

GATS AND ITS IMPLICATIONS FOR THE ACCOUNTANCY SECTOR IN INDIA

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The Growth of the services sector in India has outpaced aggregate GDP growth from mid 1980s. As a result of this, the share of services in GDP has been rising and is now expected to around 47% to the GDP as against 29% for industry and 24% for agriculture. The World Trade Organization (WTO) Agreements on services is of substantial interest to the world economy as it has the potential to strengthen economic reforms, to stimulate investment and capital mobility worldwide, and to create an institutional framework accounting and financial services transactions. Members of the WTO that participated in the multinational trade negotiations made some specific market access commitments in Professional services.

Interestingly, since 1991, the growth rate of the accounting and financial services sector including accounting has outpaced the growth rate of other components of the service sector viz. trade, hotels and restaurants; transport, storage, communication; community and personal services. The growth rate

and privatization of financial sector in India provide an incentive of studying how professional and accountancy services are being dealt with under the GATS. A company might have the best products and the widest distribution but without complying with emerging global accountancy sector environment in the line of GATS agreements their strengths can often be eroded. As a matter of fact, the General Agreement on Trade in Services commitments consolidates economic sector reform in a binding multilateral framework. However it may also result in more liberalization than existing policies as multilateral liberalization nego-

This article is an attempt to analyze the result and impact of the accountancy sector negotiations under GATS and explain reforms and new liberalization for the commitments consolidated by the Indian Government.

tiations may ignore some economic, social and regulatory

aspects at global level.

This is done first, by explaining the background of multilateral negotiations in accounting services from the Uruguay Round to the Doha negotiations. Secondly, paper explores the major issues for negotiations in the forthcoming rounds of WTO by addressing the needs of accounting sector of India.

1. General Agreements on Trade in Services

The GATS provides an international as well as a multilaterally accepted legal framework for the promotion of liberalization of trades in services. Trade in services has been defined under the GATS in terms of four modes of delivery viz.

- Cross Border Supply (Mode 1): Services are supplied from one country to another country (e.g. International telephony)
- Consumption abroad (Mode 2): Consumers make use of a service in another country (e.g. Tourism)
- Commercial presence (Mode

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3): A foreign firm sets up subsidiaries or branches in another country (e.g. opening a consultancy firm on foreign soil)

- Movement of natural persons –MNP (Mode 4): Individual move from their own country to supply services in another country (e.g. persons working on foreign soil on a contract and time bound basis).

Basic Principles of GATS

- **Most favoured nation treatment:** No discrimination among other members of the Agreement in terms of treatment accorded to their service suppliers;
- **National Treatment:** Foreign services and services suppliers to be treated no less favourably than nationalists;
- **Progressive Liberalization:** The process of liberalization is irreversible because of binding commitments on the negotiated levels of market access;
- **Transparency:** All policies related to barriers to market access and discriminatory

Classification of Professional Services	
1.	Legal Services
2.	Accounting, auditing and book keeping service
3.	Taxation Services
4.	Architectural Services
5.	Engineering Services
6.	Integrated Engineering Services
7.	Urban Planning~and Landscape architectural Services
8.	Medical and Dental Services
9.	Veterinary Service
10.	Services provided by midwives, nurses, phsiotherapists and para-medical personnel
11.	Other Services.

restrictions by the Members are to be notified. The GATS is based on a “positive list”, i.e. no sector is covered unless it is specifically mentioned in the Agreement as being covered. Under the Agreement services has been classified into 12 categories, which are further subdivided into 160 subgroups.

Under the Agreement, each member has undertaken specific commitments in terms of market access (Article XVI) and national treatment (Article XVII). These are presented in the schedules of specific

commitments of members in sector by sector and the limitations of market access and national treatment. For example India has undertaken commitments on the six service sector groups viz. business, communication, construction and related engineering, financial services, health and social service and tourism and travel related service. (Table 1).

The major groups where broad agreements have been arrived at are telecommunications and financial services, with a special emphasis on banking and insurance. Under the GATS, Professional Services is one among the six classifications or sub sectors of Business Services is one among the six classifications within the professional services.(Table-2). In the area of professional services, discussions are on to reach an agreement *vis-a-vis* the accountancy sector.

Table 1

Classification of Services
a. Business (including professional and Computer service)
b. Communication
c. Construction & Engineering
d. Distribution
e. Education
f. Environmental
g. Finance
h. Health Tourism and Travel
J Recreational
k. Transport
l. Other Services not included elsewhere

1.2 GATS and Accountancy Services

Under the GATS, Professional Services is one among the six classifications or sub sectors of Business Services. At the end of the Uruguay Rounds, Ministers adopted the

'Decision on Professional Services', which established the Working Party on Professional Services (WPPS) and defined its mandate. It is required by WPPS to develop disciplines described in Article VI4, for professional services in general. Accountancy services in the WTO context include two broad categories of services:

- Accounting
- Auditing and bookkeeping services

The 'Decision on Professional Services' has refined the mandate of the Working Party in the area of accountancy services as follows:

- To develop multilateral disciplines to ensure that domestic regulations (Especially on qualification requirements and procedures, technical and ethical standards, licensing requirements, and procedures) are based on objective and transparent criteria and are not burdensome than necessary.
- To encourage the use of international standards and co-operate with the relevant international setting organizations. The main international organizations involved in standard setting in the accountancy sector are International Federation of Accountants (IFAC) International Accounting Standards Committee (IASC), and International Organization of Securities Commission (IOSCO).

2. Major results of GATS Negotiations on Accountancy



Sector/ Professional Sector Sector/Professional Sector

- **Guidelines for Mutual Recognition Agreements:** The WTO's Council for Trade in Services adopted guidelines for mutual recognition agreements in the accountancy sector. These are serving as an effective means of facilitating the movement of accountants across borders and of avoiding the emergence of new disparities between recognition regimes around the world.
- **Disciplines on Domestic Regulation for Accountancy Sector:** The Disciplines on Domestic Regulation in the Accountancy Sector are developed by the working group on Professional Services. These were adopted by the WTO Council of Trade in Services in December 1998. The disciplines are applicable for all members who have scheduled commitments for the sector. This contains provisions on the administration of licensing requirements, qualifications

and procedures and technical standards for the profession. The disciplines will not have immediate legal effect.

- Formation of the Working Party on Domestic Regulation. The WTO Council on Trade in Services in 1999, on the recommendations of members, has created the Working Party on Domestic Regulation. The working party on Domestic Regulation aims to develop general disciplines for professional services. The working party will have to report to the Council with its recommendations.

Members have already started making presentations on the possible negotiating guidelines and procedures for the coming round of services negotiations. Although they have not signed any agreement so far in Seattle and Doha rounds of talks, the stated objective of the negotiations under Article XIX is to bind new market access and national treatment and bind this liberalization in the WTO. The US (WT/GC/W/295; S/C/W119) has submitted a proposal to clarify these negotiating objectives. The proposal contains that it is essential for members to develop "Horizontal" negotiating modalities. In case of horizontal modalities first it would be appropriate for members to address liberalization of certain types of restrictions occurring across the sectors. Identification of these will provide certain minimum openness. For example, trade relating to a commitment to electronic delivery of services, across sectors, subject to specified sectoral exceptions. Another example could be a com-

mitment to provide access to certain commonly defined categories of natural persons as service suppliers. The EU also supported the US position about developing “sectoral negotiating Modalities” in Seattle Ministerial Meet.

Australia, Cuba, Singapore, El Salvador, Honduras and some other countries are also positive about the horizontal modalities approach and they want the early negotiation rounds of talk. The communication from Indonesia and Singapore (WT/GC/W/296; S/C/W/120) mention that:

- Accountancy disciplines concluded in 1998 have a step in the right direction and steps need to be taken to fulfill the mandate contained in Article VI.4 with respect to accounting services.
- Members should develop horizontal disciplines vis-a-vis qualification requirements and procedures, technical standards and licensing requirements. The India's Approach: India has also in favor that mandated negotiations should be on sectoral basis. Australia, Turkey, Cuba and some other countries also supported the India's stand.

3. Current Scenario of Indian Accountancy Sector:

India can also benefit with liberalization move of GATS specifically in the areas of Accountancy, including bookkeeping and auditing. India is having a large supply of trained accountants and also considerable expertise in booking and auditing. India is also becoming an attractive location for accounting

services for foreign airlines, banking and finance companies. Recently few famous foreign airlines like the Swiss Air set up its accounting head quarters in Mumbai, Singapore Airlines has opened accounting offices in Bangalore, Lloyds and Citibank have in- housing accounting centers in India.

There is also a move from the side of professional bodies like Institute of Chartered Accountants of India (ICAI) to enter into collaboration with Institute of Chartered Accountants of Nepal (ICAN) to cooperate in regulating and developing the profession of chartered accountancy in the two countries.

The most important issue in the present context of negotiation is Movement of Natural Persons (MNP). To reap the advantage of free trade in WTO regime, it is very important to know and assess the position of movement of natural person. Indian professionals can avail the advantages of ongoing liberalisation process unless some breakthrough is reached in the area of movement of natural persons. Developed countries have hardly made any commitments vis-a-vis this mode under the GATS. This mode of supply mode-4 was in the agenda of Mr. Arun Jaitely, Commerce and Industry, Minister of India in last round of Doha round of negotiations. But this issue was not negotiated because of other important issues like agriculture subsidies and Singapore decelerations etc got more priority.

Movement of Natural Persons, especially professionals/ IS of importance to India as it enjoys distinct advantage in this area cover-

ing a whole range of services from computer and related services to hotel, health/ engineering accountancy construction and other professional services. Developed countries have offered very little in terms of facilitating national treatment or making administrative arrangements in the area of MNP. At present their commitments are limited only to business intra- corporate transferees and commercial presence. They have not made any commitments in sectors like health and software etc. Developing countries like India has abundant supply of these professionals and can immediately acquire competitive advantages if MNP commitments are made by developed countries. On the other side these developed countries are having very stringent visa and quota regulations etc.

3.1 India's Stand in WTO on the Movement of Natural Persons

India has put forward a number of suggestions on the WTO platform for improving the MNP mode of trade in services. The important suggestions are

- Each country should publish and make freely available procedures applicable for movement of personnel and the various entry procedures
- Equal treatment to all foreign nationals
- Standardization / harmonization of qualification and experience with the help of agreements
- There should be no restrictions on temporary movement of professionals
- Salary and wage comparison with residents and /or citizens

should not be used as trade restrictive measures

- Requirements of local competency (Like Economic Needs Test or local certification (e.g. medical boards) cannot be used as non-tariff barrier.

4. Future issues' affecting the Professional Service Negotiations:

There are some major issues, which may affect multilateral professional service negotiations in future. These are:

- **GATS framework and its impact on market-access:** Services unlike goods are a heterogeneous group of products, and for macroeconomic management subjected to Government intervention in the form of policy formulation. For example, limit of foreign direct investment in insurance sector varies from country to country
- **GATS framework design is weak to ensure and sustain & further market opening:** - In the professional services agreement there is provision of positive lists of approach. In cross-border transactions this is perceived as one source of weakness to commitments. By positive lists of approach GATS identify the only such sectors, where commitments were made while excluding others services sectors and sub-sectors. Exclusion principle

includes agreement has not been reached; sectors or sub-sectors were not identified. It contrasts with the negative list approach, agreed in the North American Free Trade Agreement (NAFTA) negotiations, in which countries commit to full liberalization unless specific exclusion are negotiated. In negative list approach, opening and market access are prime considerations. But the positive list tends to reinforce the status quo and make it difficult to identify potentially significant sectors that are untouched by liberalization. Furthermore, it implies that as new sectors emerge, they stand outside the market-opening framework until explicitly brought into it.²

Telecommunications, banking and insurance are among the fastest growing services sector with the adaptation of IT related technologies. In India, China as well as in emerging economies, growths of these are driven by domestic deregulation and market forces. The 1997 negotiations reflected GATS principles to the extent possible, but the outcome, at least in accountancy and book keeping services, was largely to bind the status quo on market access and create agreed procedures for setting disputes. GATS provisions do not take into consideration market access with Status quo plus, which means market emerging driven areas of finan-

cial services with

- There is lack of data and information and transparency of barriers to cross-border transactions and foreign entry (Hoekman 1999). The effectiveness of GATS agreement in professional services has further been reduced because of lack of comparable cross-country data in financial services. Many services by nature in developing countries originated as non-tradable; "thus measure, if they were developed, tended to serve domestic purposes, making existing information on parameters of services production and trade scarce and difficult to aggregate across countries."³



5. Conclusions & Recommendations:

Based on the above analysis, following conclusions can be drawn in reference to GATS agreements in accountancy sector.

1. GATS framework in respect to agreements in accountancy sector- should be further redesigned. There should be a scope to consider negative list approach as an alternative

² Dobson Wendy, Financial Services Liberalization in the Millennium Round, "The World Trade Organization Millennium Round edited By Klaus gunter Deutsch, Page No. 100

³ Dobson Wendy, Financial Services Liberalization in the Millennium Round, "The World Trade Organization Millennium Round Edited By Klaus gunter Deutsch, Page No. 101

framework.

2. There should be a focus to deepen and broaden the areas of limited commitment made in accountancy sector particularly for a wider range of choices of commercial presence in the suppliers of financial services.
3. There should be further negotiations to improve the scope of national treatment commitments; and in view of the explosion of Internet service since 1997, further commitments to the cross-border provision of accountancy services by electronic means.
4. Indian companies like Life Insurance and General Insurance have substantial experiences of life insurance business in India. They should take the advantages of GATS agreements and should try to expand their reach in other parts of world like Middle East Africa and South Asia. In insurance penetration is low and Indian companies can have wider reach in these markets.
5. There should be extensive linkages among regulatory bodies to develop the international norms for accountancy sector.
6. One can observe that even though agreements have been reached on financial services, telecommunications and talks are going on in the accountancy sector, there is very little progress in the area of movement of natural persons.
7. In order to ensure the success of the negotiations in the accountancy sector, the associations representing the interest of the

accountancy sector must be proactive, commission certain studies and provide negotiating inputs to the Ministry officials.

The proposed agreement on accountancy sector under GATS can be useful for India in number of ways This will provide new opportunities for Indian accounting professionals if the agreements on qualifications/ domestic regulations and licensing etc are done in tune with the letter and spirit. Once again if this agreement is complemented by some substantial breakthroughs in the area of MNP, then professionals can move abroad and take up the jobs or set up firms or also provide online services from India

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