

Saving Doha, Delivering on Development

**Benefits of Liberalization of
Infrastructure Services:
India and the U.S.**

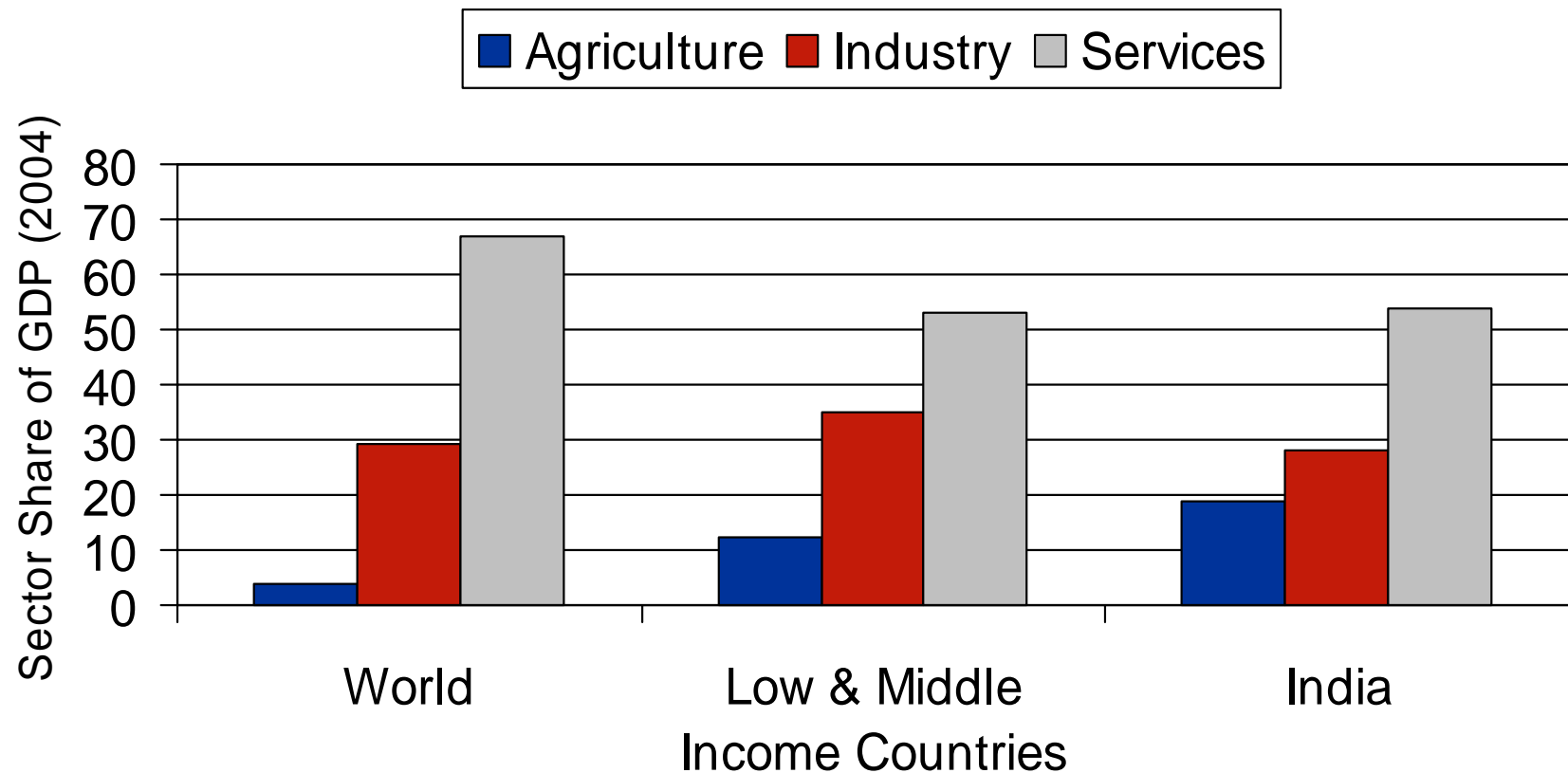
Robert Vastine, President
Coalition of Services Industries

March 13, 2007

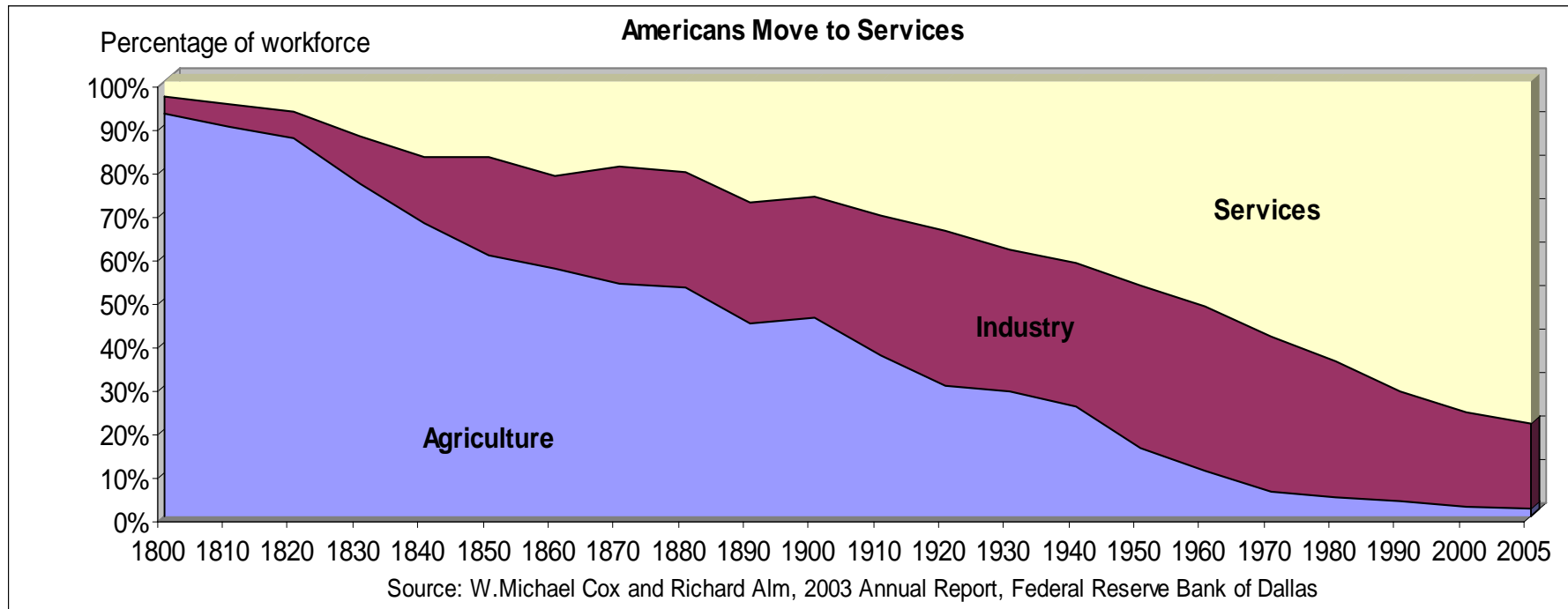
Open services markets critical for growth

- Transition to services pervasive globally
 - Largest share of the global economy
 - Largest share of Indian and U.S. economies
- Greatest source of new jobs and investment in most markets
- Vital for economic productivity and competitiveness
- “In recent years, productivity in the services has been rising at almost the same rate as the high level of productivity growth in manufacturing” (Lazear).

Services is the largest sector of the global economy

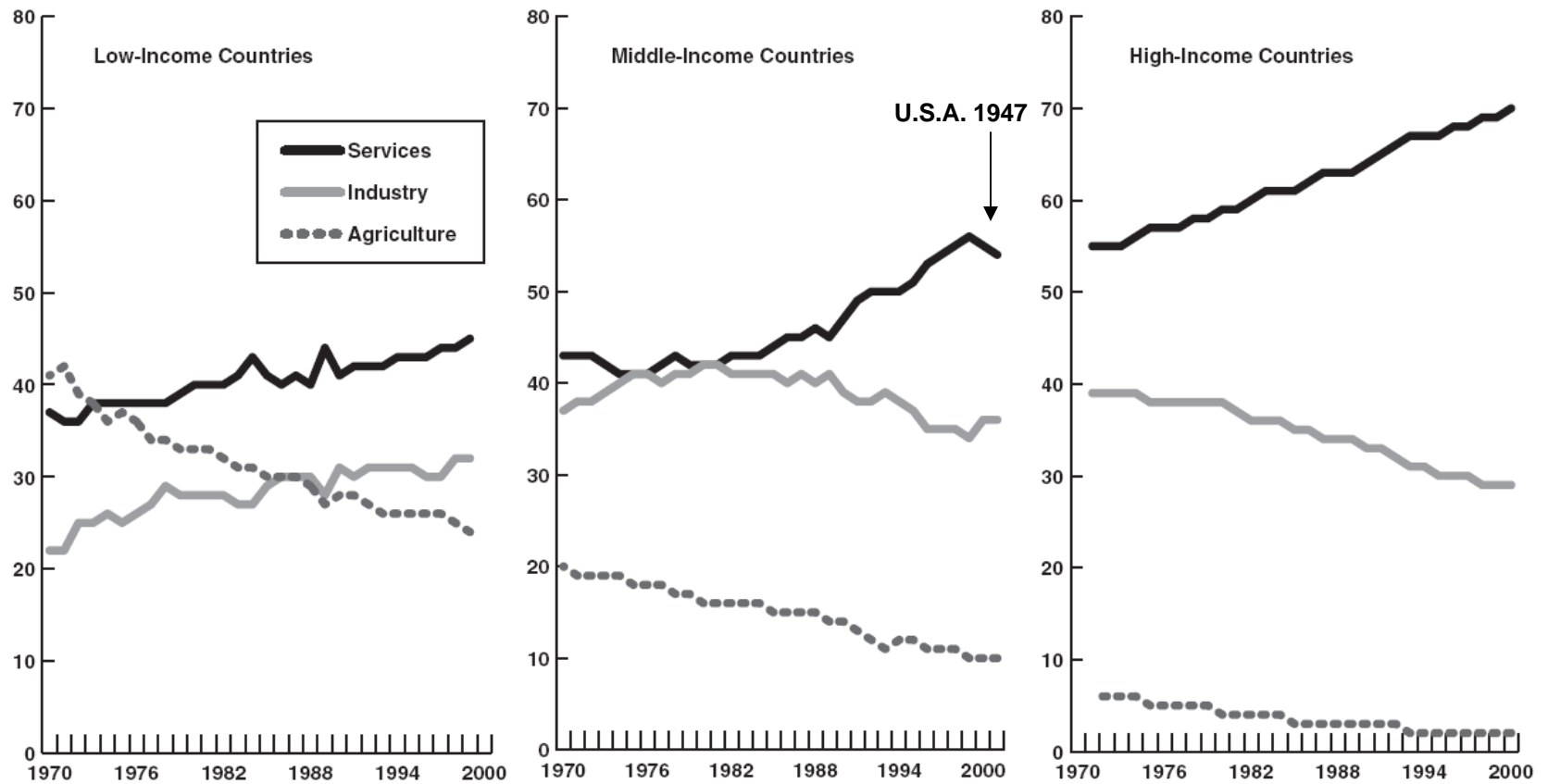


U.S. employment trends since 1800



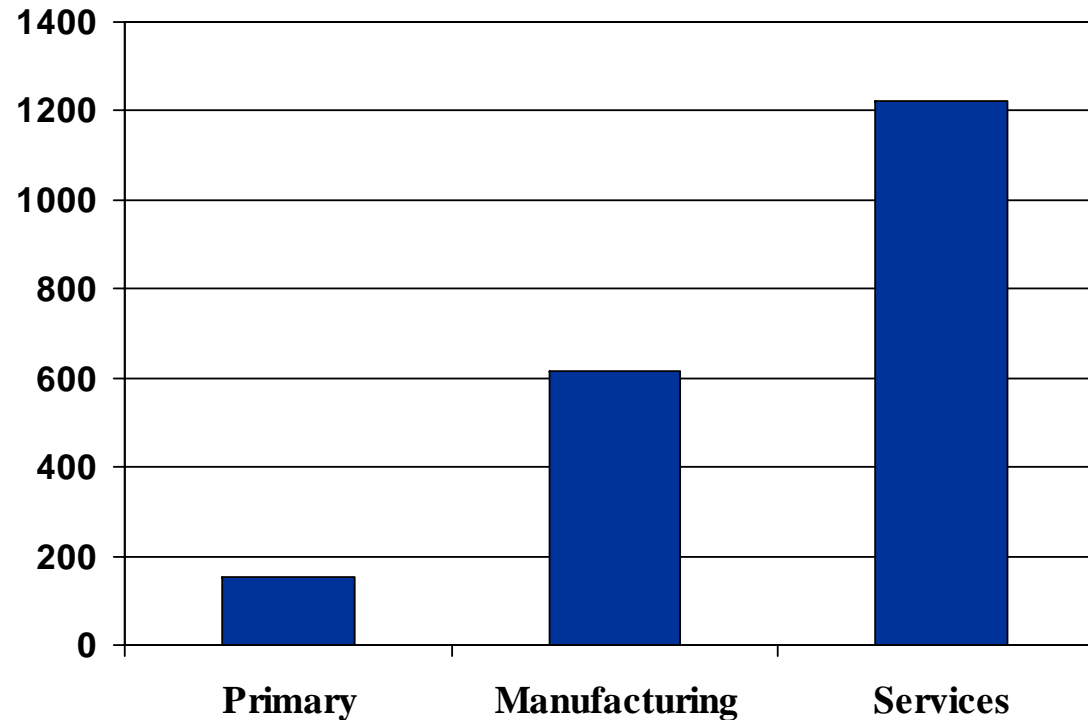
Services important even in low and middle income economies

Shares of GDP at different stages of development

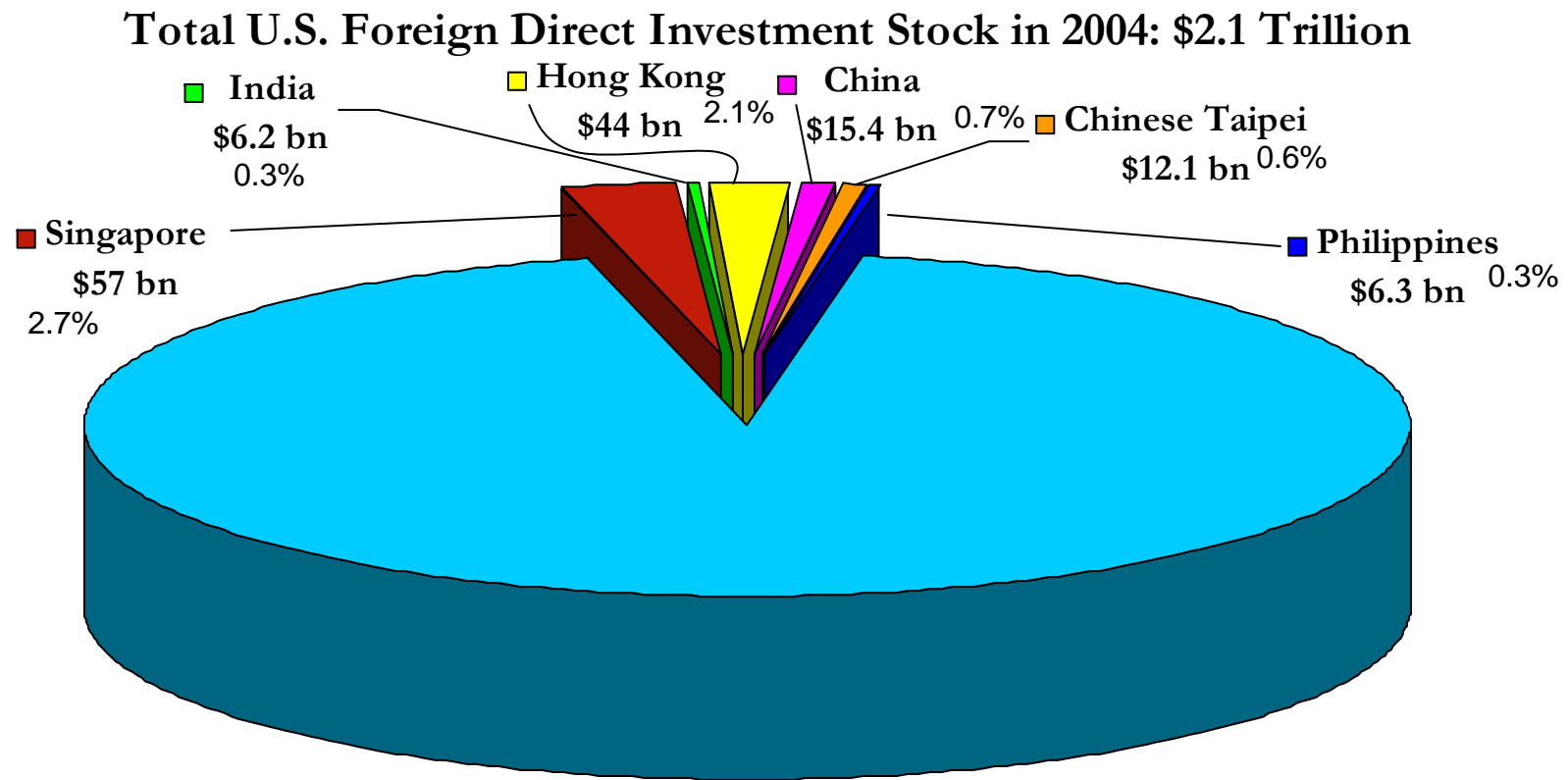


Services attract the most FDI in emerging and developing markets

Global FDI stock in developing countries, 2004
(Billion U.S. Dollars)



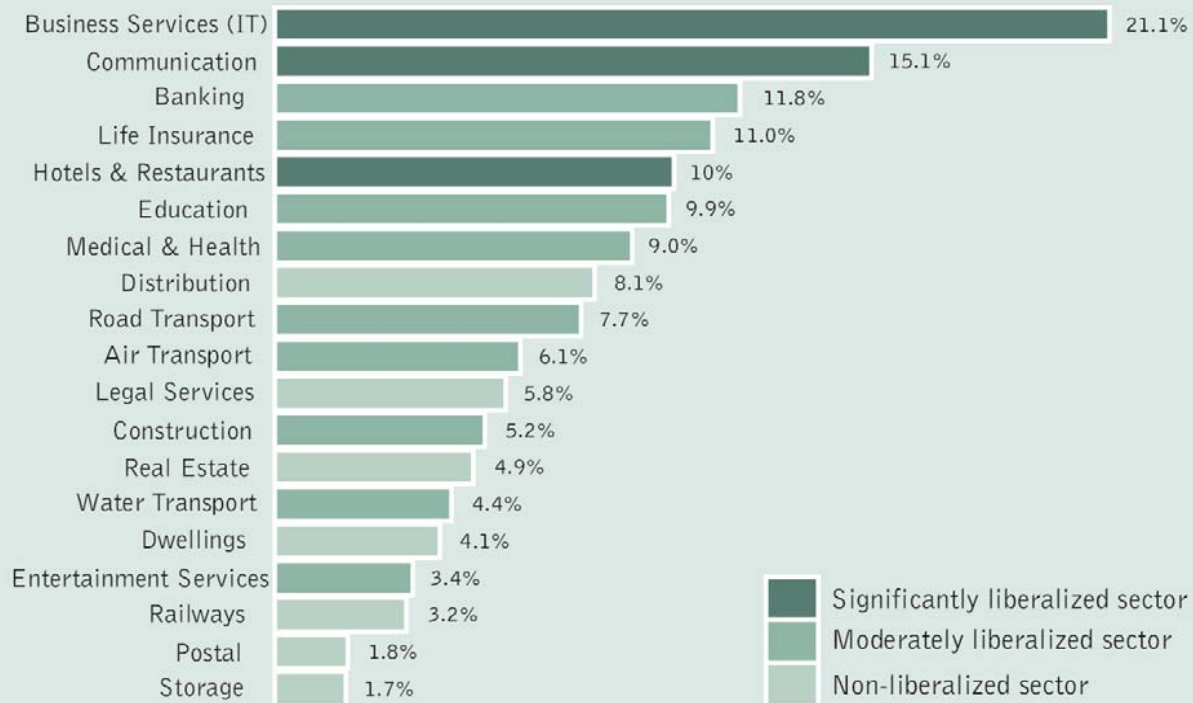
U.S. FDI in India & other key markets



India's growth in 1990's led by more liberalized services sectors

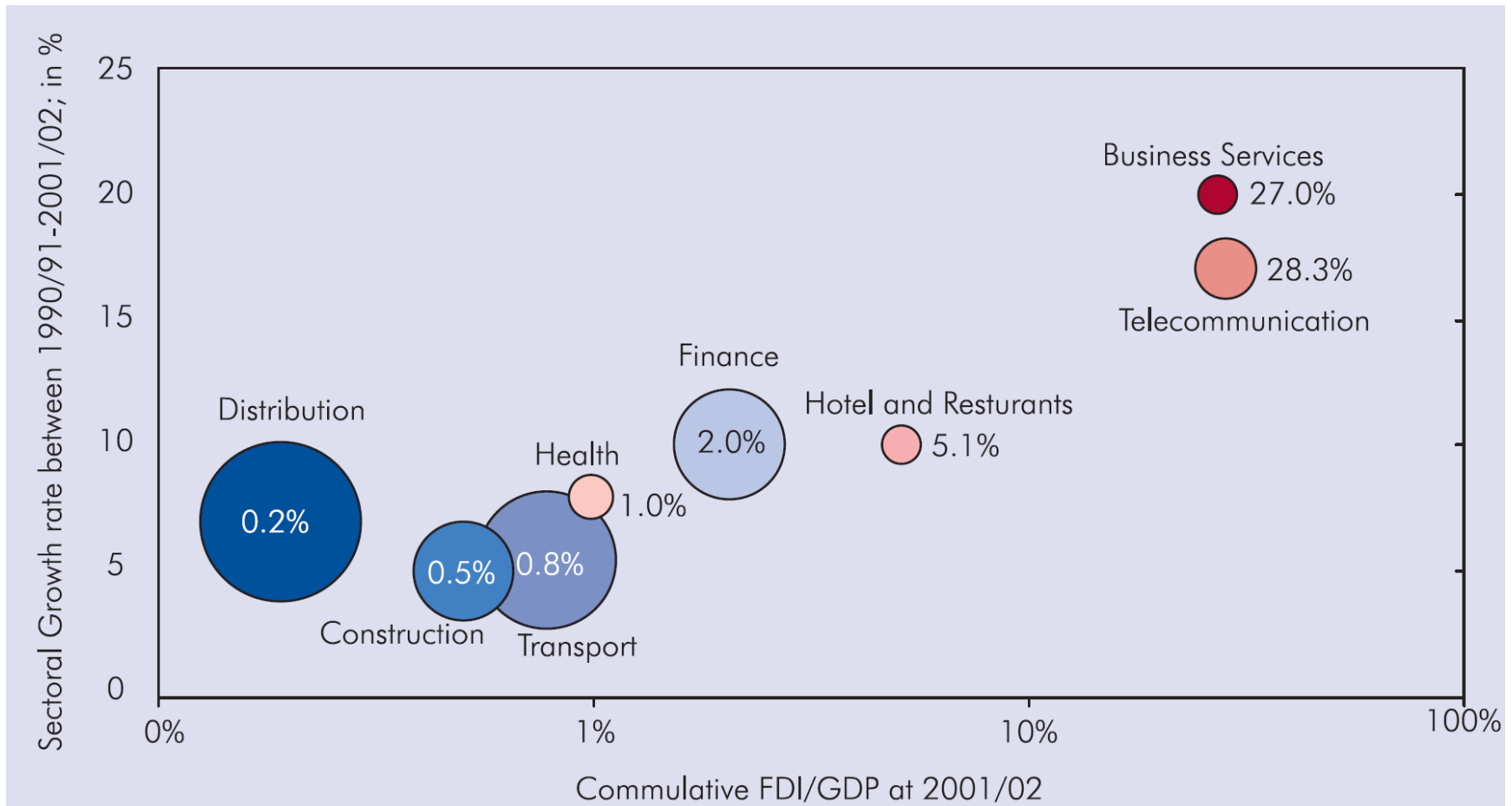
INDIA: More liberalized sectors seem to have grown faster during the 1990's than the less liberalized ones

Gains from liberalization: Growth rate of selected services sectors during the 1990's.

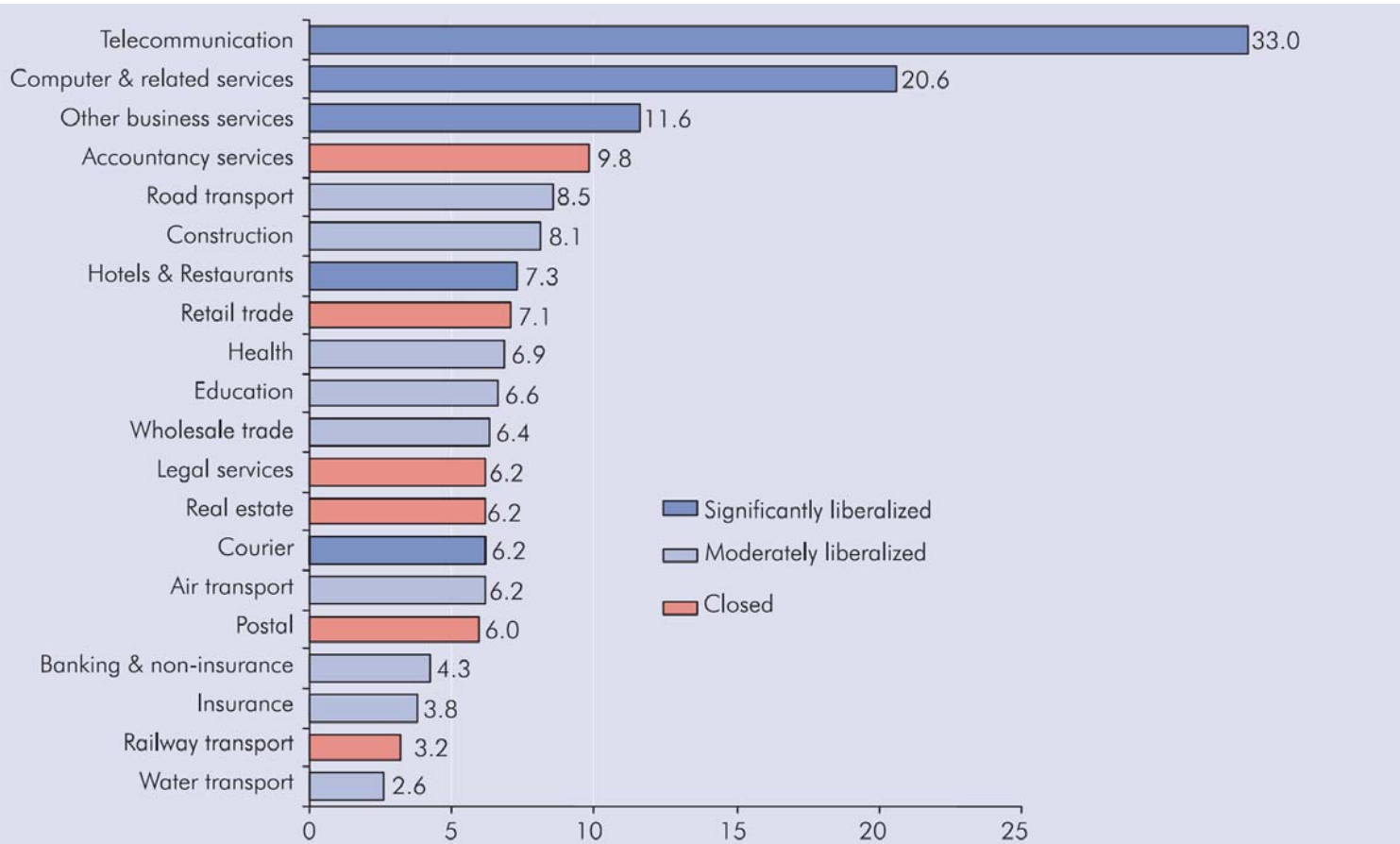


Source: World Bank, South Asia Region: India, "Sustaining India's Services Revolution" 2004, 15. Original data from CSO, World Bank Staff Estimates

Sectors receiving more FDI have had the greatest growth



Employment growth (%) of selected services sectors, 1993-2000



Source: NSSO, World Bank Staff Estimates

Meeting business and consumer demands for services generates growth and jobs

- Services are the new “infrastructure” of the modern economy. Financial, telecom, distribution, energy, express delivery, and other services are critical inputs to production of goods and agricultural products.
 - As incomes grow, consumers spend an increasing share for services such as banking, telecommunications, tourism, and entertainment.
 - Open markets allow these demands to be met, both by local companies and foreign ones.
 - Markets that liberalize services will achieve greater prosperity and attract even more FDI.
-

Impediments to growth of infrastructure services

- Foreign equity restrictions
- Excessive and burdensome requirements for market entry (such as high capital and scope-of-business requirements)
- Inability of firms to establish in form most suitable to the market (e.g. branching)
- Regulatory treatment that discriminates against foreign firms
- Lack of commercial certainty owing to unpredictable and non-transparent implementation of regulations and approval of licenses

Lessons learned: What government policies best address these impediments?

- Ease of market entry
- Fostering competition
- National treatment
- Transparency and predictability
- Regulatory best practices

Three examples

- Financial services
- Communication services
- Express Delivery Services (EDS)

Financial services in a modern economy

- Banking
- Insurance
- Securities
- Pension fund management
- Asset management
- Financial information services
- Electronic payments systems
- Other financial services

Markets drive capital allocation, economic efficiencies, and financial stability

- Credit flows to growth sectors and competitive firms rather than politically designated sectors or companies, resulting in fewer bad loans and accelerated growth.
- An open and robust asset management sector facilitates the savings and investment demands of a growing middle class and an aging population.
 - India should enact the Pension Fund Regulatory and Development Authority law so that the private sector asset management and life insurance industries are able to fully participate in and strengthen India's new pension system.

Societal benefits of liberalizing insurance services

- Insurance products (such as life, property/casualty, reinsurance) benefit both businesses and consumers by transferring risks and by creating pools of capital for use in large local infrastructure projects.
- Foreign insurers seek elimination of equity caps. But raising the existing cap from 26% to 49% will be a good first step because it will attract an estimated \$500 million new capital for investment in India.

Accelerating foreign financial institutions' participation in developing economies will provide substantial benefits

- Financial services are essential prerequisites for dynamic, modern economies.
- Will improve capital market efficiency, bolster financial sector stability, and support economic growth and job creation.
 - If India were to fully liberalize its financial services sector, it could see an income gain of close to US\$300 billion by 2015, equivalent to an extra 2% of GDP.
 - Financing directed to small and medium-size enterprises would increase employment.
- Foreign participation in India's insurance market has brought remarkable growth, created over 1 million jobs, innovations, new products, better business practices.

Communications: Critical 21st century infrastructure

- Telecom and Information Technology (IT) services:
 - Enabled growth of India's burgeoning IT exports.
 - Allow small and medium size Indian companies to enter the global marketplace.
 - Permit vastly expanded cross-border export trade.
 - Generate new trading opportunities and relationships.
 - Act as a catalyst that increase productivity across all sectors of the economy.

Getting beyond basic connectivity

- India's partially liberalized telecom market is lowering costs to consumers. In 2004, compared to China:
 - International fixed telephone charges were 83% cheaper in India.
 - Mobile telephone charges were 41% cheaper in India.
- Basic connectivity not enough. Businesses, especially those going global, require world-class quality and sophistication.
- Business-grade standards of customer care and security go hand-in-hand with connectivity needs.
- India's remaining limits on foreign participation constrain the market's potential, and the needs of India's users.
- Commit to binding the existing autonomous liberalization of 74% foreign equity ownership.

Telecom, like financial services, generates economy-wide effects

- Countries with some degree of telecom liberalization grow 0.15% faster than those countries with no liberalization.
- Countries that fully liberalize telecom services grow, on average, 1.0 percentage point faster than other countries.
- Countries that liberalize both financial services and telecommunications sectors grow even faster: on average, 1.5 percentage points faster than other countries.

Express delivery services (EDS) and global logistics

- EDS are now essential drivers of economic development. They offer a secure service that bypasses the inefficiencies of mail delivery, transportation, and bottlenecks that exist in developing economies.
- Express delivery and logistics services have dramatically lowered the costs of handling imports and exports in developed countries.
- In 2003 cost of transportation in developing countries was 9.1% of the value of import cargo, compared to 3.9% in developed countries.
- If trade facilitation—an important contributor to efficiencies in EDS and logistics services—removes customs bottlenecks, companies in developing countries can reduce operational and financial costs and increase exports.

Sustaining the contribution of EDS to India's development

- Improved distribution networks are a critical need
 - India's cost for internal transportation is nearly double the global average
- EDS industry should be encouraged to invest and grow to benefit India
 - Additional annual growth rate of 1-2% if EDS sector is further liberalized
- Foreign EDS companies seek the elimination of equity caps
- Postal reform should be distinct from EDS, acknowledging that they are two separate businesses
- Customs reform and trade facilitation can make a huge contribution to India's competitiveness
 - A reduction of 15-20% of supply chain costs could increase annual GDP by 1.5-2%

Saving Doha, Delivering on Development

- Examples above: liberalization delivers development.
- Doha Round could deliver liberalization of trade in services, and development.
 - Critical mass of countries

Moving forward

- "That society which has the least resistance to the uninterrupted flow of ideas, diversity, concepts and competitive signals wins. And the society that has the efficiencies to translate whatever can be done quickly—from idea to market—also wins."

Nandan Nilekani, C.E.O., Infosys