MBA- III semester, Specialisation- Marketing Management, Paper - Service Marketing, Paper code- MC 02, TOPIC- NEGOTIATING STRATEGY AND DOMESTIC REFORMS IN SERVICE.

NEGOTIATING STRATEGY AND DOMESTIC REFORMS IN SERVICE.

In order to benefit from the GATS negotiations, India needs to have a coherent external and domestic strategy. It needs to: (a) identify the country's strengths, weaknesses, and trade potential and requirements in individual service sectors; (b) identify the concessions India would like to obtain in specific service sectors and from specific markets; (c) determine what it could concede in turn; (d) recognize the political economy constraints and limitations it would face in liberalizing services; and (e) identify the domestic reforms and measures it would need to implement to support its negotiating strategy.

The thrust of India's strategy in *infrastructure services*, where it is primarily an importer, has to be on opening up the domestic market to greater competition and in particular, to foreign direct investment. India should consider liberalizing its earlier commitments on market access and national treatment, keeping in mind needs such as capital infusion, technology upgradation, synergies with other sectors, and the larger economy-wide impact on efficiency and competitiveness. The commitments have to be framed in the larger context of ongoing regulatory reforms and liberalization in these sectors and must reflect policy intentions. Overall, it must

1. Bind the status quo at a minimum so as to reflect the current regulatory environment and recent reforms, signal predictability of its policies, and reduce the scope for backtracking.

2. Expand the coverage of its commitments by including new subsectors and activities which were previously not bound, by including more sectors which were not previously scheduled, and by increasing the scope of the existing commitments by removing or relaxing various limitations.

3. Pre-commit to further liberalization so as to signal future intentions, particularly where the course of future policy and a timetable for phasing in has been declared and use the transition period to undertake necessary domestic measures on regulatory capacity and institutional frameworks.

4. Leverage across sectors by offering greater market access through FDI in sectors like insurance and telecommunications which are of interest to major developed countries like the EU and the US in return for improved market access under cross border supply and movement of natural persons for services like IT, health, BPO, and others where it has export potential.

In view of India's recent emergence as an outsourcing hub, its negotiating strategy also needs to put sufficient emphasis on liberalizing market access through cross border supply. Recently, India has proposed a horizontal formula for mode 1 whereby countries would make a full commitment in this mode across all sectors, barring those like financial services where there may be concerns of financial stability and fraudulent practices arising from unrestricted

cross border flows of capital. This approach has been motivated by the protectionist backlash to BPO and back office services in developed countries and would help pre-empt future protectionism in the private domain by guaranteeing unrestricted market access under mode 1. Although India cannot challenge the latest US bill which bans offshoring of US government contracts, given the carve out clause for government services under the WTO, it needs to re-think its position on government procurement under the WTO. It needs to assess the market access implications of government procurement restrictions.

These negotiating strategies have to be supported by various domestic reforms and measures. More liberal market access conditions in infrastructure services need to be supported by initiatives to encourage private participation in such services. This would require liberalization of FDI policies, divestment of the government's share in related public sector enterprises, and creation of an appropriate regulatory structure to ensure transparency, fairness, and a level playing field without jeopardizing consumer and national interests. The fallout in terms of displacement of labour and associated reforms in labour laws and in legal and institutional frameworks, would also need to be addressed. Similarly, in the case of professional and manpower-based services, India will not be able to realize its export potential unless it undertakes steps to improve quality, standards of training and infrastructure, and regulatory mechanisms to enforce standards. Investments in telecom infrastructure and supporting facilities and amendments to domestic laws and acts affecting competitiveness in such services may also be required.

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