

A CRITICAL ANALYSIS OF INDIA'S TRADE IN SERVICES POST INDEPENDENCE

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ABSTRACT

There has been significant transformation in the international trade in services since the establishment of World Trade Organization (WTO). Services have been the largest sector of Indian economy and it is significantly contributing to the GDP of India. India is among the top ten World Trade Organization member countries in trade in services. India is having a positive trade balance in services. Post liberalization, India has emerged as one of the fastest growing nation in global trade services. This paper tried to illustrate the change in services sector post-independence. A complete picture of how the sub-sector under services have grown overtime is given. An assessment of recent trend in services has also been done. Further, a qualitative analysis has been done as how the net export in services changes overtime. Trade in services overtime is reaching new heights. So there is always an opportunity for India to tap those chances.

Keywords: Trade in Services, GATT, Services Sector, Tele-communications, Construction, Import- Export.

Introduction

Advancement in science and technology has been key factor behind promoting growth in trade across nations. The recent development made in the various sector such as communication, transportation and internet for common person has opened plethora of opportunities for different units to expand their businesses.[1] Easing of restrictive norms in conjunction with liberal trade policies of many countries have turned the globe into a single global market. Trade has been the one of the biggest beneficiaries from these liberal norms and technological advancement. However, services trade and goods trade are two different things due to the nature of the trade. Trade in services mostly characterized by intangible, invisible, non-storable and transience component of trade. Moreover, service in itself is a process whereas goods are just an object. Thereby it is not an easy task to defined trade in goods. E.g. tariff and quotas are used as a barrier to limit trade in merchandise. But obstruction to trade in services are much more complicated to quantify. This is what makes services different from goods.

The basic notion of trade in services revolves around those services that could simply be transferred across countries. It involves a separation of the consumer and producer as in the case of computer softwares. As per the economists traditional view services are perishable and non-tradable. Therefore there were neither any theories to address the possible problem in trade in services. Baumol (1967) made valuable contribution to the study of services by his "Theory of Cost Disease". His theory discusses about rising cost associated with services industry. Hill's concept of services was similar to classical economists. According to him, services can't be accumulated thus it need provider and user to be in close proximity.[2] Bhagwati (1984) analysed the trade in services and focuses on the supply side effect on growth of the services sector and called the supply side specialization "splintering". According to him, there are two group of services, first one requires the physical proximity of the user and provider and the second group includes those services which aren't essentially dependent on physical proximity due to technological advancement. These kind of services includes banking and insurance and they are having high demand day by day. Gordon and Gupta (2003) also discussed the demand side along with the supply side. It was the demand side which was responsible for the growth in services sector in 1990s. On the basis of their growth pattern, service activities are being grouped into trend growers which include

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real estate, legal services transport, storage, personal services and public administration and defiance (PAD) and fast growers which include IT, communication services, financial services, hotels and restaurants, community services, trade and distribution services. During the 1990s services trade increases manifold owing to the factor such as, greater mobility of people, Technological change, cheaper transmission and communication costs and increase in merchandise trade have played a catalytic role in propelling trade in services. Karmakar (2005) addresses the world economy as 'service' economy post 1990s.[3]

General Agreement on Trade in Services (GATS) played a major role in signifying the importance of trade. GATS was formulated in 1995 as a result of Uruguay round of trade negotiations to stimulate trade and development of services sector. GATS is the first complete set of internationally accept rules having credibility and reliability for international trade in services. GATS also took the concerns of developing countries into account. It offers flexibility to member countries in such a way that member countries can choose service sector they want to offer for commitments under the GATS rules. The obligations under GATS comprise 'specific' and 'general' commitments. The specific commitment applied to only those services that are included in the members GATS schedule. The general commitment are applied to all member countries of WTO, regardless of sectoral commitments that member countries may offer. For the negotiations purpose, the GATS classify the entire range of services trade into following four modes.

Mode 1 (Cross Border Supply): It refers to a situation where the services flows from the territory of one member into territory of another member. E.g. - a teacher dispatching the teaching material to students in other country, a doctor advising his patient abroad, a designer sending designs for clients of another nation through electronic mail.

Mode 2 (Consumption Abroad): It refers to a situation where the consumer moves into the territory of service provider country to consume services E.g.- tourism, use of hotels or restaurant services abroad, ship or aircraft undergoing repair abroad.

Mode 3 (Commercial Presence): It implies that the service provider, in the form of legal unit moves into the geography of costumer. E.g. A foreign company sets up its subsidiaries, branches or joint venture in the host country e.g. foreign banks or food chain setting up operations.

Mode 4 (Movement of Natural Persons): It entails the export of workforce. The service provider temporarily enters another member country for providing service. E.g.- engineers, doctors etc. [4]

Development and Structure of Service Sector in India

Within the services sector, there is a wide disparity in the growth performance of different sub-sectors. From 1950-51 to 1965-66, the following services sector grew faster than the average growth rate of services sector for the entire economy. Public administration grew at 6.37%, Banking grew at 6.8%, Insurance grew at 6.8%, Road transport grew at 6.06 % and Trade grew at 5.2 per cent. [5]

Other sub-sectors that were relatively smaller in size having smaller base value and experienced higher growth rate during this period were: education at 8%, water transport at 6.15%, Air transport at 9.64 %, Health at 5% and communication at 7 %. The services sub-sectors that experienced lower than average growth rate in the same period were Personal services at 2.33%, Dwellings and business services grew at 2.45%. Within personal services the low growth services were Domestic services grew at 1.8%, Laundry, dyeing & dry cleaning grew at 4.18%, Barber & beauty shops grew at 1.32% and Tailoring grew at 1.87%. Within businesses services, the low growth services were Dwellings (2.34 %), real estate (3.72 %) and legal services (0.25%). [5]

From 1980 to 1996, among the relatively larger service activities, Road transport (7.3%), Banks (8.8%) and Hotels and restaurants (7%) had higher sectoral GDP growth rates than the average for services (6.9%), whereas Dwellings, Public administration and the Railways respectively grew by average growth rate of 2.6%, 6.3% and 5.1 % respectively.

In the 1980's services sector was dominated by the public sector. The top 10 services which accounted for 79% of the GDP of services sector, services dominated by public sector accounted for more than 30%. It includes public administration (14.5% of services GDP), Railways (3.4 of services GDP), Medical and health services (2.6 of services GDP), and banks (2.4 of services GDP). Road transport and education accounted for 14.6 % and 6.9% of services GDP respectively. Moreover, the non-public sector related services accounted for major share in services GDP in the same period were Trade (22.2%), Dwellings (14.6%) Road transport (7.9%), and Recreation services (2.1%).

The trend here is very clear that share of agriculture is declining and share of services sector is rising. In the last few years industry sector has been given a push and the contribution of manufacturing sector has risen too. The data shows the phenomenal shift in the service growth which has crossed more than half contribution in terms of percentage share in the GDP. Post liberalization, the contribution of services sector to GDP share has increased rapidly since that. Services sector growth has always been higher than secondary sector and primary sector after that. The figure shows a comparison in the change of GDP shares of different sectors and their trend growth rate since 1950s. Below is the table showing the sector wise contribution to GDP of India.

Table 1: Sector Wise Share in GDP, 1950-2019 (Per Cent of GDP)

Year	Agriculture	Industry	Services
1950	58	15	28
1980	38	24	38
1990	33	27	41
2000	24	27	49
2003-04	22	26	53
2004-05	20	26	54
2005-06	20	26	54
2006-07	19	27	55
2010-11	21	30	59
2015-16	23	32	63
2019-20	16.5	29.6	55.3

Source:- [6], [7]

India's Trade in Services

India's share in the world export was very little at 0.78 percent in early 1980s. The trade share changed gradually from 0.53 percent to 0.89 percent until 1998. India's trade share in total world exported touched 1 percent. In 2005 it crossed the 2 percent mark, and by 2006 it arrived at 2.71 percent. Indeed, in this year, India's portion of imperceptible fares in the world's export of services was the most astounding. Though in 2007, the offer dropped insignificantly by 0.06 percent focuses to 2.65 percent.

Table 2: Trade in Services (Exports, Imports, Net Trade), Million US Dollars (1998-2018) [8], [9]

Year	Exports	Imports	Net Trade
1998	11,729	14,547	-2,818
1999	14,509	17,267	-2,759
2000	16,585	19,199	-2,514
2001	17,325	20,075	-2,750
2002	19,476	21,045	-1,569
2003	23,874	24,918	-1,044
2004	38,068	35,441	2,627
2005	52,243	47,255	4,988
2006	69,378	58,513	10,865
2007	86,545	70,413	16,402
2008	1,06,405	55,268	51,137
2009	92,887	52,899	39,988
2010	1,16,963	78,847	38,116
2011	1,38,831	77,977	60,854
2012	1,45,405	78,891	65,514
2013	1,49,166	78,559	76,606
2014	1,57,247	81,118	76,129
2015	1,56,181	82,606	73,575
2016	1,61,823	95,920	65,903
2017	1,85,130	1,09,216	75,914
2018	2,05,174	1,24,280	80,888

The services sector has been the dominant sector in India's GDP post reform period. It has attracted significant foreign investment flows which directly contributes to exports as well as provided large- scale employment.[10],[11]

Table 3: Services Trade Data From 2016-17 to 2018-19.[12]

YEAR WISE SERVICES TRADE DATA
FINANCIAL YEAR 2016-17 - 2018-2019

US\$ million

Services	2016-17			2017-18			2018-19		
	Export	Import	Net	Export	Import	Net	Export	Import	Net
Telecommunications, Computer, and Information services	77044	4839	72205	79840	6499	73341	86344	7409	78935
Business services	32646	32317	629	37346	36630	716	39112	40413	-1301
Travel	23244	18451	6793	28355	19515	8839	28441	21704	6737
Transport	15851	14132	1719	17441	17608	-167	19464	20529	-1065
Financial Services	5089	5852	-763	5164	5537	-373	4858	3486	1372
Other Services not included elsewhere	2818	10976	-8158	18807	17904	903	20128	15246	4882
Insurance	2206	1496	-710	2506	1700	806	2661	1790	871
Construction	2144	881	1263	2256	1565	691	3388	2527	861
Personal, cultural, and recreational services	1362	2197	-805	1818	2307	-609	1853	2571	-719
Government Not Included Elsewhere	588	600	-12	664	764	-130	610	1114	-504
Charges for the use of intellectual property n.i.e.	568	5720	-5152	732	6877	-6145	692	8028	-7335
Maintenance and repair services n.i.e.	182	354	-172	211	547	-336	189	1201	-1012
Manufacturing services on physical inputs owned by others	115	38	77	147	44	103	260	42	218
Total	164,167	95,852	68,345	195089	117,527	77,562	208,000	126,060	81,941

Services sector is the primary propeller of India's economic growth. According to the government report services sector has contributed 54.17 per cent of India's Gross Value Added at current price in 2018-19*. Net service exports stood at US\$ 60.25 billion in April-December 2018 which is a very good figure. This expansion in services activity is primarily attributed to boost in capacity and demand along with favorable public policies.

Coming onto the investment in services sector, Tourism spending and Leisure and business travel are expected to increase to US\$ 12.9 billion and US\$ 234.4 billion in 2020 respectively. India's earnings from medical tourism shall exceed US\$ 9 billion by 2020. Healthcare companies of India are now entering into merger and acquisitions with domestic and foreign companies to gain new markets and drive the growth.[13]

Recent Trend in Services Sector

According to the recent survey, linkage between services export and services trade barrier are multiple and complex. The income of the partner country (importing country) is crucial for services exports from India. Improved trade of services facilitation helps achieve unrealized trade potential. Moreover, effective policy approaches toward improved trade infrastructure are needed to facilitate services exports from India.

If we have a close look at the Telecommunication, Computer and Information Services then we will find out that the trend has been an increasing one. More than 96% of the trade in services is from Telecommunication, Computer and Information Services. Business services have seen a decline in recent year. Travel has been a consistent contributor though it saw a dip recently. But the travel services have a greater opportunities and it needs to be addressed. Others which are not included elsewhere too include a good chunk of services trade. Though post covid-19 services hasn't grow at the desired rate.

Government of India has recognized the potential of services sector and they are promoting it through various methods. Some of the initiatives implemented by the government in recent past is that the Central Government increased incentives provided under Services Exports from India Scheme (SEIS) by two per cent under the Mid-Term Review of Foreign Trade Policy (2015-20). Apart from that Government of India is working to remove many trade barriers to services and tabled a draft legal text on Trade Facilitation in Services to the WTO in 2017.[14]

All the effort which has been put shows its result. Recently few achievements which can be highlighted is that India's rank jumped to 24 in 2018 from 137 in 2014 on World Bank's Ease of doing business - "Getting Electricity" ranking. Better rank on the list of Ease of Doing Business shows that how favorable a place is in terms of doing business. Indicators for which distance to frontier is computed include construction permits, registration, getting credit, tax payment mechanism etc.[15]

Countries are ranked as per the index. There has been six-fold increase in government spending on telecommunications, infrastructure and services to the country from Rs. 9900 cr (US\$1.41 billion) during 2009-14 to Rs 60,000 crores (US\$ 8.55 billion) (actual + planned) during 2014-19. Under the Swadesh Darshan Scheme, 11 projects in total worth Rs 824.80 crore (US\$ 127.98 million) were sanctioned. Highest ever revenue was generated by Indian IT firms at US\$ 191 billion in 2019-20. [13], [16], [17]

Domestic and global factors both determine the growth in the services sector. GST Implementation has created a unified single common market and reduced the overall tax burden on goods. The Indian facilities management market is expected to grow at 17% CAGR in 2020 and cross the US\$19 billion mark supported by retail, hospitality and booming real estate sector. GST is expected to reduce cost in long run on account of availability of GST input credit, which will further lead to reduction in prices of services.



Figure 1: India's trade in service (in Million US Dollar)

Conclusion

India has emerged as a leading services provider in the post-reform period. The service sector value added in the Indian context has been growing quite rapidly for the last several years. Service sector became a dominant sector after post reform period. Hence, several researchers are of the view that the service sector could play the role of an engine of growth. The contribution of the services sector to GDP share has increased rapidly since the post liberalization period, that is, since the 1990s. The services that have notable increases in shares in services GDP through the period from 1950 till 2014-15 are Banks, Road transport, Business services and Insurance. Of these, the share of Business services increased sharply starting from the mid-1990s. Services that experienced a decline in the share in services GDP in Dwellings, Domestic service, Recreation and entertainment services and Radio and TV. The data speaks of the phenomenal shift in the service growth which has crossed more than half contribution in terms of percentage share in the GDP (67% in 2016).

In the backdrop of this view, made an attempt to assess whether the service sector created employment. After curbing for growth it is not easy to identify a positive and significant impact of international trade on employment. Since, it is very difficult to collect the data from informal sector. Employment growth and its relationship with economic growth has indeed shot up in the recent past. Though Capital Line data are indicative of a high employment growth in the service sector during the period 2005 to 2008, In the period from 2009-10 to 2014-15, employment in the services sector grew at a modest 1.84 per cent per annum.[2]

However, this study has made attempts to assess the growth, composition and comparative advantage of India's service trade from 1950 to 2018. A comparison has been made between the trade in services in pre and post reform period. Service sector growth is decided by both the domestic and global factors. Results indicates that there has tremendous growth in services exports in the post-reform period. But it is the other computer services category which has led India's success story. More than 96% of trade in services is from telecommunication, computer and information technology. Travel has been a constant contributor and decline in the contribution of the business sector. A deeper probe into the other computer services category as per the extended balance of payments (EBOPS) classification indicates the unparalleled importance of computer services in India's export basket. However, India needs to improve the other sectors as well, since computer services form a small portion of world exports. Moreover, India displayed a comparative advantage in other business services, construction and insurance as well. So, there are other service categories where India has to make an attempt to improve its capability. Even, the government of India recognized the importance of service sector and trying to improve through initiating new schemes and effective policies.

As far as the imports are concerned, India's share in world imports is more or less similar to its share in world exports. The growth in imports of services of all the three categories in the post-reform period has also been higher. The imports of travel and other computer services have been above average. Transportation has seen below average growth, although India has a comparative advantage in imports of the same. Communication and construction services too are gaining ground in the import basket with India displaying comparative advantage in their imports as well. The index of revealed comparative advantage in the case of financial and computer services has seen some decline between 2000 and 2005. These are, hence, the service categories which need to be evaluated carefully for further liberalization.

The development in Indian services sector is a result of a change in global scenario along with other economic and political factor are responsible for propelling the growth. It is well complemented by suitable program or policy. India possess all the required elements to become preferred service provider across world. It is the best time for India to develop marketability for high end services. Research and Development will play a key role in improvising and innovating to retain markets and maintain stability in the market. India needs to maintain a hold on personal care services such as law, medicines etc. in the global arena. Apart from that Indian graduates must get knowledge of foreign language such as Chinese, Spanish, and Japanese etc. to get an edge over others. Better infrastructure for all is the need of the hour. India needs to reduce bureaucracy and make its system even more transparent. Reforms in key sector such as data security and privacy protection and intellectual property rights will be very helpful in achieving the goal. The other sub-sectors of services needs equal recognition in order to minimize the slowdown effect on developed countries.

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