Impact of Trade Reforms on the Indian Informal Economy and Poverty: Macro and Case Study Analyses

Trade Liberalisation and Poverty In India

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Outline

- Services sector and poverty.
- Services and GATS negotiations.
- Examination of various service sectors.
Services sector and Poverty

- Importance of services sector in the economy
  - India’s share in services: in 1980--36%; in 2002, 50% of GDP.
  - Poverty alleviation effects as employment potential higher than goods
  - India’s share of world exports of commercial services (1.25%)
  - Liberalisation of trade in services- shift in paradigm from goods to services
Services Sector and Poverty

- Services constitute the backbone of the economy
  - Input services (e.g. energy, banking and insurance, IT, etc)
  - GDP growth in countries with fully liberalised telecom and financial services 1.5% higher than other economies. (World Bank)
  - Inefficiencies in these sectors add more to export costs than foreign trade barriers.
  - Provision of several services themselves a MDG
Services and GATS negotiations

- Present level of commitments
- Autonomous liberalisation Vs Commitments
- Need for a sound regulatory framework
- Deeper liberalisation required for poverty reduction
Liberalisation of mode IV and Poverty Alleviation Effects

- Liberalisation of mode IV could help India export significant labour component of services.
- Important sectors include:
  - Software services
  - Construction
  - Health services
  - Transport
- Example of Kerala
Liberalisation of mode IV and poverty alleviation effects

- Asymmetric level of commitments under mode IV (only 2% commitments)
- Temporary presence in all service sectors is undermined by ENTs, nationality and residence requirements, admin. and visa procedures indicated at the horizontal level.
- Concept of “GATS Visa”
- Need for defining the “temporary”
Services Sectors: (2) Tourism

- Existing commitments; currently the most open service sector
- Highly service oriented industry
- Skill equipment not necessarily essential
- Annual growth of 7.9% as well as creation of 3.6 million jobs (including part time) in areas such as transportation, accommodation, food and beverages, recreation and entertainment and travel agencies.
- High poverty reduction potential with employment likely to rise to 5 million
Services Sectors: (3) Health Services

- Present level of commitments
- Strength of Indian healthcare industry- possibility of attracting patients from abroad.
  - E.g. British patients coming to India since the waiting period is long under the NHS
- Prospects of Health tourism and other traditional forms of medicine such as Ayurveda, unani, etc.
- Low level of liberalisation for low skill services such as nursing and midwifery: these have high poverty alleviation potential
Services Sectors: (4) Audiovisual services

- India has the world’s largest film industry, producing on an average of around 700 feature films and 900 short films annually and provides employment to 5 million people.
- Indian film industry does not need support mechanism; hence discussions on framework on subsidies relevant.
- Indian film industry to benefit out of market access opportunities in major WTO countries.
Services Sectors: (5)
Telecommunications

- Existing commitments
- Countries with fully open telecom and financial services grow up to 1.5 percentage points faster than other countries
- Increased tele-density - an MDG
  - Increased substantially in the late nineties but still far below the international levels
- Importance of the sector in forming a support service for other services.
- Domestic reforms in the sector.
- Role of liberalisation and increased competition has resulted
- Nearly two thirds of the employment in this sector is of those with low or no skills
- Hence expansion has significant poverty alleviation potential
Services Sectors: (6) Financial Services

- Important in channeling investment funds to their most productive uses.
- Liberalisation has introduced quality, efficiency and breadth of financial services and allows more stable flow of funds.
- Universal service obligation
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