition that only after 5 years of operation, a bank can be fully owned by a foreign entity. This can possibly be reduced to, say, 3 years. Regarding screening of investment, Public interest test must be mandatorily undertaken by Reserve Bank of India keeping in view the larger economic benefits for the development of the country. At present it is done by the RBI, but is not a requirement. Though this is a restriction, this is needed from the regulatory angle. Regarding the supervisor having authority over licensing and enforcement of prudential measures, RBI should continue to have full autonomy in this respect.

Regarding branch authorization policy, foreign banks are required to submit their internal branch expansion plans on an annual basis. There are also many conditions related to it including opening branches in unbanked areas. Foreign banks are also subject to the special expansion criteria. This is an area to be examined for reforms also keeping in mind the social concerns. Regarding branch network, in order to promote e-payments, the number of ATMs in unbanked and rural areas can be increased and bank-wise areas need to be adopted for area of operation. Regarding duration of stay for contractual and independent services suppliers, employment visa can be increased from the present 2 years to 3 years as in the case for IT experts.

Computer Services : Restrictions are few in this sector despite India being on the top of STRI restrictions for this sector. This is evidenced by the fact that businesses from across the world make a beeline to set up their operations in India. Since almost all the restrictions are horizontal restrictions, further liberalization of the sector can be possible only by addressing any relevant restrictions in horizontal restrictions area. Generally speaking, all aspects in computer services can be liberalised, excluding sensitive areas like security (CERT-IN etc.), entities handling and processing direct benefits transfer, entities holding biometric data of citizens etc. The step being taken by India to insist that all data must reside on servers located in India is a good decision. While this may be viewed as restrictive, it is a pattern that most developed countries follow. Some other aspects that can be considered for liberalising or enhancing the Ease of Doing Business could include permitting the entire Board of Directors for newly incorporated companies to be non-residents for a finite period initially, say 12 months. Upon completion of this time window, the entity should comply with the requirement of at least one director being a resident. Other measures include fast-tracking approvals for completing mandatory processes for setting up a company and

easing the acquisition of land by entities setting up operations in the computer services segment, while excluding the currently identified 7 countries.

There is a need to address the issues of taxation for start-ups which is resulting in these entities registering themselves in other countries which offer a favourable treatment. For example, the differential treatment on capital gains from unlisted shares between residents and non-residents. There is also a need for rationalization of classification of parameters used by OECD particularly for Computer Services as there are several STRI's that are ambiguous and / or their impact in terms of restrictions is not evident. For example, while it is stated that Visa Fees are determined on the basis of reciprocity, an absolute value for Visa Fees is also given and an evaluation is done against that absolute value. Also, for the IT industry [which includes computer services] normally multiple entry Business Visas are granted for 36 months, while for other sectors, they may be restricted to 12 months. For India, a generalisation has been taken at 12 months, and scored as "Restrictive" [scored "1"] whereas for USA, which also issues business Visas initially for 36 months, extendable upto 6 years, it has been scored as "Open" [scored as "0"]. Thus, there is a need to streamline the evaluation system of OECD by making it less subjective. The method of weighting and calculating STRI value by OECD also needs to be streamlined as it is a bit skewed failing to differentiate between the difference in the quality of restrictions. STRIs have also not adequately taken into account issues like non-tariff trade barriers mandating a minimum salary level (as UK and USA do for the IT industry); the Immigration Skills Charge [introduced recently by UK]; the Data Protection and Privacy Rules in EU; and the complete lack of progress with regard to the Indo-US Totalisation treaty, under which India continues to pay billions of dollars to the US, without any benefit for its citizens, who are deputed to work in the US on H1B visas, etc.

Construction : In Construction sector also, liberalization can mainly take place by liberalizing horizontal restrictions. Under public procurement, there is a condition of past experience of completion of work with any government in order to qualify for enlistment in government approved contracts. This measure prevents foreign firms to qualify for government projects in the beginning as their global project execution capabilities are not considered. This needs to be considered for liberalization. In the case of building design code standards and construction product standards, the National Building code provides standards for building construction in India wherein reference to International standards is not made. There is a need to adopt international standards.

Courier Services : The Courier Services in India has many restrictions which are due to the existence of a dominant Government player, India Posts and Government's role in fixing rates for postage, etc. Though foreign investment is allowed in courier services under the automatic route, activity relating to distribution of letters is excluded and reserved for India Posts. There is a need to open up even this activity for private players. Major reforms are needed in the case of India Posts, including streamlining subsidies given to India Post. At present, India Posts with huge infrastructure is not fully utilized, though of late, Post Offices are catering to some social reforms activities of the government. Given the fast pace at which communications are changing, it is high time to make major reforms in this sector by even disinvesting. There is also a need to see how the large infrastructure of the post offices including the buildings can fetch handsome revenue for the government.

Distribution Services : This sector is one of the sectors with many restrictions in India, next only to Indonesia, despite many recent policy reforms. Foreign equity cap is the major restriction in retail trade though it is not there for wholesale trade.

There are different conditions for different forms of distribution services like cash and carry wholesale trading, e-commerce activities, single-brand product retailing and multi-brand product retailing.

In Wholesale Trading, Cash and Carry Wholesale is the most liberal segment with no foreign ownership restrictions throughout India. However, if the retailer has a foreign owner, e-commerce is allowed only for business to business (B2B) transactions, and only for so-called marketplace e-commerce, where the trader does not hold inventory. B2B marketplace e-commerce traders may not source more than 25% of sales from one vendor. FDI is not permitted in inventory-based e-commerce, where a vendor sells on his own account.

While FDI in single brand retail is allowed 100%, automatic upto 49% and government route beyond 49%, there are many conditions like products should be single brand only and should be sold under the same brand internationally. In respect of proposals involving foreign investment beyond 51%, sourcing of 30% of the value of goods purchased, needs to be done from India, preferably from MSMEs, village and cottage industries, artisans and craftsmen, in all sectors. Sourcing norms will not be applicable upto three years from commencement of the business i.e. opening of the first store for entities undertaking single brand retail trading of products having 'state-of-art' and 'cutting-edge' technology and where local sourcing is not possible. Since there have not been major negative effects, since this policy has been implemented, there is a need to consider relaxation of some conditions related to single brand retail to encourage foreign investment and trade.

In Multi Brand Retail Trading, FDI upto 51% is allowed through the Government route. However, there are the conditions like minimum FDI by foreign investor of US \$100 million and at least 50% of the total FDI in the first tranche of US\$100 million should be invested in back-end infrastructure within 3 years; at least 30% sourcing from MSMEs; retail sales outlet to be

set up in cities with a population of more than 10 lakhs; State Governments would be free to take their own decisions in implementing; and retail trading by means of e-commerce is prohibited. Now it is time to further liberalize the sector by relaxing some of the conditions and allowing multi brand retail trade even in tier 2 and tier 3 cities/towns. However, care should be taken to modernize the kirana shops (Mom and Pop Shops). The new e-commerce norms which prohibits selling of certain products by Amazon, Flipkart, etc. is a new form of restriction which OECD may consider in the STRI in the future. The new e-commerce policy restricts discounts, no ownership by sellers on the market place platform and disallowing exclusive product launches which has affected Amazon India and Flipkart operations.

Some other suggestions for this sector include the following. There is a need to implement the Model shops and Establishments Act which enables states to choose to keep shops and other establishments open 24x7 all through the year. Only Maharashtra has adopted it by making suitable amendments in its Act. Other states need to be encouraged to follow suit. Metrology Act and rules should be amended to ensure that pre-packed commodities should strictly follow the definition of pre-package. There is also a need for E-enablement of small retailers by encouraging them to prepare themselves for GST ecosystem and accept digital payments with a higher level of compliance.

Engineering Services : India has relatively few restrictions in the Engineering sector and does not even have the restrictions found in other countries like licensing and fee setting. Despite this, its STRI value in this sector is higher than that of other countries. Due to the general regulatory environment and being a skilled-labour intensive sector, restrictions on movement of people carry a high weight in the index for this sector. While horizontal restrictions automatically add to the STRI score of the sector, the method of weighting the parameters by OECD also needs a relook. While there are few

restrictions in this sector, there is infact a need for the Engineering Bill which streamlines many of the procedures, to be passed in the Parliament. In India, there are also no thresholds above which tender is mandated for services. In the case of goods it is Rs. 25 lakhs. Industry feels that in the case of engineering sector, the threshold can be Rs. 50 lakhs. Another suggestion is to have online system in the case of both tendering and also obtaining construction permits. While there is no need to have a license to provide these services in India, there is a need to consider imposing the condition that Board of Directors and Managers should have a professional license from an organization which has the authority to give license in this profession. Most of the other countries have this condition. Since this sector is less restrictive than other countries, there is also a need to work out reciprocal arrangements.

Insurance : Insurance is one of the highly regulated sectors in India. The major restrictions are related to foreign equity restrictions. Foreign equity is allowed upto 49% through the automatic route. But foreign branches are also not allowed in this sector. Licenses are needed and subject to economic needs tests and commercial presence is needed to do insurance business. There is however the condition that all insurance companies should be Indian controlled. The IRDA has come out with the conditions like mandatory requirement that majority of directors be Indians and requirements on how key management persons are to be appointed. There is a need to examine these conditions for relaxation. There is also the presence of public controlled firms like the LIC and GIC and Government equity cannot be less than 51% in these public sector firms. There is a need for careful examination regarding liberalization of these public sector units as there are many social obligations for a developing country like India.

Though Re-insurance is more open than other forms of insurance in India for foreign countries and cross-border re-insurance is allowed, IRDAI

regulations require that Indian reinsurers be given a mandatory first order of preference. Even the re-insurance expert committee of IRDAI has noted concerns about this. This needs to be examined and addressed. India is liberal in actuarial services as is the case with all other countries and there is good scope for exports of actuarial services. There is a need to consider opening up some segments of insurance like health insurance to foreign players. Another restriction that needs to be liberalized is related to approval of new products and services where confirmation in writing is needed from IRDA that there are no further queries. The condition of ceding a percentage of the reinsurance policy to GIC is another area where changes may be considered.

Legal Services : This is a highly restricted sector and 5 parameters fall under the HR category mainly because Foreign law firms are not permitted to establish business in India and thus no foreign equity is allowed. The membership of the Bar Council of India (BCI) is mandatory to practice law in India. In India, legal services, both national and international law can be provided and law firms can be setup only by licensed Indian lawyers who are Indian nationals or citizens. Corporations are not permitted in this sector and lawyers are not allowed to enter into partnerships or associate with other professions or foreign lawyers. However foreign lawyers can come on temporary license on fly-in fly-out basis. All countries in the STRI database have restrictions similar to India for domestic law, but not in international law, which is more open. In 2016, BCI draft rules proposed opening Indian market to non-litigation services (i.e., services in foreign and international law) and advisory and other services relating to domestic law. This proposal was later rescinded. There is a need to consider opening up of legal services atleast in foreign and international law. The restriction of disallowing Indian lawyers to enter into partnerships or associate with other professions or foreign lawyers could also be considered for relaxation. Another area of liberalization is related

to relaxing the condition prohibiting hiring of locally licensed lawyers by foreign firms. If this is relaxed, it can even help in export of India's legal services. Relaxing the rules related to advertisement at least in a limited way can also be thought of. In India, the major restrictions are in Policy Area 1, particularly the four parameters related to foreign investment. Any liberalization in these parameters can automatically lead to lower STRI values under other parameters as well. While doing this, there is a need to see whether some parameters which are not restricted now may need to have some restrictions. For example, there is no screening of foreign investment now as foreign equity is not allowed. But if foreign equity investment is allowed, screening may be needed.

Logistics Services : There are 4 categories of logistics services - cargo handling, customs brokerage, freight forwarding and storage & warehouse. There are few restrictions in all these services in India. The major restrictions are horizontal in nature and reforms related to horizontal restrictions can automatically lead to further opening up of these services. One major area of reform in the case of cargo handling is related to the control by Government through one major public sector firm in Air, Rail and Sea Cargo. There is a need to consider liberalization and have more competition at least internally to begin with, by privatization of some activities. In some parameters like separation of accounts, cross-subsidization, etc., while there is no restriction, explicitly mentioning that there is no restriction can help in removing their contribution to STRI values. Procedural issues related to Ease of Doing Business is another immediate area to be tackled in this sector. In Logistics-Cargo handling in some parameters like separation of accounts, cross-subsidization, etc. while there is no restriction, explicitly mentioning that there is no restriction can help in removing their contribution to STRI values.

Maritime Transport : There are both horizontal and sector-specific restrictions in this sector. As

pointed out by service providers these are to gain employment for Indian seamen and shipping assets, and ensure minimum supply chain assuredness for India. The rules as can be seen are not discriminatory against the foreign seaman or foreign shipping assets and restrictions are only in paper and not in practice. Cargo reservation is, in fact, practiced in the EU and USA. Most of the restrictions under MR category are due to horizontal restrictions. While there are no restrictions in India on maximum foreign equity share allowed as in China, Korea and Indonesia, there is the restriction on proportion of shares that can be acquired by foreign investors in publicly controlled firms due to the presence of SCI. Strategic concerns and monopolistic policies of Liners should be taken note of while taking any decision on disinvestment in SCI.

In the maritime sector, on ground, India has the least restrictions as around 96% of EXIM trade and 28% of coastal cargo are carried by foreign ships. While in USA, China and Indonesia there are restrictions like Foreign-flagged ships being fully excluded from cabotage without any exception, in India it is not fully restrictive and Foreign-flagged ships are allowed in cabotage if no Indian ships are available. The cabotage rules are only in paper and recent changes in policy have given privileges to foreign ships. Some of the restrictions are also found in other countries though not so explicit in some. Besides there are subsidies and condition of use of national ships by other countries. There is also the issue of monopolistic practices by the Liner shipping companies. India is a victim of predatory pricing and monopolistic behaviour of the international container shipping companies. Their pricing tactics render Indian exports uncompetitive but they don't find mention in STRIs of any country. Possibly they fall under no man's land! Port tariffs are not discriminatory but based on the government's stated goal that there is a need to induce a modal shift of cargo from road and rail to sea and hence the discounted fares to Indian ships.

Motion Pictures : There are few restrictions in this sector. The major restriction in this sector is related to the proportion of shares that can be acquired by foreign investors in the public controlled firm NFDC, which is entirely owned by the government. There is a need to examine whether complete Government control is needed in a public sector institution in film industry. Another policy measure to be considered in this sector is related to lowering import duties on instant print film. There is a statutory monopoly on copyrights management with the central government not ordinarily registering more than one copyright society to do business in respect of the same class of works. There is a need to consider relaxing this condition.

Rail Freight Transport : This sector is one of the highly restrictive sectors. The two important restrictions are related to Foreign Investments in train operation services being disallowed and monopoly by a government owned company, i.e. Indian Railways which is fully government owned. These two restrictions have a cascading effect on other policy measures, automatically leading to STRI scores in other measures as well. Since the restrictive policy is affecting this sector, there is a need to seriously examine liberalization in this sector. Even if the government has reservations in opening train operation services for foreign investment, atleast internal liberalization in the form of greater privatization can be thought of in Rail Freight transport. This will facilitate the Indian private companies to compete on a equal footing with the public sector company. Relaxing the monopoly even partially can have a cascading effect and lead to fall in STRIs in other parameters as well. Another area of liberalization is related to giving access to private sector to use Indian Railways infrastructure which at present is fully Government owned and access is only for Government owned railway. An independent regulator can be set up and the private players should be able to compete on a level playing field with the PSU i.e. CONCOR.

Private players in the sector are working under a handicap, as they have to acquire land for Container Terminals (infrastructure) at a high cost and face great difficulty in acquisition, etc. The older player i.e. CONCOR, a PSU of the railways has been given Railway land at a subsidized rate.

Road Freight Transport : This sector is fully open to foreign investment in India with very few restrictions. The restrictions are mainly horizontal in nature. Even though there are 6 parameters under HR category, all of them are related to horizontal restrictions. So, any relaxation in restrictions can take place by liberalizing horizontal restrictions and procedural issues related to Ease of Doing Business.

Sound Recording : This sector also has few restrictions and restrictions are mainly the horizontal restrictions. Here also, any relaxation in restrictions can take place by liberalizing horizontal restrictions and procedural issues related to Ease of Doing Business. One area where liberalization can be thought of is related to the condition on copyrights where the central government does not ordinarily register more than one copyright society to do business in respect of the same class of work.

Telecommunication : This sector has many restrictions mainly due to Policy Area 4: Barriers to competition and Policy Area 1: Restrictions to foreign entry which in turn is due to the general regulatory framework faced by foreign investors. While there are restrictions in this sector in India, similar restrictions are also found in many other countries. While this sector has many restrictions, despite substantial liberalization in recent years, there are no restrictions in the HR and MR categories. So, it is the number of restrictions that have led to the relatively high STRI in this sector.

There is also the issue of Government Monopoly. While there are no restrictions on maximum foreign equity shares allowed in fixed, mobile and internet, as in other sectors, there are limits to the proportion

of shares that can be acquired by foreign investors in publicly controlled firms because of the Government holding equity in many telecommunication firms. There are 5 public sector undertakings with BSNL being the largest provider of fixed line services. Under barriers to competition, the main contribution to the index comes from lack of best practice pro-competitive regulation in the fixed line segment of the market where the government owns the major supplier. For instance, interconnection is regulated through the Telecommunications Interconnection (Reference Interconnect Offer) Regulation from 2002, which mandates interconnection, but largely leaves to the parties to agree on the terms through negotiations. In the fixed line segment, the incumbents, two state-owned enterprises, probably have considerable bargaining power.

There are many Horizontal Restrictions in this sector like the following. There are nationality and residency restrictions i.e., majority must be nationals and residents. As in other sectors, the conditions related to acquisition and use of land and real estate by foreigners, subsequent transfer of capital and investment and M&A restrictions (for fixed, mobile and internet) exist. There are no restrictions related to performance requirements as in Brazil, South Africa and Indonesia and even US (fixed line). As in most other countries commercial presence is required to provide cross border services (fixed, mobile, internet). Only USA, UK and South Africa do not have these conditions. There are also restrictions like Data flow transfers to countries with substantially similar privacy protection or consent by government authority and public procurement restrictions as in other services. As in other services, there are restrictions which are in the nature of procedural delays. Restrictions on minimum capital requirements, is an area which can be considered for reforms in this sector.

There are restrictions related to unbundling of the local loop and the local loop unbundling prices being

regulated. Regarding co-location, sharing of passive telecom infrastructure is allowed by DOT. However, sharing of active infrastructure amongst service providers based on mutual agreements is permitted, but limited only to antenna, feeder cable, Node B, radio access network and transmission system. This needs to be addressed. Number portability is not available in the case of internet. This could also be considered.

Some other restrictions in this sector are related to one time licensing fee and remote access policy wherein India requires telecom service providers to receive pre-approval for each of their network operations centers (NOCs) before those NOCs can remotely access network in India. Since many global telecommunications service providers routinely provide network services from numerous NOCs distributed globally, many approvals are needed leading to bureaucratic delays. This needs to be addressed. There is a need to review the regulations in this sector in the light of recent developments including recent suggestions by TRAI related to strategies for enhancing ease of doing business; strategies to achieve 'unique mobile subscriber density' and mobile network coverage targets, and to provide enhanced data connectivity to all the Gram Panchayats; strategies to enable access for wireline and wireless broadband services at affordable prices; strategies to enable access for IoT/M2M sensors/ devices; strategies for setting up of data centres; developing ecosystem for indigenous digital platforms and services to establish India as a global hub for research and development, innovation, cloud computing, content hosting and delivery; strategies for protecting interest of consumers, data protection regime, etc.

Tourism : This sector has not been included by OECD in its STRI. However, based on industry sources, our analysis indicates that this sector has few restrictions and is quite open. Many of the restrictions are horizontal in nature and some are

procedural conditions i.e., Ease of Doing Business issues which needs to be addressed. One suggestion in this sector is to make e-visa application form available in foreign language of all the emerging countries with less number of attachments which should be confined to not more than two pages. Another suggestion is related to the conditions of recognizing a tour operator as an approved inbound tour operator. Here conditions like minimum four qualified staff out of which one should have diploma/degree in tourism and travel management can be relaxed.

Thus the restrictions in the different services sectors are varied though there are the common horizontal restrictions related to foreign investment, cross-border M&As, proportion of shares that can be acquired in public controlled companies, conditions on subsequent transfer of capital and investment, restrictions on acquisition and use of land and real estate by foreigners, residency requirements, regulations on cross-border data transfers, employment visa and duration of stay, public procurement, taxes and subsidies, appeal of the decision of regulatory bodies and redressal mechanism, legal obligation to communicate regulations, public comment procedure and procedural regulations related to Ease of Doing Business. Other than horizontal issues, sector-wise issues differ and consequently sector-wise policies also vary. So, a bunch of policies related to liberalization of these services have been indicated.

Key Services Sectors : Export Potential and Strategies/Policies

An attempt has been made here to shortlist the major and potential services export markets for identified services. Then strategies and liberalization policies along with export promotion policies both cross-cutting and for the identified sectors have been suggested. This is also based on the STRI analysis and the suggestions of the service providers.

Major and Potential services sectors

The major services in India's exports are Computer Software services (IT-BPM) with about 40% share in total exports of services in India in 2017-18 followed by travel (14.5%) and transport (8.9%) which mainly consists of maritime and related services. Business services with a share of 19.1% consists of a wide ranging set of services of which the category of professional and management consultancy services is important with 9.8% share. But this again consists of many services sometimes clubbed together. So, they have not been considered for sector-specific analysis. Among these services, the category 'business and management consultancy and public relations' has a share of 6%. Financial services have a share of 2.6% in India's services exports and mainly consists of financial intermediation which includes bank charges, collection charges, LC, etc. and are just routine charges. Though financial services has a share of 8.8% in world commercial services exports, there has been ups and downs in its growth with even negative growth in some recent years. The growth of financial services in India has also been negative in the last 4 years and India's share of this service in world exports of the service has been small (1.2%). So, these have not been considered for sector-wise analysis here. Telecommunications is more important in the domestic sector than the export sector, with a share of only 1.1% in services exports. This does not include installation services for telephone network equipment (included in construction and possibly in project exports) and data base services (included in information services). A potential export area in telecommunications sector is Internet broadband services. Healthcare is another potential sector given the low cost and relatively advanced medical treatment available in India though its share in total services exports at present is negligible (0.22%). **Thus, basically computer software (IT-BPM), travel (tourism) and maritime services (shipping) are the major services**

in India's export basket that have been taken up first for sector-wise analysis. Telecommunications and Healthcare are the other two services taken up for sector-wise analysis, taking the total upto 5 services.

General or Cross-Cutting Strategies

The cross-cutting strategies include both the important policies for liberalization which can help exports and in our multilateral/bilateral negotiations and general strategies which can help services exports.

Services Liberalization Policies to help Exports and International/ Bilateral Negotiations:

The analysis of OECD's STRI has useful lessons for liberalization in services and trade negotiations. The horizontal or cross-cutting restrictions in India are mainly related to FDI. While India has liberalized FDI substantially, abolished the FIPB (Foreign Investment Promotion Board), and also allowed 100% foreign equity share in many services sector, there are conditions like 49% foreign equity investment through automatic route and the rest through government route; limits of 51% equity and management control with the Government in all case of disinvestment of public sector enterprises; etc. There are also restrictions related to cross-border M&As and subsequent transfer of capital and investments. Some of the restrictions are just procedural, like need for prior approval of RBI for cross-border M&As. But there are areas where liberalization is possible like the condition prohibiting loans/guarantee to subsidiaries of Indian companies abroad. These measures can help trade and investment. Other measures are merely procedural issues related to restrictions on movement of people including visa and duration of stay; issues and barriers to competition including procedures of appeal and redress. These can be rectified wherever possible which can have a positive impact on the general trade and investment environment. There are also many 'Ease of Doing Business' issues under

regulatory transparency like range of visa processing time, cost of business visa, cost and number of working days to register a company, etc. which can be addressed. Even the Government of India wants to move further up in the ranking of 'Ease of Doing Business' and these measures can facilitate trade and investment. There are some restrictions related to licensing and recognition of qualifications, etc. which are found in some services sectors, but these also need to be seen under the sector-specific issues. Removing or relaxing horizontal restrictions in the services sector as given in OECDs STRI and also as indicated by service providers can help further trade and investment. These reforms can also give a mileage in India's negotiations, both multilateral and bilateral.

Value Addition in Services Exports: The OECD's TiVA data has some information on value addition, though it is not really value addition in the true sense of the term. It is actually the services content (domestic and foreign) in exports. India's domestic, foreign and total services value added share of gross exports are 46.4%, 5.7% and 52.1% respectively in 2016. Thus, a major share of value added in India's gross exports is due to services and the rest due to the other two sectors, agriculture and industry. Bulk of the value addition due to services in exports is due to domestic value added in India. Domestic services value added is higher in India compared to all other BRICS countries, though it is higher in countries like UK, USA and Singapore. It has also increased in 2016 over 2005. In manufactured exports of India, total service value added component in 2016 is 25.1% out of which 17.9% is domestic services value added and 7.2% is foreign service value added. Among the select countries, Singapore has the highest services value added content in manufactured exports at 47.4%. Thus, services sector particularly domestic services are adding value in India's gross exports and manufactured exports indicating the services linkage in exports even of manufactured exports.

However, what is more important to us is to see whether we are exporting value added services and are we moving up the value chain in the different services which can enhance the value of our services exports. **In IT-BPM** services, India has moved up the value chain. New entrants in the IT / BPO space usually start at the bottom of the value chain and gradually work their way up. Also, these new firms often do sub-contracting work for the IT biggies, who are able to do a cost arbitrage within the country since the smaller firms have lower cost bases. Most of the Indian large firms have covered the entire value chain. Some have consciously moved away from the bottom of the chain. For example, there are very few companies in India that are delivering call centre type work. However, given large number of people that they employ (not all of whom are highly skilled) and the reluctance of clients to fragment delivery of work, they continue to deliver low end of the value chain as well. Large Indian firms are beginning to get into the top end of the value chain, where they partner with the clients on many sensitive areas which impact strategy of the clients. Most of the captive units of MNCs have outsourced top ends of the value chain work to their Indian subsidiaries and are quite happy with the output of work that they get. In short, India has nearly vacated the voice-based call centre type work, but as a country is present across the entire value chain both in the IT and BPO industry. There is a need to move up the value chain in the other important services as well. **In tourism**, for example we are still in the lower end of the value chain providing general tourism services, though of late we have started moving towards some value-added services like medical tourism. In the case of **healthcare**, we are catering mainly to high value-added services like super-speciality medical services. **In telecom**, India's presence was felt mainly in the mobile telecom services. We have to move up the value chain to provide internet broadband services. Sometimes a package like **project exports** can have all levels

of the value chain combined together. **In shipping**, containerization, transshipment and moving towards new generation ships are value added services. While we have moved towards containerization, for transshipment, we have become dependent on foreign country ports. In short, a services strategy has to aim at moving up the value-added chain.

Disinvestment: There are many public sector units in services sector where disinvestment needs to be done. While a careful plan of action regarding the PSUs to be disinvested and timing of disinvestment is important, some examples of disinvestment could include disinvestment in the hotel sector. The Government has already taken initiatives in disinvestment in ITDC. In fact, there is no need for the government to be in hotel business. So outright privatization can be thought of in this area. Another example is postal services where disinvestment or outright sale can take place. In shipping, it may not be advisable to disinvest in SCI as there are strategic concerns including the need to counter the monopolistic policies of liners.

Focusing on the Software-Hardware-Telecom Trinity: India has a proven advantage in software and has made its presence felt in telecom. But in hardware sector India is lagging behind. Now, in a hardware-software combination we should offer a whole package which includes both these components. To this our expertise in the telecom sector has to be added by entering in a big way in internet broadband services. Thus, India should be identified as a major provider of broadband services including the whole range of activities like exporting optical fibre and optical fibre cables, installing them and providing broadband services. Thus, future growth in services exports can be better achieved if it is combined with high tech manufactures. This way India should herald its entry in a big way to Robotics, Internet of Things and Artificial Intelligence. Necessary skilling for this purpose and use of NRIs/PIO can help in this gigantic task.

'Services of India' on the Lines of 'Make in India':

India has made its presence felt in the services sector, particularly IT-BPM. Now there is the need for creating a brand identity for some services. The software-hardware-telecom trinity should be marketed as a brand. This needs special efforts like strengthening the present schemes like MAI (Market Access Initiative) and also making them services focused; focusing on services related trade fairs (both in India and abroad) by ITPO and networking with the Indian Missions abroad on services issues.

Other Issues: Other important issues common to all services are market entry issues like Visa and GST issues. Visa issues are more important for the IT sector. In the case of GST issues, some are cross-cutting, while others are issues specific to concerned sectors.

Sector-Specific Strategies/Policies for Major Identified Services Sectors

The important and potential services export sectors in India are the following 5 sectors: 1) IT-BPM services (Computer Services) 2) Maritime Services (Shipping) 3) Tourism 4) Telecommunications with special reference to Internet Broadband and 5) Healthcare.

1. IT-BPM services (Computer Services)

In the world IT-BPM market of US\$ 1.3 trillion (2017), the share of Indian IT-BPM industry at US\$167 billion (2017-18) was 12.85%. As per NASSCOM's (National Association of Software and Services Companies) estimates for 2017-18, IT-BPM industry revenue (excluding hardware) is estimated to have reached US\$ 151.50 billion, up from US\$ 140 billion in +2016-17 showing a growth of over 7 per cent. In addition, e-Commerce is over US \$ 39 billion. IT-BPM exports from India are expected to reach US\$ 126 billion during 2017-18, with over 7.7 per cent growth. ER&D and product development continues to be the fastest growing segment at 12.8% driven by the demand for AECS (Autonomous, Electrification, Connectivity and Shared Mobility). IT services are

growing at around 6% (8% in 2018 as per CARE ratings) driven by growth in software testing and ISO (hosted applications). BPM exports is expected to grow faster at 8% with analytics, RPA, chat-bots which are similar to robots and can chat with humans, emerging as areas of growth.

Increasing Competition: Despite India's stellar performance in the IT-BPM sector, India is facing increasing competition with its share in total World computer services exports (as per WTO data) falling by 3.1 percentage points to 13.7% in 2017 from 16.8% in 2012. On the other hand, the share has increased for new entrants like Brazil, South Korea and Ukraine, besides already established players like Israel, Japan, Philippines, Poland, Russia, Romania, Singapore and USA. The growth in India's computer services exports decelerated from 9.5% in 2013 to 1.5% in 2017, while that of the world was at 8.9% in 2017. The growth in exports of computer services in some major exporting countries was also higher at 8.8% for USA, 12.9% for Israel, 22% for Poland, etc. Only in the case of Singapore, growth rate was negative at -2.0% in 2017, though it was robust in earlier two years. Thus, while India is forging ahead in IT-BPM and new opportunities are emerging, India is facing increasing competition from both developed and established countries in this sector as well as new entrants. India is unlikely to get back to the dream growth rate when it had 32.2 % average growth during 2002-03 to 2007-08. India's growth has already slowed down, though new areas like SMAC (Social Media, Mobility, Analytics and Cloud and the Internet of Things) will give some propulsion to the industry. SMAC are collectively expected to offer huge opportunities. North America, Europe and Asia-Pacific are the major regions of computer software and services exports of India accounting for more than 85% of total computer software and services exports of India. Country-wise, USA, UK and Singapore are the major markets. While there are new challenges coming up in these traditional

markets, new opportunities are also emerging in Latin America, Africa, Middle East and China. So, while trying to expand the outreach into existing markets, there is a need to tap these emerging markets for products, which can be at a fraction of the cost and with comparable functionalities. However, for the new markets, IT-BPM products and services have to be tailor-made. For example, existing software exporters are engaged mainly in outsourcing work not relevant for Africa. These markets require finished IT products and solutions.

Strategy Issues: Our future strategy and policies for the computer software sector should rest on three planks, namely Software–Hardware Combination, Domestic- Exports Combination and Moving up the Value Chain.

Software - Hardware combination: India has been a pioneer in the software sector. But in hardware, we have been lagging behind with slow start and effect of ITA-1. Now the government has started giving a big push to the electronics hardware sector. In 2017, the global IT-BPM market was at US\$ 1.3 trillion, ER&D at US\$ 1.8 trillion and Hardware at US\$ 1.1 trillion totalling to a whopping US\$ 4.2 trillion market. In this global market while India's share is around 13% in IT-BPM, in hardware it is just 1.4%. India's hardware exports taken as a percentage of global hardware market is a paltry 0.04%. It is a situation of now or never for the Indian hardware sector. The hardware sector has to piggyback on the success of the software sector by a Hardware-Software combination to move up the value chain in latest high-tech products and services to capture a sizable pie of the global Hardware-Software market. This should be combined with our expertise in telecom sector to have a trinity of Hardware-Software-Telecom to give a big push to our exports.

Domestic and Exports combination: Usually any sector develops first on the domestic front and then makes forays on the export front. But the Computer Software sector developed first on the export front.

Onsite solutions were important. However, future development on the export front will depend on finished IT products and solutions, particularly given the visa and other restrictions. For this, the sector has to first develop well on the domestic front. There are also plenty of opportunities in the domestic front. In this context, the Government's initiative in rapid adoption of technologies as a platform to delivery of government-to-government and government-to-citizen services is a tremendous push factor for the domestic IT-BPM market.

Moving Up the Value Addition Chain: As stated by NASSCOM, India's value proposition for the global technology industry is steadily shifting towards offering end-to-end digital technologies. India is set to be the Digital capabilities hub for the world with 8,100 plus firms offering digital solutions, having a digitally skilled talent pool of 450,000-500,000 IT professionals, accounting for around 75% of global digital talent and Indian IT-BPM firms having 18-20% share of digital in total revenue. Firms are developing an entire portfolio of digital capabilities through various initiatives. Internally, they include re-skilling/up-skilling employees at speed and scale, organisational re-structuring (vertical-specific and digital BUs), setting up CoEs (Centre of Excellence)/ Labs dedicated to niche technologies, business model shifts (as-a-service, platformisation, risk-reward pricing, etc.). Externally they include M&As to scale access to talent, markets, customers; partnerships with start-ups (niche capabilities), academia (talent development and R&D), peer companies (white space companies, that are in large markets with no identifiable competitors, etc.). India continues to be the leader in terms of cost arbitrage (5-6 times cheaper than the US), has global presence (80 plus countries), a fast growing domestic market (US\$ 41 billion) and a potential consumer market (1.3 billion population). All these factors combined are enabling India to maintain its position as the world's No. 1 preferred location for offshoring with a share of 55% in global sourcing. Thus, India has continually moved

up the value chain in IT-BPM services. The very low-end space (voice-based call centres) has been vacated and industry is consistently adding value to its clients. As clients become more comfortable with an outsourced / offshored relationship, more complex work starts getting delivered by the Indian partners. India has started moving up to the top end of the value chain. However, it is not totally concentrated at the top end and is scattered all over the value chain. Consistent efforts are needed for a major part of the business to move up to the top end of the value chain. India has to focus on new and future areas like Cloud Computing, Analytics, IoT, Block Chain and further up all the way to Robotics.

Some Other Policy Issues & Suggestions

Incentives for start-ups: Some issues related to start-ups are the following. The tax benefits were independent of location. Currently, software & IT Services companies have to locate themselves into SEZs to avail tax benefits. Many SMEs and start-ups find it difficult and expensive to operate from SEZs. Therefore, there is a need to consider tax holidays for IT SMEs irrespective of their location. Angel tax has been a matter of grave concern for start-ups these days. If India has to be in the reckoning as a global player and the desired country to do business with ease, there is a need to quash the Angel Tax provision in Section 56(2) (vii b) and focus on measures to incentivise the start-ups. There are disparities in the Long-Term Capital Gains (LTCG) tax rates for domestic and overseas investors and LTCG and Short-Term Capital Gains (STCG) rates applicable on angel investor and listed securities which needs harmonization.

Changes in the FDI policy on e-commerce: The DIPP issued Press Note 2 (2018) which introduced significant changes to the current FDI policy on e-commerce. Some of these changes include prohibition on control or ownership over the inventory by market entity, regulation of cash backs to buyers and submission of statutory audit

reports to RBI annually. This Press Note creates a regulatory distinction between domestic and FDI-based entities, and the policy objectives behind the new FDI policy are not clear. We need to encourage technology-based investment in e-commerce and lay down a clear policy framework so that the need for issuing major clarifications which disrupt the market are minimised.

Other Service Providers (OSPs) Issues faced by the IT industry in India: One of the most critical issue is the definition of 'Application Services'. While the concept of OSP was introduced to support contact centre/application service operations in India, over time the interpretation of the term 'IT Enabled Services' have led to lot of operational challenges for the companies. There have been several instances of varied interpretations followed by different Telecom Enforcement Resource and Monitoring (TERM) cells on the applicability of definition and associated compliance requirements, leading to lot of uncertainties and operational challenges for the industry. Similarly, there are other issues with regard to work from home provisions, hefty bank guarantee, OSP registration, etc. which are affecting the growth of the industry.

SEZ legislative and operational issues: There are concerns related to implementation of Business Continuity Planning and Disaster Recovery (BCP/DR) centre guidelines. Companies face issues in movement of backup data from SEZ Units to STPIs as STPI Units are not considered to be under the EOU category as per the recently notified BCP/DR guidelines. There is also the issue of Services in DTA billed in Foreign Exchange. There is conflict between the definition in the SEZ Act and what is permissible by the rules. There are practical difficulties in denominating currency in raising export invoices and in spite of meeting NFE targets, companies have to conclude DTA sales in FE. This results in an unnecessary demand of foreign exchange inside the country.

Taxation issues: There are many taxation issues including GST related issues. One issue is related to Goods and Services Tax payable ('IGST/CGST/SGST') on import or domestic procurement of services by STPIs. GST laws treat any service provided to a SEZ unit as 'Zero Rated Supply'. Accordingly, a SEZ unit can import services or procure domestically those services required for authorized operations without payment of GST. However, STPI units, which are also into the activity of export of IT/ITES are required to pay GST both on import and domestic procurement of services required for authorized operations and subsequently claim refund of the same. Payment of GST on procurement of services by an STPI unit would increase the working capital requirement. While relief has been provided till March 2018, upfront exemption from payment of GST on import and domestic procurement of services by STPIs could be considered in the GST regime on par with SEZ units. There are also policy issues like need for Brand Creation; greater integration and interaction between Industry requirements and the output from training institutes; and improving connectivity and quality of life parameters in Tier 2 and Tier 3 towns.

International Challenges: Some important international challenges are the following.

Immigration curbs in major markets: The major non-tariff barrier in services sector is the rising protectionist tendencies in the form of visa restrictions in the major markets. While there is need for negotiations with these countries, FTA agreements with some of these countries could help and these issues should be taken into consideration during negotiations. In the case of the Indo-Singapore FTA, India needs to take up the visa issue in the next review.

Totalization Agreement with USA: This issue is being negotiated almost over a decade with no real actions or results. Both sides are negotiating the Bilateral Totalization Agreement (BTA), which once

signed, would benefit thousands of Indians who are working in the US and paying social security & Medicare Tax but are unable to get any benefit out of it. The signing of Totalization Agreement will exempt Indian professionals working on short term visas in the US from paying social security and medicare taxes.

EU – Data Protection: India has long sought to gain data adequacy status with the EU in order to facilitate data transfers and boost its IT-BPM industry, which currently has to rely on binding corporate rules (BCRs) and standard contractual clauses (SCCs) for transfers of personal data from the EU to India. The subject of data adequacy has featured in negotiations of the EU-India FTA since talks began in 2007, although, there has not been much headway. The development of data protection framework in India is underway. A healthy balance between privacy and innovation is needed given that India is today emerging as a preferred hub for innovation and Science, Technology, Engineering, and Mathematics (STEM) talent globally. Policies that govern data protection, storage and classification need to be carefully crafted given the global footprint of the IT-BPM sector. Service providers in India process financial, healthcare and other data of citizens globally. India is also the destination for R&D, Product Development and Analytics, Shared Services. Mandating localization of all personal data as proposed in the bill is likely to become a trade barrier in the key markets. As per the Data Protection Bill "Every data fiduciary (any entity processing personal data) shall ensure the storage on a server or data centre located in India, or atleast one serving copy of personal data to which this Act applies." Companies would need to spend huge amounts on setting up local servers, among other things. Start-ups from India that are going global may not be able to leverage global cloud platforms and will face similar barriers as they expand in new markets.

2. Maritime Transport (Shipping)

While the annual freight payable by Indian trade has remained steady at about US\$ 50 billion per year, the share of Indian ships in the carriage of India's foreign trade has been declining and was at only 6.4% in 2016-17.

Export Potential: The export potential of this sector needs to be seen from two angles: 1) foreign exchange earnings potential and 2) foreign exchange savings potential. India pays annual freight on EXIM cargo to the tune of US\$ 50 billion and the share of Indian ships in this freight is just 4% with more than 96% of the freight being earned by foreign ships. Therefore, even if we were to leave aside the potential of Indian shipping in terms of share in world shipping services and we were to consider freight retention by India for carriage of its EXIM trade, the potential is very high. Indian EXIM cargo needs to be increasingly handled on Indian owned ships. This will unleash a multiplier effect in the Indian economy. Therefore, freight service is a ready business that the Indian shipping sector can tap into by import substitution. For this, commensurate capacity building and level playing field with suitable policies that ensure competitiveness of the Indian flag shipping fleet are needed. Once India enhances its capacity, it can easily make greater presence in international shipping including cross trades.

Strategies and Policy Issues: Two major strategies to promote maritime services of India are –

1. Providing Level Playing Field for Indian Flag Vessels, and
2. Strengthening the Capacity of Indian Shipping by Funding.

A. Level playing field for Indian flag vessels: Indian shipping is not able to compete effectively with foreign ships due to higher input costs and taxes. The tax incidence on Indian flag vessels is higher than that on foreign flag vessels. The crux of the problem faced by Indian Shipping is that while there is the policy of 'Right of First Refusal' (ROFR) which

states that the Indian ships have the first right to carry Indian cargo, provided they match the freight offered by foreign flag vessels, Indian flag vessels are not able to compete as the high input costs and taxes results in their cost of operations being at least 35% higher than the foreign flag ships. Meanwhile, the cargo reservation policy and public procurement policies in India are only on paper.

Tax related issues: The tax related issues of immediate concern for Indian shipping include direct and indirect tax issues.

Direct taxes

Exempting Salary income received by Indian Seafarers working on board Indian coastal vessels from income tax. This benefit is currently enjoyed by Indian seafarers working on foreign flag vessels operating on the coastal trade of India. The costs of foreign flag vessels do not include tax on seafarers' income and hence they are able to offer lower freight. As Indian shipping companies need to match this offered freight and have to be on a level playing field, a similar benefit to Indian seafarers would make Indian shipping competitive.

Income earned from charter hire by foreign subsidiaries of Indian shipping companies to be treated as business income and not as a 'passive income' or royalty under the Place of Effective Management ("POEM") which is taxed higher. Despite being covered by the Tonnage Tax Scheme, Indian shipping companies have to pay higher rate of tax than their foreign competitors on shipping income earned by subsidiaries abroad, rendering Indian shipping companies uncompetitive owing to differentiated tax costs.

Indirect taxes

Parity in GST treatment regarding import freight service rendered to foreign consignor by Indian shipping company vis-a-vis, foreign shipping company. If an Indian company provides shipping

services to a foreign consignor to transport cargo from outside India into India (import freight service), the Indian company has to levy 5% IGST on freight and the landed cost of imported goods goes up for the Indian importer due to the levy of 5% IGST. However, when the goods are imported through a foreign shipping company, the Indian importer has to pay a 5% IGST. But since the Indian importer can avail of input tax credit, the 5% IGST paid becomes a pass-through tax and the cost of goods imported does not go up due to the levy of IGST unlike in the case of freight service being provided by the Indian company. This needs to be resolved.

Rectifying anomaly in GST provision regarding export freight service rendered to an Indian consignor.

If an Indian company provides transportation services from India to a place out of India (export freight service), it may not qualify as 'Export of Service' as the Service recipient is in India and the payment too may not be in foreign currency. Hence, Indian shipping company cannot avail input tax credit. Also, as it does not comply with the conditions of export of services this service may get taxed as an Inter-State supply. The same service if performed by a foreign shipping company will be eligible for input tax credit. The Government has already made export freight service as an exempt supply up to 30 September 2019. There is a need to consider removing this period restriction and the exemption should be made a permanent exemption.

GST applicability on sale of ships located outside India. As per the IGST Act, where the supplier is located in India and the place of supply is outside India, such supply qualifies as an interstate supply of goods. However, export of goods outside India is zero rated for GST where 'Export' is defined to mean 'taking goods outside India to a place outside India'. In the case of sale of ships located abroad, sale of ships may not qualify as export of goods as the ships are located outside India prior to their sale. This is a tricky situation and a clarification needs to be issued in this regard.

Need for IGST exemption on import of vessels.

Vessels entering Indian waters for the first time (imported into India) under the Indian flag are liable to pay 5% IGST on the value of the vessel. However, such foreign flag vessels are not liable to pay such 5% IGST on the value of the vessel.

Need for input tax credit on procurement of inputs like furnace oil, paints, spares, lubes, etc. both in voyage and time charters.

This problem is not faced by others in the transportation sector because their main fuel viz. Diesel and Air Turbine Fuel (ATF) are not under the GST regime whereas the main fuel for ships viz International Fuel Oil (IFO) is within the GST regime.

Need to address the issue of blockage of ITC in various states of India due to the discrepancy in the Place of Supply (POS) Provisions.

Issue of Refund of unutilized input tax credits on input services. Presently, the law permits refund of tax credits accumulated on account of rate of tax on inputs (input goods) being higher than the rate of tax on output supplies. But this is only for input goods. A similar refund of accumulated tax credits on input services needs to be provided.

Issue of TDS on charter hire: As per the recent amendments under GST Laws, PSUs have started deducting TDS @ 2% from time charter hire payment. If TDS is deducted at 2%, shipping companies are left with very little scope to utilise the input tax credit. This needs to be addressed and the TDS rate for time charter/voyage charter as well as on freight could be lowered to a flat rate of, say, 0.5%.

Recent policy related to cabotage (Coastal Shipping):

In May 2018, the government relaxed cabotage for the benefit of the foreign flag ships which include relaxation for coastal movement of EXIM Transshipment Containers and Empty Containers; coastal movement of agriculture, horticulture, fisheries and animal husbandry commodities; and

coastal movement of fertilizers. Relaxing cabotage means that foreign flags are permitted to carry cargo in coastal trade of India without paying any direct or/and indirect taxes in India. The intention was that the freight costs charged on Indian trade by foreign flags will be lower. However, this has not actually happened. Instead it has affected Indian shipping. Thus, while the OECD has given a high STRI to India for practicing cabotage, actually the government policy has relaxed it helping foreign flags. But this in turn has affected domestic sector as the cargo hitherto carried by them have been shifted to foreign flags. This also goes against the government's avowed policy of 'Make in India' or in this context 'Services from India'. This needs to be addressed urgently.

B. Strengthening the Capacity of Indian Shipping:

The Indian maritime sector requires long-term funds at competitive rates as available to global players. Internationally, considering the long gestation period characterizing the sector, ship acquisition is often funded by way of foreign currency denominated bonds, whereas in India the sector has primarily been supported by the banking system which faces a challenge of raising low-cost-long-term funds due to constraints of sovereign rating. Despite relaxations in eligibility criteria, many Indian maritime companies are not able to access ECBs at competitive rates, given the financial position of the Indian players. No domestic funds are also available at globally competitive rates. Maritime enterprises have been reporting significant stress in their balance sheets which is having a cascading effect and is being transmitted to banks' balance sheets because of which they have become cautious in further lending to these sectors. Further, banks are also constrained to limit the loan tenor in order to avoid asset-liability mismatch. This puts additional pressure on the Indian borrower, especially in times of distress as is being experienced for the past few years, which ultimately has led to defaults. There is thus, a need to recognize the growth potential of

the maritime sector and enhance credit availability for the sector. In the past, dedicated sectoral funds/ Institutions in India have effectively addressed the issues particular to a sector like the India Railway Finance Corporation (IRFC) for Railways; Central Road Fund for Highways; Steel Development Fund for Steel; Sugar Development Fund for Sugar and Technology Upgradation Fund Scheme for Textiles. The Shipping Industry requires funds for modernization, improvement and growth of the fleet. Therefore, there is a need for a specialized institution which can enhance credit availability, lower cost of borrowings and provide longer tenure funds. The Committee of Secretaries (COS) has approved formation of Maritime Development Fund (MDF) for funding all maritime related activities in India with a proposed corpus of Rs. 2,500 crore. The fund needs traction.

3. Tourism

As per the latest World Tourism Barometer of the United Nation's World Tourism Organization (UNWTO) January 2019, international tourist arrivals reached a total of 1.4 billion in 2018, (two years ahead of UNWTO's long term forecast of 2010), with a growth rate of 6 per cent. This strong momentum is expected to continue in 2018 though at a rate of 3-4 per cent in line with historical growth trends. In India, the Tourism sector has been performing well with Foreign Tourist Arrivals (FTAs) growing at 15.6 per cent to 10.1 million and Foreign Exchange Earnings (FEEs) at 20.8 per cent to US\$ 275 billion in 2017. As per the provisional data of Ministry of Tourism, FTAs during January-November 2018 were 9.3 million with a subdued growth of 5.0 per cent, while, the FEEs from tourism in US \$ terms were US\$ 25.8 billion also with a subdued growth of 5.5 per cent. The major source countries in terms of foreign tourists arrival to India are Bangladesh, USA, UK, Canada, and Australia. A comparison with other countries shows that India's share in international tourist arrivals (ITA) is a paltry 1.2 per cent with a rank of 26 compared to the 6.6 per cent of France

which ranks 1st in 2017. China ranks 4th with a share of 4.2 per cent. In terms of International tourism receipts (ITR), India has a slightly higher share at 2.0 per cent and a better ranking of 13. But it is nowhere near the 15.7 per cent share of USA which ranks 1st and around half the share of Thailand at 4.3 per cent with 4th rank. Thus, there is a huge potential waiting to be tapped. During January-November 2018, 20.6 lakhs tourists arrived on e-Tourist Visa as compared to 14.6 lakhs during January- November 2017, registering a growth of 41.5 per cent over the same period. In the Travel and Tourism Competitiveness Index 2017 (WEF, 2017), India has improved its ranking 12 places to reach the 40th position globally among 136 countries.

Strategies and Policy Issues: General issues like tourist safety, tourism friendliness, cleanliness, hygiene and ambience of acceptable standards are necessary and are prerequisites for tourism to develop in any country. There are also many tourism trade enablers like the following.

Visa norms: India already has a progressive e-visa policy for tourists for more than 166 countries and these are not conditional upon those of other countries. This serves India's interests positively. In the recent past, many visa related reforms have been made in India. Visa system can be made still more attractive by the following policy measures:

Multi-year and multi-entry E-visas: This can be a major enabler and help in follow-up visits by the foreign tourists. Multi entry E-visas can also help tourists clubbing visits to neighbouring countries.

Competitive visa and E-visa pricing: While visa prices vary based on markets and time period, this should be kept at the minimum as our purpose should be to attract tourists to spend in India and not to check them at the entry point itself. There is no need to follow even the policy of reciprocity regarding visas as our objective is to attract tourists no matter what policy the partner country follows. Restrictions can

only be there for strategic reasons.

Guided tours for transit tourists: As a marketing strategy, there is a need to consider having short duration guided tours for transit foreign tourists without visa and free/nominal charges for the tour. This should be just to showcase India's tourist attractions to potential transit tourists.

Tourism Infrastructure: Besides the general infrastructure facilities like Airways, Roadways, Railways, Cruise facilities, numerous other infrastructure facilities are needed for different types of tourism. One possible solution for infrastructure development, besides active government support, is privatization of some areas of infrastructure or Public Private Partnership. Maintenance of ancient monuments particularly heritage sites and tourist attractions is a related infrastructure issue. Some forms of PPP have been tried in this area. But a complete facelift of these monuments is needed possibly by the PPP model. Fast tracking the 5 mega tourism zones (special tourism zones) should be a top priority.

Focus on both high spending as well as backpackers: Indian foreign tourists are a mix of both long haul with a flying time upward of 7 hours and short distance tourists. Of late, short haul tourists from China are coming to India. Some of the foreign tourists are high spenders particularly the long-haul tourists from USA, Europe, Japan and some ASEAN countries. But most of the tourists from neighbouring Asia are backpackers. There are also many young backpackers from the West. The tour packages and the facilities have to be different for these different segments.

Value added tourism products and niche areas: There is a need to design special value-added tourism products around adventure, heritage, rural, cruise and convention tourism and fast tracking them through single window approvals.

Village/ rural tourism is a potential niche area. Special theme-based tours like 'Tour to India's cultural heartland' or "India's Villages" should be designed.

Medical Tourism is another niche area with great opportunity. India has already made much headway in this area. There is a need for policies in this area. The policies of some ASEAN countries can be emulated as the value of medical tourism in the world and India are estimated to be at US\$ 20 billion and US\$ 4 billion respectively. Policies of countries like Singapore, Thailand, Malaysia, etc. in promoting Medical Tourism could be emulated. Imports for hospitals providing medical tourism also needs to be facilitated. The hospitals which provide medical tourism and have to import capital goods like treadmill face difficulties under EPCG scheme, as there are stringent conditions like the Rs 50 lakh foreign exchange earnings in previous years' rule which deters the smaller services start-ups. There is also a need to provide a package of services for medical tourists including state-of-the-art medical facilities, ambulance services at airports, airlifting of medical tourists to hospitals by helicopters and fast track clearance of medical visas, immigration and other formalities.

Privatisation of government run tourism business:

Time has come when government need not be in hotel business. The ITDC hotels is the best example. Here not only disinvestment but even full privatization can be thought of.

Marketing Strategy: There is a need for a proper and well planned marketing strategy which targets important markets and market segments. While India's culture and tradition can be one of the themes to be marketed, a diametrically opposite theme of India as a modern hi-tech country should also be marketed.

Tax (GST) related issues: The OECD study (2014) on the impact of taxes on competitiveness of tourism,

has stated that labour and capital intensive sectors such as tourism (hotels, restaurants, Airlines sites, tour operations, entertainment activities) were taxed at a rate which is lower than 50% of the standard rate (SR) on other sectors in many OECD countries. However, the same is not the case in India as there are no specific tax policies in place to boost the tourism sector. Some of the tax related issues in India are given below.

Need to address the high taxes in tourism sector including GST:

The Indian tourism sector has one of the highest indirect tax incidence globally in contrast to the low tourist inflows and forex receipts. This has been adversely impacting tourism in the country. Further, the competitive advantage of our Asian counterparts due to lower indirect tax rates in their respective countries gives their tourism an edge. Many foreign tour operators (FTOs) have started avoiding selling India as a tourist destination and instead they are promoting our neighbouring countries like Sri Lanka, Singapore, Malaysia, Thailand, Indonesia, UAE and Maldives etc. where taxes are comparatively very low than India and their tourism policy is tourist - friendly. Therefore, there is a need for lower GST rate on the activities relating to organizing tours, hotel booking, air ticket booking, local travel arrangement and miscellaneous services, etc. A comparison of tax rates in India and other countries shows that India and Egypt have the highest tax rates. In India, the higher tax rate is for accommodation above Rs. 7500 at 28%, though after the introduction of GST in 2017, tax rates have become comparable in other categories.

GST rate for Inbound Tours should be Zero-rated:

Inbound tours by a tour operator against receipt of foreign exchange from foreign tourists could be treated at par with exports and thus be zero-rated under GST.

Exemption of GST on foreign exchange billing in the tourism sector:

At present services exported

and fulfilling the criteria of export, laid-down in the statute are exempted from GST. All the conditions are met by the tourism service providers except one condition i.e., the place of supply of services is technically not outside India but within India. Since the services are actually performed in India, POS takes place in India which means that despite fulfilling all other criteria and earning foreign exchange, tourism services are not exempted from GST. The POS condition should not act as a hinderance as by its very nature, tourism services are provided mainly by the consumption abroad mode.

Removal of cascading effect of GST on tourism industry:

A target of 20 million Tourists by 2020 had been set by the government which is a challenging task. There is a need to remove the cascading effect of GST for tourism products including tour operator services. Tour Operator service is primarily a combination of activities such as arranging air/rail travel, providing hotel accommodation, meals, surface transportation, arranging guide, local sightseeing, etc. Such activities are commercialized as a package tour at a single price to the customer. Under the GST regime, tour operator services are taxed under 5% tax slab with denial of Input Tax Credit (ITC). The 5% tax on entire package value results in taxing all the input service procurements made by the tour operator once again. This has resulted in cascading effect of taxes in the entire supply chain. This defeats the very purpose of GST, which is to avoid cascading effect of taxes.

Refund of GST on purchases of goods by International Tourists:

As per the section 15 of IGST Act, the International Tourists can claim GST refund on the goods purchased in India while leaving the country. This is on the lines of countries like Singapore and many Western countries where there is a simple mechanism for refund. However, the mechanism for claiming GST refund is yet to be determined in India.

4. Telecommunications with special reference to Internet Broadband

India is currently the World's second-largest telecommunications market with a subscriber base of 1.19 billion as on September 2018 and has registered strong growth in the past decade and half. With 512.26 million internet subscribers, as of June 2018, India ranks as the world's second largest market in terms of total internet users. In 2017, India surpassed USA to become the second largest market in terms of number of app downloads. Over the next five years, rise in mobile-phone penetration and decline in data costs will add 500 million new internet users in India, creating opportunities for new businesses. India has made forays into the export sector with a share of 2% in world exports in 2017. However, the telecommunication export market is stagnating and new players are also giving competition to India. Domestic players are also emerging in the hitherto developing countries which were dependent on India. With the world telecom export pie not expanding, future growth can mainly be through export of internet broadband services.

Strategies and Policy Issues: While our focus is on exports and our strategy will focus on it, a strong telecom sector domestically can also perform better on the export front.

A. Exclusively Domestic Policy Issues

In the domestic front, telecommunications sector has been beset with disruptive competition since 2016. This has effectively lowered the average revenue per user (ARPU) and hence revenues to the Government by approximately 37% in the last two years. While revenues have dipped sharply, debt, largely on account of spectrum liabilities, has remained extraordinarily high; and with Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) having declined 28% year-on-year, interest costs, now outstrip EBITDA. Market pressures have led to exit of several players

including Aircel, RCom, Telenor, MTS, and Tata Teleservices.

Tax related issues: General

Addressing the issue of high taxes on Telecom: Applicable levies/taxes on mobile services is still among the highest in India.

Additional Burden of New Duties on 4G Equipment: Recently, in October 2018, the Government in its stated plan to encourage local manufacturing raised customs duty on certain equipment needed for 4G implementation from 10% to 20%, while imposing a fresh levy of 10% on PCBA (Printed Circuit Board Assemblies) that were earlier exempt, by classifying 4G equipment imports under “non-essential items”. Given that the Government is focused on developing a Digital India Plan, and 4G equipment is a specialized technology available only through a few global suppliers, 4G equipment can hardly be classified as a “non-essential item”.

Need to Allow deductions of lease line / bandwidth charges and the charges paid by one Telecom service provider (TSP) to the other TSP as Pass through charges, as presently allowed to mobile virtual network operators (MVNOs): Currently, all big and small operators including National Long Distance Service providers (NLDs), International Long Distance service providers (ILDs) and Internet service providers (ISPs) (Class B and Class C), lease bandwidth from each other for providing various services to their consumers. Not allowing deductions on bandwidth/lease line charges has been leading to “double taxation” for these service providers.

GST Related Issues

Need for Uniformity in rate of tax across States/ UTs for telecom services: Tax rate has direct impact on talk-time/ pricing of services. For instance, in multi-state circles, if the GST rate varies across States, it will become impossible to provide same talk time

due to different tax rates. So, there is need for uniformity in tax rates across states.

Ease of doing business affected due to Registration in States and Scrutiny: GST regime necessitates registration, compliances, audits and assessments in all 36 States/UTs instead of Centralized registration under Service tax. The effect of this is higher on Pan India services like telecommunications. The telecom service providers have to register in all States and UTs and are filing 800 returns vis-a-vis 2 returns per year. Thus, the compliance has gone up multi-fold.

Principle of Input Line Credit needs to be adopted: Concept of setting off the license fee paid on input services against license fee payable on output services has been formally approved in the NDCP 2018 by the Union Cabinet. This needs to be adopted.

Levy of GST on Govt Payments: At present GST is payable on Govt. levies such as LF & SUC. Applicability of GST on regulatory levies is leading to cascading tax impact. Internationally, VAT/ GST are not applicable to government services since they are considered as ‘out of scope’ or regarded as a non-economic activity. So, there is a need to exempt payment of regulatory levies (LF, SUC, spectrum payments) made by telecom operators from GST.

Accumulation of input tax credit in Telecom sector: With declining revenues, output GST on operator revenues is much lower than input GST credits. This means that roughly Rs. 30,000 crores of telecom operators’ funds are blocked in GST credit. There is a need to consider refunding the accumulated unutilized input tax credit to the industry.

B. Exports and Domestic Related Strategies and Policies

From the export angle and also the domestic angle, Internet based services (Broadband) has huge potential. The potential form of increasing exports in this area for India could be Project Exports. India

can take up project exports for setting up broadband services in developing countries. Globally, 151 countries have National Broadband plans to roll out data intensive networks over the next 2-5 years. India is at a very unique position in this scenario as it can become both a broadband service provider and also the hardware capital in certain electronic products given its software leadership. This will be a combination of Goods and Services Exports. Some strategies and policies in this regard are the following:

The first step is to make India the major source of Optical Fiber (OF) and optical fiber cables (OFC): This is critical to the futuristic networks. In a scenario when India's electronics import have been on a rise, OFC is one component where the exports has been higher than the imports in the last 3 years. India's demand is estimated at 32 mn F-km in 2019 and India's capacity at 83 mn F-Km. India currently has 2.5 times more Fibre Capacity than local Demand. India can become a major broadband service provider and also the Fiber Capital of the World with the right policy impetus. Supply shortage present across these countries places India at a position to cover 70% of the world demand if right policy impetus is given. **A combination of manufacturing of optical fiber along with providing services in the form of broadband services through project exports could be the key to future export growth.** In this context, there is a need to consider increasing temporarily basic customs duty (BCD) on Fibre & Cable to, say, 15% from the present 10% to help this nascent industry. Also, import benefits for fibre has been given under CEPA and these benefits are leading to increased imports from Japan & Korea. While this needs to be addressed, in the future, we need to enter into FTAs primarily with consumption economies like EU, African and Latin American countries. This will help broadband related manufacturing in India and broadband services exports to some African and Latin American countries.

Another important step is to become self-reliant in the manufacturing of Preform as the quality of raw materials play an important role in high quality networks. India needs to become a major producer of Semiconductor grade 'Preform' - strategic to the making of quality Optical Fiber. This critical and complex manufacturing can ensure India's self-sustenance in manufacturing. For this purpose, import duty for Glass Preform may have to be increased to 10% from the present 5%. Indigenous Preform manufacturing in India needs to be protected and incentivised as it's the lifeline of Optic Fibre manufacturing. However, raw materials for the manufacturing of Glass preform must be exempted from BCD against end use.

Custom Duties on certain network products should also be removed : While broadband manufacturing related items should have higher customs duties, for certain network products duty should be nil/low. Recently, duty on various 4G/5G related network products has been doubled to 20%. Further, the customs notification classified telecom equipment as "non-essential imports" which goes against the Government's Digital India agenda. So, customs duties for the 4G/5G related network products along with MIMO/ LTE products, Soft switches and Voice over Internet Protocol (VoIP) equipment, DWDM Optical Transport Network [OTN], Multiprotocol Label Switching-Transport Profile [MPLS-TP] products etc. should be reduced/removed.

GST on Telecom Services: This needs to be reduced to 12% from 18% and rationalized with the same tax bracket as the Mobile Handset segment. Since Broadband services is the need of the hour, the GST slab on services and networks needs to be at par with that of the smartphones/handsets.

Soft Funding for the Telecom Sector: Indian telecom sector is overburdened with levies as compared to other countries and the sector has a crushing debt burden of over Rs. 7 trillion. To open the flood-

gate for letting in the innumerable innovative new services and applications that 4G and 5G can provide, the sector requires huge investments. For this purpose, there is a need to consider setting up a Telecom Infrastructure Fund and allowing telecom sector to issue tax-free bonds and access long-term low-cost debt from Infrastructure Debt Funds.

Other measures: Some other measures include incentivizing Value Addition in Manufacturing through GST; export incentives under All Industry Rate (AIR) Duty Drawback for glass preform and Optical Fibre (OF) & Optical Fibre Cable (OFC); increasing export incentives under MEIS for the electronics & telecom industry; simplification of MSIPS through one time approval and reimbursement process; and incentivizing R&D related to India-specific fibre and cables.

5. Healthcare

Healthcare is an important sector in the country generating employment and revenue. India is spending 5% of GDP on healthcare both through Public & Private Sector. The supporting sector, the Indian Pharmaceutical industry is currently the largest producer of generics in the world and 3rd largest in volume. India has the potential to become one of the next big medical tourism destinations.

Export Potential: Indian Healthcare sector is estimated to grow up to US\$ 372 billion by 2022 and the Hospital Industry is valued at US\$ 61.79 billion in 2017 and estimated to grow up to US\$ 132.84 billion in 2022. Medical Tourism valued at US\$ 3 billion grew by 22-25% in April 2017 and doubled to US\$ 6 billion in 2018. It is estimated to reach a value of US\$ 7-8 billion by 2020. India is the 4th largest medical devices market in Asia after Japan, China and South Korea and 80% of the medical equipment and devices are imported. The size of medical device market is expected to grow to US\$ 4.8 billion by 2020. Medical Tourism has immense potential for growth with tertiary and quaternary care in Indian hospitals comparable with those of

Europe or USA and at significantly lower prices. India can train doctors and nurses in line with the requirements of developed nations and increase its foreign exchange earnings from healthcare exports, on the lines of Philippines. While the present destinations of exports by way of Medical Tourism are predominantly South Asia, Africa and Middle Eastern countries, potential destinations could even include USA, Europe and Japan which are facing a large aging population. India with a price advantage and the backing of a skilled health workforce – doctors, nurses, paramedics and administrators, can become the world's healthcare delivery manager. This can be through the consumption abroad mode with foreign patients coming to India; cross-border supply mode through telemedicine; and even by the commercial presence mode by joint ventures with foreign hospitals or with the help of NRIs.

Value Addition: India is already providing value added services with exports mainly in the super speciality healthcare segment. India is providing tertiary and quaternary care that is comparable to any healthcare facility in the western world. This is provided at a significantly lower price. The level of care is also comparable with that of other countries given the presence of trained work force. Given its huge pool of skills, India can also create value addition (other than medical tourism) in areas like second opinions, tele-reporting, health data analytics, etc. Strategies and policies aimed at increasing availability of medical equipment and devices, infrastructure status for hospitals, etc., can further add value to India's healthcare services.

Strategies and Policy Issues: These include the following

Recent policies taken by Government related to healthcare sector: Some recent policies taken by the Government related to health sector have helped, while some others have adversely affected the sector. For example, the Government funded public

health system (Ayushman Bharath) has helped. But, some other recent policies have affected the sector like capping prices for medical devices; import duty which discourage import of medical equipments and devices with 80% of medical equipment and devices currently being imported increasing the cost of procurement, while proportionate provisions to encourage indigenous manufacture under Make in India has not come forth.

Need to strengthen the medical work force:

Affordable medical, nursing and paramedical education is needed to fill the skill gap. The norms for establishment of medical and paramedical schools could be relaxed and undergraduate and postgraduate seats in medical education could be equalized.

Easing visa norms for medical tourists: Substantial visa relaxation has taken place to encourage medical tourism. At present, Emergency/Urgent visas are issued within 24 working hours. Further facilitation in immigration clearance and fast tracking visas for medical tourists in emergency situations needs to be examined.

Export sector benefit to medical tourism: At present due to the POS condition, medical tourism/healthcare services availed in India by foreigners are not eligible for tax benefits, even though they earn foreign exchange. This needs to be addressed and income from the services provided by healthcare service provider to foreign nationals in India who come for Medical Treatment (in India) should be treated as export of services and deduction should be given not only under chapter VI A but also to make foreign currency income fully exempt from taxes.

Tax (GST) related: The issues are the following:

Anomaly due to GST exemption: With the aim to make health services more affordable to its consumers, the Government has kept the healthcare services under the bracket of exempt supply. However, notwithstanding the novelty of the

concept, it has adversely impacted the healthcare costs. Since healthcare services are covered under the bracket of exempt supply, as per law if the output supply is exempt, then, input tax credit shall not be available. This leads to making the final output service inclusive of taxes costly. The GST council has fixed the tax rate in the range of 5% to 28% on certain healthcare services and products, and due to exemption of Healthcare services from GST, seamless flow of input credit from one supplier to other is disturbed with the ultimate increase in the cost of delivery to the patients.

Increased tax rates on Inputs: Although the healthcare is exempt under the Goods and Services Tax [GST] regime, increased rates of taxes on inputs such as medical equipment, diagnostics, re-agents, labour and maintenance of medical equipment have resulted in higher operating cost of healthcare sector.

GST on Life Saving Drugs: In pre-GST era, lifesaving drugs to treat diseases like HIV-Aids, Tuberculosis, and diabetes had been exempted from excise and custom duties and only a few states charged tax at 5%, but GST has now slotted them mandatorily under 5% slab.

GST on Related Products: In addition, the related products like surgical gloves, wheel chair and other products also cost more now.

Input services to Hospital services: Input services like Housekeeping, Maintenance of equipment under Annual Maintenance Contract and Comprehensive Maintenance Contract, Manpower supply, Laundry Services, Rent, Technical services and Civil and Electrical contracts are taxable. These were taxed at 15% under pre-GST, are now charged under 18% under GST.

To address the above issues, one suggestion is to zero rate healthcare services and healthcare insurance premiums, which will ensure that the credit chain is intact and that the input taxes are not

loaded into the cost of healthcare services. Input tax credit will be available as a refund for the healthcare service providers. Alternatively, the rates of tax for the goods and services consumed by the healthcare service provider and rate of GST on health insurance premium could be streamlined. Government has not only exempted the services provided by educational institutions but has also exempted the predominant services provided to educational institutions. So, the benefits available to education sector could be considered for extension to healthcare service providers.

6. Other Services

In the case of **Accountancy**, there is good potential for export of Services manpower, especially to the developing countries. Besides African Countries and Middle East countries, there is potential for export of services even to USA, UK and Other Commonwealth countries, since India has adopted International Standards in Accounting and Auditing Sector.

Actuarial services are in good demand in developed countries. This is a hybrid service involving both Accountancy and Financial expertise. Our Actuarial service providers should be well versed with the rules and laws of these countries.

In the case of **Engineering Services**, exports are less of a standalone nature and more in the form of project exports in the form of civil engineering and construction projects, Turnkey Projects and Technical and Consultancy Services contracts. One difficulty faced by the Engineering service providers is that they have to pay GST within 30 days of raising of invoice while they generally receive payment after a considerably long time of 3-4 months or even 6 months. This leads to considerable cash flow problem and needs to be addressed. Another issue is that, while export of engineering services are exempted from GST, the present system envisages giving a letter of undertaking and getting the required exemption or paying GST and getting it refunded. This needs to be addressed. Another

suggestion is regarding reimbursing cost of bidding of successful bidders which was done earlier by the EXIM Bank of India to promote export of consultancy services. This was with the intent that they should continue to market the services and secure more and more works externally. This scheme does not exist now. There is a need to see if such schemes can be reintroduced so as to boost exports of engineering consultancy as well as to generate more employment. In the case of disinvestment, there are also a few PSUs, such as Engineers India Ltd (EIL), RITES, WAPCOS, MECON, etc., providing engineering services. However, carefully thought out disinvestment strategy is needed in this regard as some of them are performing well.

Services Policy Areas for Emulation/Negotiations by India

This report has given many policies and strategies for India in the different services aimed at increasing services exports and liberalizing the services sector wherever possible and necessary.

However, there are policy areas in services sector where other countries among the Select 9 countries are less restrictive than India and India can emulate some of these policies of other countries. There are also policy areas where other countries are more restrictive than India and India can negotiate with other countries to make them less restrictive.

Policy Areas where India can emulate other countries

Some examples of policies of other countries which can be emulated by India are given below. While there may not be a single role model to be followed, there are different sectors and different policy areas where the best practices or the better practices of some countries can be emulated by India.

Horizontal Measures

Restrictions on the type of shares or bonds held by foreign investors: In India, while a person resident outside India can purchase shares or convertible

debentures issued by Indian company, there are some conditions regarding this. Brazil is very liberal regarding this policy measure with Brazilian law guaranteeing that foreign capital will have the same legal treatment given to national capital on equal terms, and forbids any discrimination. These are in fact horizontal measures also found in other sectors.

Accountancy

- In India, only locally licensed individuals i.e. Chartered Accountants (CAs) shall become partners and hold equity shares in accounting or auditing firms. Brazil has a relatively simple system for both Accounting and Auditing, wherein the majority of the capital of accounting companies must be held by licensed accountants and auditors. **There is a need for India to examine whether the system followed in Brazil could be adopted.**

Architecture Services

- **One major high weighted restriction in India is related to equity restrictions applying to not licensed individuals or firms** as only locally licensed individuals i.e. architects should become partners and hold equity share in architect firms. According to the Architects Act, no person (individual/company, LLP, etc.) other than an architect or a firm of architects (having only architect partners) shall use the title and style of 'Architect' for practicing the profession of an 'Architect'. In Brazil, there is the condition that a firm that uses the nominative term "Architecture" in the company's name or trade name, necessarily requires a licensed Architect as partner or manager with decision power. For a firm exercising architecture and urban planning, their professionals (technical staff) must be registered with the Board of Architecture and Urbanism (CAU). Thus, Brazil is more liberal than India as in India, only locally licensed individuals

i.e. architects should become partners and hold equity shares in architect firms, while in Brazil, a firm that uses a nominative term 'Architecture' in the company's name or trade name necessarily requires a licensed architect as partner or manager with decision power. The Brazilian policies in this policy area could also be considered by India.

Legal Services

- **There is a restriction related to advertising.** In India, any form of advertisement is prohibited for advocates and law firms. An advocate shall not solicit work or advertise, either directly or indirectly, whether by circulars, advertisements, touts, personal communications, interviews not warranted by personal relations, furnishing or inspiring newspaper comments or producing his photographs to be published in connection with cases in which he has been engaged or concerned. The sign-board or name-plate or stationery should not indicate that he is or has been President or Member of a Bar Council or of any Association or that he has been a Judge or an Advocate General. Law firms are not allowed to publish their work or area of expertise on their website. Only USA, Brazil and Indonesia have these restrictions. In USA, there are various conditions imposed on lawyers' advertisements but these are mainly to prevent misleading information being used in advertising. In Indonesia, Code of ethics for advocates prohibits advertisement with the purpose to solely attract attention. In Brazil, the articles establish limitations regarding the content and the means of communication for legal services advertisements. China doesn't have any restrictions in this regard. In China, in general, lawyers are allowed to advertise their firms, specialty skills and strengths, practice experience and results as well as fee standards. **This is one area where relaxation can be thought of at least to the extent of US regulations.**

Tourism

- **Emulating policies of some ASEAN countries:**

The value of medical tourism in the world and India are estimated to be at US\$ 20 billion and US\$ 4 billion respectively as per industry sources. Many South East Asian countries have policies to promote medical tourism. For example, the Tourism Authority of Thailand (TAT) has a comprehensive medical tourism website that acts as a guide for potential visitors and also highlight popular treatment options and reputed hospitals for medical tourists. The Ministry of Health, Singapore has established “Singapore Medicine”, which works closely with private healthcare providers to expand their reach and referral networks in key target markets. The Malaysian Government’s Healthcare Travel Council (MHTC) was established in 2009 to develop the healthcare travel industry and promote Malaysia as a preferred destination for healthcare tourism in the region. Some of the policies of countries like Singapore, Thailand, Malaysia, etc. in promoting Medical Tourism could be emulated by India.

- **Need to address the high taxes in tourism sector including GST:** The Indian tourism sector has one of the highest indirect tax incidences globally in contrast to the low tourist inflows and forex receipts. This has been adversely impacting tourism in the country. Further, the competitive advantage of our Asian counterparts due to lower indirect tax rates in their respective countries gives their tourism an edge. Therefore, there is a need for lower GST rate on the activities relating to organizing tours, hotel booking, air ticket booking, local travel arrangement and miscellaneous services, etc. Table 2 gives comparative tax rates in India and other countries which shows that India and Egypt have the highest tax rates under the ‘Increased’ category. In India this tax rate applies for accommodation above Rs 7500. However,

after the introduction of GST in 2017, India’s tax rates have become comparable except under the ‘increased’ category.

Table 2: Comparison of Tax Rates of Countries and Territories operating a VAT

| Sr | Countries | Imple- mentation Year | Rates 2018 (%) | | |
|----|----------------|-----------------------------|----------------|--------------|-----------|
| | | | Standard | Reduced | Increased |
| 1 | China | 1994 | 16 | 6, 10 | -- |
| 2 | Egypt | 1991 | 14 | 0, 5 | 15, 30 |
| 3 | France | 1968 | 20 | 2.1, 5.5, 10 | -- |
| 4 | Germany | 1968 | 19 | 7 | -- |
| 5 | India | 2017 | 12, 18 | 0, 5 | 28 |
| 6 | Japan | 1989 | 8 | -- | -- |
| 7 | Russia | 1991 | 18 | 10 | -- |
| 8 | South Korea | 1977 | 10 | -- | -- |
| 9 | United Kingdom | 1973 | 20 | 0, 5 | -- |

India needs to come out of the increased category if it really wants to boost its tourism exports. Major tourism destinations like UK, Egypt and France have low tax rates and are not in the increased category. These are examples to be followed as our aim is to attract tourists and make them spend in India and not collect higher tax revenue.

- **Refund of GST on purchases of goods by International Tourists:** As per the section 15 of IGST Act, the International Tourists can claim GST refund on the goods purchased in India while leaving the country. This is on the lines of countries like Singapore and many western countries where there is a simple mechanism for refund. However, the mechanism for claiming GST refund is yet to be determined in India. India needs to quickly put its act together and arrive at a simple mechanism on the lines of Singapore and other countries.

Telecom

- **Addressing the issue of high taxes on Telecom:** Applicable levies/taxes on mobile services is

still among the highest in India as can be seen in Table 3.

The levies need to be streamlined and brought to the levels of at least China and Malaysia. In fact, China has no other levy on telecom other than VAT.

The above are just a few examples and there are many more policy areas where India can emulate other countries.

Policy Areas where India can negotiate with other countries

There are policy areas in services sector where other countries among the Select 9 countries are more restrictive than India or have similar restrictions like India. Some such examples are given below which can be used as bargaining chips during negotiations (both multilateral and bilateral).

Accountancy and Auditing

India's restrictions in Accountancy and Auditing are high. But other countries like Korea also have restrictions.

- **Cross Border data flows:** Korea is more restrictive than India, under policy area 1 due to restrictions on cross border data flows where fulfilling a combination of conditions is required before transfer is possible as per Personal Information Protection Act 30th September 2011 last modified on 30th March 2017. However in India a body corporate may transfer sensitive personal data or information to any other body corporate or a person located in any other country that ensures the same level of data protection that is adhered to by the body corporate as provided for under the Information Technology Rules, 11th April 2011 and Information Technology Act 17th October 2000 amended in 2008 and in force from 5th February 2009.
- **Another related restriction in Korea** is that transfer of personal data is prohibited as per Personal Information Protection Act September

2011, last modified on 30th March 2017 and Act on Promotion of Information and Communications Network utilization and Information Protection January 1987, last updated on 23 March 2017, whereas in India it is not restricted.

- **In the case of US**, under Policy Area 2 though the value of STRI is lower than India, there are 9 restrictions which are indeed important. One restriction relates to Quotas on contractual services suppliers wherein, the H-1B visa category is considered closest to contractual services suppliers with the quota of 65,000 per year as per Immigration and Nationality Act. This restriction has now become more restrictive with many conditions. Another restriction is on quotas of Independent Services Suppliers which is also assumed to fall under H-1B category in all sectors with quota of 65,000 per year. The numerical limitations do not apply to individuals employed at an institution of higher education; individuals employed at a non-profit research organization or government research organization, or individuals who have earned a masters or higher degree from a US higher education institution up to a maximum of 20,000 individuals. India does not have any specific quota restrictions. UK also has similar restrictions like USA. These restrictions are also found in other sectors and are horizontal in nature, though there are some sector-specific peculiarities. **The quota restrictions in these countries in fact negates any liberal aspects in other parameters which seems to have been overlooked by OECD.** The other restrictions of US in this Policy Area are related to Labour market tests for contractual services suppliers and independent services suppliers wherein H1B visa holders have to be paid at least the prevailing wage for the position and work location; nationality or citizenship required for license to practice auditing as per New York Education Law 2016, while India does not have this condition; Foreign professionals required to

Table 3 : Taxes/Levies on Mobile Services: A comparative Statement

| Regulatory Charges | Pakistan | Sri Lanka | China | Malaysia | Bangladesh | India |
|-----------------------|------------------------------------------------|-------------------------------------------|-------------|------------------------------|---------------------------------------------------------------|-----------------------------|
| Service Tax, GST | 18.0%-19.5% (Sales Tax) | 25.51% Telecom Levy (VAT + MSL+ NBT+ ECL) | 11.0% (VAT) | 6.0% (GST) | 19.45% (Supplementary duty + VAT + Surcharge) | 18% (GST) |
| License Fee | 0.5% LF + 0.5% R&D | 2.04% | - | 0.5% ⁸ | 5.5% Adjusted Gross Revenue + BDT 50 mn (per 2G & 3G license) | 8% |
| SUC | Cost Recovery | - | - | - | - | 3% to 6% |
| USO Fund | 1.5% of Gross Revenue | - | - | 6.0% of Weighted Net Revenue | 1.0% of Adjusted Gross Revenue | 5% included in License Fees |
| Other taxes | Sales Tax of PKR 250 on new or replacement SIM | LKR 3 per min IDD Levy ⁹ | - | - | SIM Tax of BDT 100 on new or replacement SIM | - |
| Total levy | 20.5% to 22.0% + Cost Recovery + SIM Tax | 27.55% + IDD Levy | 11% | 12.5% | 25.95% + BDT 50 mn per license + SIM Tax | 29 % to 32% |
| Telecom specific levy | 2.5% + Cost Recovery + SIM Tax | ~12.04% ⁷ + IDD Levy | - | 6.5% | 6.5% + BDT 50 mn per license + SIM Tax | 11% to 14% |

Source: COAI

take local exams for accounting and auditing as per New York Education Law 2016, wherein local exams is required in most cases; and Foreign professionals required to practice locally for at least one year in accounting and auditing as per New York Education Law 2016, the intention of which is to have experience satisfactory to the Board of Regents and in accordance with the commissioner's regulations. **Under policy area 2, Korea is also more restrictive than India** due to restrictions related to Quotas for Contractual Services Suppliers and Independent Services Suppliers as per Immigration Act 1963 updated on 14th March 2017. Accordingly passing Certified Public Accountant (CPA) examination is necessary to be qualified as a CPA or Auditor. In India, CA should be a member of ICAI and no other conditions apply. In Korea, there are also other restrictions to movement of people.

Air Transport

- **Slot allocation:** In India, slots are granted for both domestic and international traffic (cargo and passenger) on the basis of historic rights if the slots were used by the requesting airline 80% of the time in the previous season. In addition, 50% of the remaining slots must be allocated to new entrants. Slot allocation is also found in Korea, China & US in the case of domestic cargo and passenger, while it is not found in US for International cargo and traffic. Thus, in the other countries also, slot allocation is basically not based on market principles. In USA & Korea slot exchange on a one to one basis is allowed for both domestic (Cargo & Passenger) and International (Cargo & Passenger) traffic.
- **Schedules for airport use (cargo and passenger) :** India has no restrictions, with IGIA Airport, Delhi

open round the clock. China's Beijing International Airport has curfews with restrictions on usage.

- **Regarding exemption of air carrier alliances from competition law (Cargo & Passenger), India has no restrictions, but countries like US and UK have.** For example, in the US, the Department of Transportation (DOT) has authority to grant anti-trust immunity to anti-competitive carrier agreements, if it determines that such agreements "are necessary to meet a serious transportation need" or are necessary to achieve an important public benefit that cannot be achieved by reasonable and less anti-competitive alternatives.
- **Regarding Price regulation on domestic routes (Cargo)** India has no restrictions and the regulatory body may issue directions if it is satisfied that a transport undertaking resorts to predatory pricing. This positive step of India is not recognized in the indicator. In fact, China has restrictions as prices are approved by the State Council.
- **The notable fact in this sector is Price Regulation on domestic routes (passenger) where India is considered restrictive as Prices for Passenger traffic on certain domestic routes under the UDAN regional connectivity scheme are fixed.** A price cap of Rs 2500 applies to half of the seats available on the designated routes. It is really ironical that a social welfare measure of encouraging our transport to backward regions and regions without or with less air connectivity is treated as a restriction by OECD. Thus, India is considered on par with China where there is really a restriction with Prices determined by the State council!
- **Under contract for Universal Services Obligations (USO) awarded through competitive bidding (cargo and passenger) also, India is considered**

restrictive for a social welfare measure. All scheduled operators operating in Category I routes are required to deploy at least 10% of such capacity in Category II route and at least 50% capacity in Category III. On the other hand, USA is considered to have no restrictions despite the fact that Essential Air Services (EAS) is meant to maintain a minimum air service for small communities and the Dept of Transportation subsidizes two to four round trips per day. Besides foreign air carriers may not engage in domestic traffic.

Broadcasting

- **Regarding the Maximum foreign equity share allowed in broadcasting (non-terrestrial),** leaving UK which has no STRI contribution, India is more liberal than the other countries in the Select 9 list with 100% Foreign Investment allowed through automatic route for DTH (Satellite) and Digital cable networks and HITS. Foreign investment in uplinking of Non-News and Current Affairs channels is also 100% through the automatic route. However, foreign investment in uplinking of News and current affairs channels is restricted to 49% through Government route. US is very restrictive in this parameter. In US, no foreign government, foreign citizen or corporation organized under foreign laws may hold a broadcast license directly. Direct foreign ownership in a US corporation holding a broadcast license is limited to 20%. Indirect foreign ownership is limited to 25% unless the FCC finds that it would serve the public interest [such authorization has never been granted in practice]. China is most restrictive with Investment in both satellite and cable television being prohibited under the Catalogue of Foreign Investment Industries. Online streaming services for audio and video programmes also fall under this category. However, Investments in the

production of television programmes (without broadcasting) is possible, subject to a joint venture requirement.

Computer Services

- **Immigration curbs in major markets:** The major non-tariff barrier in services sector is the rising protectionist tendencies in the form of visa restrictions in the major markets which are as follows. These are horizontal measures but affect the IT Sector greatly.

- **In the US,** immigration and visa issues, which have long plagued the information technology sector seem to have hurt Indian IT services companies recently with the US Government's stance on the H-1B visa issue. Challenges in the U.S. are twin-fold – via both Administrative action, as well as Legislative changes. On the Administrative side, the “Buy American, Hire American” Presidential executive order (dated 18th April 2017) called for the collection of data, increased oversight and enforcement actions, and the development of administration plans to reform and curtail the high skill visa programs. The Executive Order has been followed by a number of administration policy changes and proposed changes that target the visas most commonly used by India's IT sector. Departments of Justice, Homeland Security, State, and Labor - all have issued memos, policy guidance aimed at imposing new restrictions on the visa programs, enhancing enforcement, increasing scrutiny of sponsors, and enhancing penalties for violations. The US administration has been quietly beefing up the “extreme vetting” procedures for people seeking visas to enter the US.
- The recent bill to curb the issuance of H-1B visas will adversely impact India. As per the

proposed bill, there is no change in the 65,000 limit per year for the visa in a year. But the minimum salary requirement for H-1B visa has been increased to \$130,000 per annum from the present \$60,000. There is also the elimination of those who do not have master's degree resulting in a simple computer programmer no longer qualifying since it will become a non-specialist profession. Besides, the US has made the conditions tighter for renewal of H-1B visas recently.

- To further compound the challenge in the US, there is a strong misperception and negative media narrative that large Indian IT-service providers misuse the system to take a disproportionate share of H-1B visas. Examples include emotive stories built around higher paid American workers being replaced by cheaper H-1B staff, and the displaced American workers having to train their “cheap” H-1B replacements.
- **In UK,** under the immigration charge, employers seeking skilled people would have to pay double skills charge and migrant workers would be asked to pay more into the National Health Service. The £120,000 salary threshold for workers to stay in the UK for more than 5 years and a maximum of 9 years is quite high as most of the middle management employees of Indian companies critical for business, fall in the salary range of £60,000-£80,000.
- **In Singapore** multifold hike in minimum salary levels for work permit holders and clampdown on Indian tech workers has shrunk their base to under 10,000.
- **Australia** has scrapped its popular 457 visa on April 18, 2017 a temporary working visa that allowed employers to hire foreign workers to fill the skill gap in the domestic labor market.

- **New Zealand** has announced tougher requirements for skilled overseas workers.

Thus, in India's major markets for IT-BPM, services entry barriers have increased in recent years. While there is need for negotiations with these countries, FTA agreements with some of these countries could help and these issues should be taken into consideration during negotiations. In the case of the Indo-Singapore FTA, India needs to take up the visa issue in the next review.

- **Totalization Agreement with USA:** This issue is being negotiated almost over a decade with no real actions or results. Both sides are negotiating the Bilateral Totalization Agreement (BTA), which once signed, would benefit thousands of Indians who are working in the US and paying social security & Medicare Tax but are unable to get any benefit out of it. The signing of Totalization Agreement will exempt Indian professionals working on short term visas in the US from paying social security and medicare taxes. Currently, residents of the US pay 6.2% social security taxes on wages upto US\$106,800 and 1.45% medicare taxes. Since a lot of professionals return to India before the stipulated period of work in the US to enjoy the benefits, they never get the pay-outs of these contributions. Not having a Totalization Agreement is a pressing issue for all the NRIs in the US. The US has also signed similar agreements with most of these countries. Since India and the US are having Totalization treaties with the same block of countries, there is a need to strongly pursue this issue during bilateral meetings to bring it to a logical conclusion.
- **EU – Data Protection:** India has long sought to gain data adequacy status with the EU in order to facilitate data transfers and boost its IT-BPM industry, which currently has to rely on binding corporate rules (BCRs) and standard contractual clauses (SCCs) for transfers of personal data from the EU to India. The subject of data adequacy

has featured in negotiations of the EU-India FTA since talks began in 2007, although, there has not been much headway.

Engineering Services

This sector is not regulated in India and this aspect can be used as a bargaining chip in making other countries open up their services.

- **Unlike other countries, in India, engineering services are not regulated.** General company law applies for legal form of business entity. Only a natural person, who is an Indian citizen and resident in India shall be eligible to incorporate a one-person company. Since engineering services are not regulated, there is also no condition regarding licensing. There is however a system of foreign degrees recognition from Association of Indian Universities. In USA, both the Board of Directors and Managers of a professional services corporation must be locally licensed and of a foreign professional service corporation must be licensed in their jurisdiction. China and Brazil also have conditions related to licensing.
- **There are also no specific provisions for mandatory fee setting** in the law as Engineering is not a regulated profession. China, Brazil and South Africa have regulations related to professional fees.

Maritime Transport

- **Foreign flagged ships are partially excluded from cabotage (coastal shipping):** In India movement of coastal trade is generally reserved for Indian flag vessels. However, as per a regulated order of priority, foreign registered ships may be granted a license to operate in Indian coastal trade. In 2015-16, 28% of coastal cargo was carried by foreign flagships. Also, in Kandla Port, there is priority berthing for coastal vessels/shipping. Further as pointed out by service providers, a foreign flag ship is not required to obtain a

license from the Director General of Shipping for engaging in coastal trade of India, for carriage by sea of agricultural, fisheries, animal husbandry and horticultural commodities and cargo in containers. **In countries like the US, Indonesia and China cabotage is fully reserved for domestic ships.** In US, The Jones Act requires that merchandise that is transported by water between US points be carried by US built vessels, registered in the United States, owned and manned by US citizens. In Indonesia, Foreign ships are prohibited to operate in the domestic coastal transport. In China, Foreign (flagged and owned) vessels are not allowed to operate maritime transport services between Chinese ports. It is however possible for foreign-flagged, but wholly Chinese-owned, vessels to perform cabotage between Shanghai and other Chinese ports.

Thus, while in USA, China and Indonesia there are restrictions like Foreign-flagged ships are fully excluded from cabotage without any exception, in India it is not fully restrictive and Foreign-flagged ships are excluded from cabotage if no Indian ships are available.

- **While this sector has restrictions, other countries also have such restrictions, some not so explicit. Besides, there are subsidies and condition of use of national ships by other countries.**

- **As in China, Korea and Indonesia, in India also there are no restrictions on maximum foreign equity share allowed, though there are limits on share that can be acquired by foreign investors in public limited companies.**
- **In the maritime space, on ground India has the least restrictions as 96% of EXIM trade and 28% of coastal cargo was carried by foreign ships in 2015-16.** India is a victim of predatory pricing and monopolistic behavior of the international container shipping companies. Their pricing tactics render Indian exports uncompetitive but they don't find mention in STRIs of any country. Possibly they fall under no man's land! The cabotage rules are only in paper and recent changes in policy have given privileges to foreign ships.

Thus, in this report a bunch of strategies/policy measures for the different services which are varied in nature has been given along with areas of liberalisation. These strategies/policies can help in tapping the myriad opportunities in these sectors. Besides, an attempt has been made to point out the less restrictive policies of other countries which can be emulated by India and the more restrictive policies of other countries which can be used as bargaining chips in our negotiations, both multilateral and bilateral.

