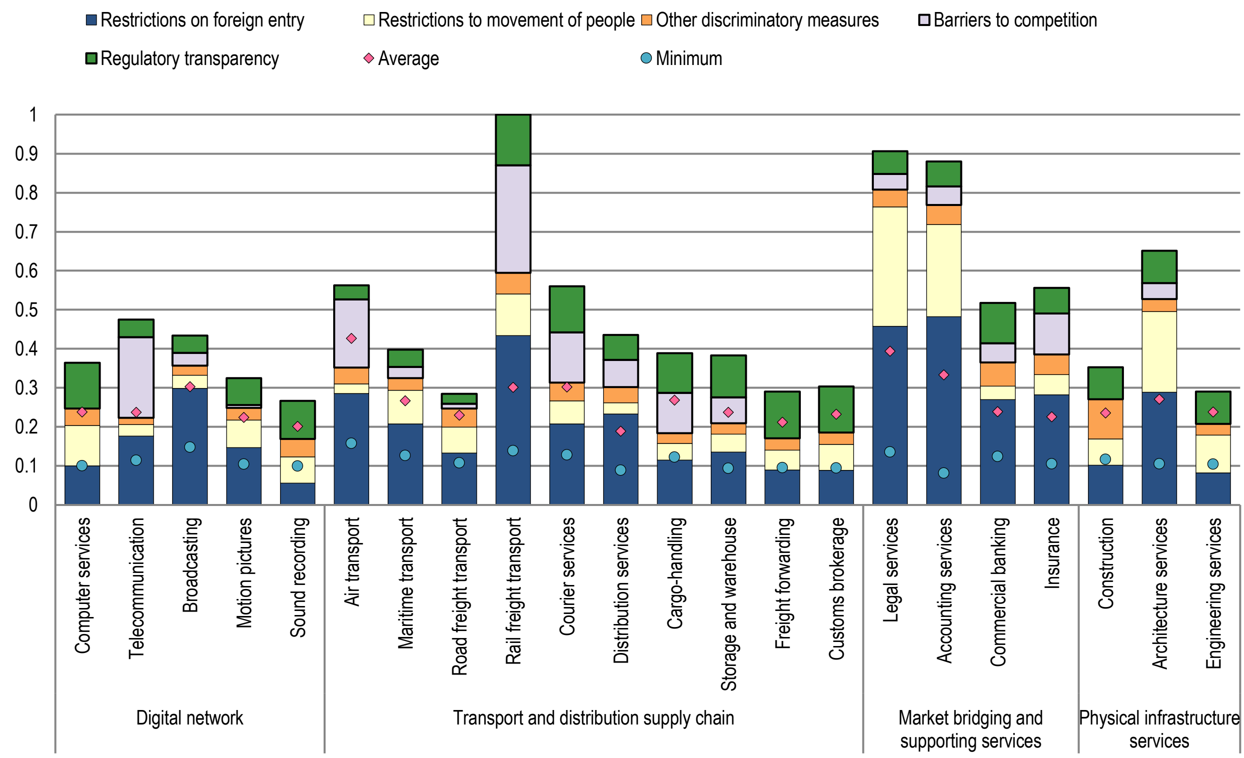
OECD Services Trade Restrictiveness Index (STRI): India

India exported services worth USD 188 billion and its services imports amounted to USD 153 billion in 2017. The largest services exports categories were other business and computer services and the largest import categories were transport and other commercial services. India's score on the STRI index in the 22 sectors is presented below along with the average and the lowest score among the 45 countries included in the STRI database for each sector.

STRI by sector and policy area



Note: The STRI indices take values between zero and one, one being the most restrictive. They are calculated on the basis of the STRI regulatory database which contains information on regulation for the 36 OECD Members, Brazil, China, Colombia, Costa Rica India, Indonesia, Malaysia, Russia and South Africa. The STRI database records measures on a Most Favoured Nations basis. Preferential trade agreements are not taken into account. Air transport and road freight cover only commercial establishment (with accompanying movement of people).

Horizontal policy measures

India has a STRI score above average in all sectors. Services trade through FDI is governed by the "Consolidated FDI Policy" (the current version in force since 28 August 2017). Sectors are categorised into two groups: prohibited sectors and permitted sectors. In the permitted sectors investment can take place either through the government route through which prior approval is needed, or the automatic route where no approval is required. In some sectors the automatic route applies up to a certain threshold beyond which approval is needed. Additional horizontal measures affecting all sectors are regulations on transfers of shares between residents and non-residents, which are subject to pricing guidelines, and regulations on mergers and acquisitions, which usually take place through the establishment of a holding company in India. India applies labour market tests for natural persons seeking to provide services in the country on a temporary basis as intra-corporate transferees, contractual services suppliers or independent services suppliers. These categories may stay in the country for up to 24 months on their first entry permit. However, multiple entry business visas are awarded for up to five years with each stay limited to six months. At least one of the board members and the manager in corporations must be residents of India. Finally, there are preferences for local suppliers in public procurement.

The sectors with the relatively lowest STRI scores

Engineering services, sound recording, and air transport are the three sectors with the lowest score relative to the STRI across all countries. In all three sectors, however, the scores are still higher than the mean. Engineering is not a regulated profession at the national level and the sector is subject to the general policy framework. The sector-specific trade restricting regulations in sound recording is a statutory monopoly on copyrights management. Air transport is the sector with the highest average score among all sectors. Unlike most other countries in the STRI database, India allows 100% foreign owned airlines except in the state-owned Air India. Up to 49% can be invested following the automatic route and the government route applies for taking a majority share in airline. However, foreign airlines are not allowed to buy equities in Indian airlines offering passenger transport. The majority of the board of directors must be Indian nationals and foreign nationals involved in airline operations need security clearance. Wet lease of aircraft is not permitted, and slot allocation gives priority to historic slots.

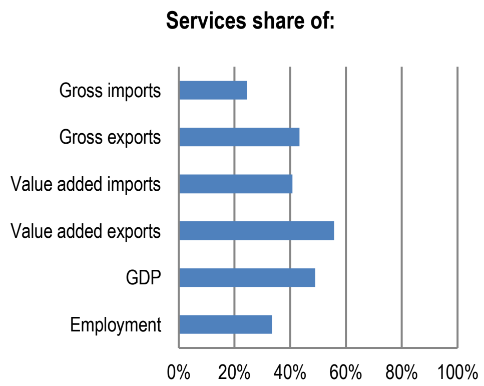
The sectors with the relatively highest STRI scores

Rail freight transport, architecture and accounting services, are the three sectors with the highest score relative to the average STRI across all countries. Railway operations are on the list of prohibited sectors and are reserved for Indian Railways, a state-owned enterprise. This together with no significant transit rights for foreign suppliers closes the market for international trade. Nevertheless, 100% foreign equity is permitted through the automatic route for construction, operation and maintenance of railway infrastructure. Architects are a regulated profession and reserved for licensed architects. Only locally licensed architects may own shares, sit on the board or manage architecture firms. Indian nationality is required to obtain a license, but foreign architects may provide services through a temporary license. Accounting and auditing are reserved for licenced accountants and auditors. Only Indian nationals are eligible for obtaining a license and corporations are not allowed in this sector. Accounting and auditing firms or professionals can only access the Indian market through a limited license for a specific project or time period.

Recent policy changes

In 2015 India lifted foreign equity limits from 26% to 49% in the insurance sector and foreign branches were permitted in reinsurance. Further investment liberalisation took place in 2016 when foreign equity limits were removed for airport services and cable and satellite broadcasting and foreign equity limits were eased in civil aviation. Minimum capital requirements for establishing a company were eliminated in most sectors in 2016. On the other hand, India introduced an equalization levy of 6% on purchases of advertising services from non-resident companies in 2017. India lifted a number of restrictions on cabotage in maritime transport in 2018.

Efficient services sectors matter



Services account for a higher share of GDP than employment, which indicates that labour productivity is higher in services than in other sectors. Services account for more than 40% of gross exports, among the highest of the 45 countries included in the STRI project, and more than 50% of value added exports. The Trade in Value Added (TiVA) database reports that exports of machinery and motor vehicles have the highest services content in India. The OECD trade in value added database and the STRI together provide a powerful tool for assessing regulatory bottlenecks and regulatory spillovers that may hinder the objectives of attracting more manufacturers through the "Make in India" initiative.

The information and communication technology revolution opens new opportunities for inclusive growth in India. Innovation and adoption of technology relies on access to knowledge and to the networks, people, goods and services that carry the knowledge around the world. In this context, India could benefit from more open markets for services trade.

More information

» Access all of the country notes, sector notes and interactive STRI tools on the OECD website at http://oe.cd/stri
» Read more about services trade policies and their impacts in this publication: Services Trade Policies and the Global Economy
» Find out more about Services and Performance of the Indian Economy
» Contact the OECD Trade and Agriculture Directorate with your questions at stri.contact@oecd.org