

Pattern and Growth of Service Exports from India: A Post Reform Study

DEBJANI MITRA (SARKAR) AND SUDIPTA SARKAR

India, which is moving towards services dominated GDP growth with a 9 per cent CAGR for services which is higher than the 5.8 per cent for non-services during 2000-01 to 2006-07, is also moving towards a services-dominated export growth with a CAGR of 28.7 per cent for services during 2000-01 to 2006-07 which is higher than the 19 per cent for merchandise exports during the corresponding period. Services exports reached US\$ 102 billion in 2008-09 with a moderate growth of 12.5 per cent over the previous year. In this back drop this paper deals with performance of service sector in India , policy issues for export promotion in service, pattern and growth of service.

Key words: Service Sector, Exports, Growth JEL Classification: N7, D90

Section I: Performance of Service Sector in India:

Services sector is important particularly for India. In the short and even medium term, the sure bet for higher growth of the Indian economy lies in further accelerating the growth of the services sector, which can be done with considerable ease compared to other sectors due to India's competitive advantage in services.

In India, the growth rate of services in 2004-05, 2005-06 and 2006-07 was 9.6 percent, 9.8 per cent and 11.0 per cent, respectively and is expected to grow at 9.9% in the 11th Plan. The ratcheting up of the trend rate of GDP growth of the economy from 6% to about 7% per year and reaching 9.4% in 2006-07 was due to the ratcheting up of the trend growth rate in the services sector from 6.7% in 1983-93 to 8.2% in 1993-03 and further to 10 per cent since 2004-05 to reach 11 per cent in 2006-07. As a result,

Dr. Debjani Mitra (Sarkar) is a Lecturer (FIP Scheme), Department of Economics, Kalyani Mahavidyalaya, Kalyani, Nadia, Email: mitrdebjani@yahoo.co.in, mitrdebjani@gmail.com, Ph: 9836993470, Mailing Address: 198/B, C. S. Mukherjee Street, P.O Konnagar, Dist: Hooghly, Pin-712235, WB

Sudipta Sarkar is an Economist-cum-Credit Planner, Development & Planning Department, District Planning Cell, Govt. of West Bengal, Email: ssjani2004@gmail.com, eccp.bdn@gmail.com, ecodipto2001@yahoo.co.in, , Ph: 9830226743, 9432750291 Mailing Address: 198/B, C. S. Mukherjee Street, P.O Konnagar, Dist: Hooghly, Pin-712235, WB.

the share of services in India's GDP has increased from 37.6% in 1993 to 54.1% in 2005-06 and 54.9% in 2006-07.

If Construction is considered as services, this share will increase to 61.8 per cent in 2006-07. Thus, India is nearing the shares of countries like the US, where the share of services in GDP is 73% (2003). India's growth experience does not seem to follow the theory of stages as the high growth and high share of services sector which is a feature of a developed economy has been attained by India even before reaching a developed stage. The constraints in the industrial and agricultural sectors and the natural advantage of India in services sector has led to a services led growth of the economy. While the constraints in the other two sectors need to be removed as is being attempted now, there is a need to tap the full potential of the services sector. Services sector growth can also complement the growth in manufacturing sector as there are many sectors where a lot of complementarity exists between services & manufacturing growth. Identifying and promoting the growth of these sectors with considerable backward and forward linkages can help growth of both services and manufacturing and some manufacturing sub-sectors can ride piggy back on the success of the complementary services to achieve quick growth. While there has been a services dominated growth, India is also moving to a services dominated export growth. While merchandise export growth was 21% in 2006-07, services export growth rate in 2006-07 was 32.5% on top of a 31.7% growth in 2005-06. While the \$ 31.3 billion software services grew by 32.6% in 2006-07, the \$31.1 billion non-software miscellaneous services (mainly including business services) neared the value of exports of software services with growth of 39.3% in 2006-07 on top of a 67.0% growth in 2005-06 and 150.3% growth in 2004-05. This shows that besides Software services, there are many other niche sectors like professional services. Services Exports at \$ 81.3 billion in 2006-07 is nearing merchandise exports at \$124.6 billion. While India's share in world merchandise exports is only 1% in 2006 with the rank at 28, its share in world commercial services exports is 2.7% with a rank of 10. The growth of the services sector and consequently the growth of the Indian economy perhaps has a trade angle. Though external trade is taken only 'net' in the GDP and its effect may not be felt directly as the deficit in merchandise trade overshadows the positive balance in services trade, the indirect effects of exports of services is high on the domestic growth of services and even industry. For example, the domestically dynamic services like trade, hotels, transport and communications etc. are related to important services in exports like travel and transportation. The growth in export of software services has given fillip to domestic production and use of these services. The dynamic growth of professional services exports have a bearing on the growth of these services domestically. Similarly growth of shipping

services and travel services exports can have a direct bearing on domestic industries related to these services.

India's Export Basket of Services: Growth of Miscellaneous services (including software services and business services) was high in 2006-07 at 35.9 per cent on top of growths of 70.5% in 2004-05 and 47.6% in 2005-06. The major category of export of services of India is also the miscellaneous services category with a share of 76.7% in total services exports in 2006-07. Non-software miscellaneous services exports have grown rapidly almost equaling the value of software services exports with business services (75.5% share and 82.4% growth) and financial services (10.3% share and 88.6% growth) being the major contributors. Communications services is the next important service. Thus, besides transportation, travel and software services, the main focus of our exports needs to be on business services, (mainly consisting of architectural, engineering & other technical services and business management & consultancy services), communications services and financial services. This matches well with the world demand for these services.

Country-wise Exports of Services of India:

Some rough indication of country-wise exports of India can be seen from the mirror data of other countries. In US imports of other commercial services in 2003, the share of the \$1.14 billion imports from India was 1.1% with a growth rate of 35.4% in 2003 over 2002. While the major sources of imports were the European & American countries and Japan, among the major Asian countries, only Hong Kong is ahead of India. Exports to US of a NAFTA member like Mexico is nearly double that of India, though its growth rate is only 9.2% and the share of a FTA partner like Israel though small is increasing. In US imports of travel services also, Mexico with a share of 12.9% in 2003 has greatly benefited mainly due to its proximity to USA and due to NAFTA, while other Latin American countries have a very small share. Imports from India with 1.2% share is also low, though it is the only major source among Asian countries except China. In the case of Transportation in 2003, India's share at 0.5% is negligible. Among Latin American countries, only Mexico has a relatively significant share of 2.9% due to NAFTA. The miniscule share of shipping services of India in US shipping services imports also points to the need for a strategy for this sector. Like USA, EU and Japan are also big markets and the OECD countries accounted for 75% of world services imports in 2003. In the case of European Union imports of total services in 2003, the \$3.2 billion imports from India was only 0.4% of EU's total imports of services and in the case of other commercial services imports, while India's presence is visible in US, in EU, the share

is only 0.3% in 2003, though the growth rate is 25.5%. In travel and transport services also, India's share is very low in EU imports, while China, Hong Kong and Singapore are ahead of India. Thus, in the case of Services imports, India's presence is much lesser in EU than in the US. However, in the case of UK's imports of total services, other services, travel services and even transportation services, India has relatively higher shares. Infact, the pattern of India's exports of services to UK is similar to that of US, rather than EU. The historical and cultural ties between India and UK may also be one of the reasons for this. India has not made any impact in the Japanese market in services. Thus India's experience with services exports is not only different from other developing countries (which have yet to develop and market many of these services), but also different with respect to its direction of exports even among the developed countries. A strategic partnership with a developed country like USA or UK in services could help in increasing India's exports of different services manifold and even help in removing the different market access barriers. The importance of FDI in services is also evident from the fact that US trade in services with the foreign affiliates of its companies alone is 8.5% in 2002. not only different from other developing countries (which have yet to develop and market many of these services), but also different with respect to its direction of exports even among the developed countries. A strategic partnership with a developed country like USA or UK in services could help in increasing India's exports of different services manifold and even help in removing the different market access barriers. The importance of FDI in services is also evident from the fact that US trade in services with the foreign affiliates of its companies alone is 8.5% in 2002. Services Export Basket of Developed Countries: The top 10 exporters of commercial services in the world in 2006 were the developed countries except China and India with the OECD countries having a share of 78% (in 2003). However, among the top 10, India has the highest growth rate of 34%, followed by China with 18%. In the US case, while among Asian countries, India is the second major source of imports in 'other commercial services', after Hong Kong, in its destination-wise exports of other commercial services, China and the other major South-East Asian countries are much ahead of India, which has only 0.5% share. But in the case of travel exports of USA (i.e. foreigners travelling to USA), India with 3.4% share is the second major Asian destination after South Korea. 'Other services' category is the most important category even in exports of developed countries with business services, royalties and license fees and financial services being the important services with rising shares.

Section II: Policy issues for export promotion of services:

Services exports has been promoted consciously in many countries. The US actively supported services negotiations under GATS & WTO after studies in US revealed that this was the potential sector for USA in the future. In the case of Hong Kong, services like financial services and port services have developed due to the policies of the government to develop Hong Kong as an off-shore financial centre and free port, while setting up of joint office with common facilities has helped professional services and a low tax policy has helped printing services. Singapore with a range of technology intensive services, port related and financial services is actively promoting exhibition management services, franchising services and even legal services by facilitating Singaporean law firms to go regional and to carve a niche with the opening up of legal markets around the world. Some General Policies for India to promote Services exports: While services sector has had an almost natural growth in India with the Government facilitating in some sectors, there has been no comprehensive strategy for services. Some of the ways in which the Indian government or export promotion agencies can support service exporters are the following.

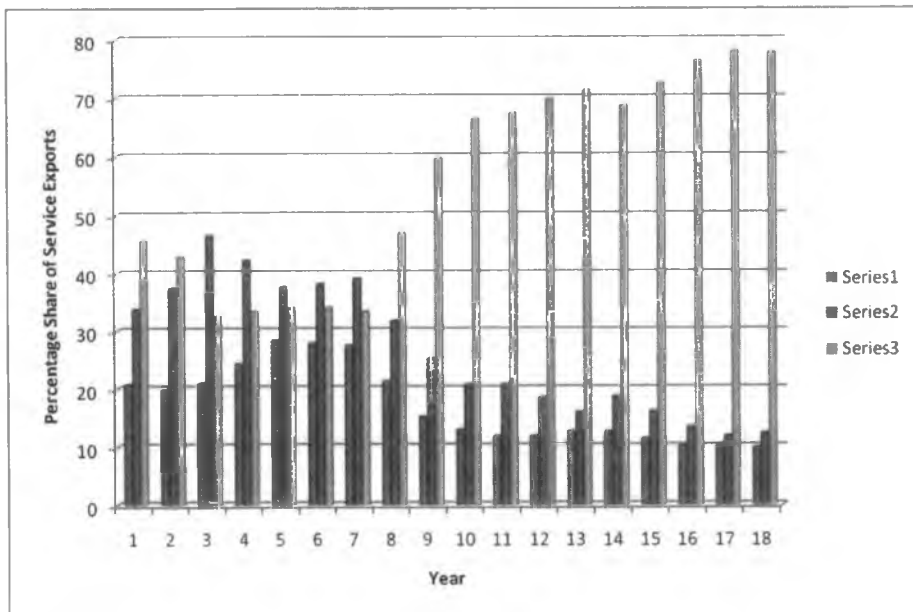
- Helping service exporters to become known suppliers of quality services and providing relevant export market information;
- Providing appropriate export financing with reduced transaction costs, reviewing the common practice of collateral in the case of services, considering extension of specific dedicated lines of credit focusing on promotion of service exports like construction services, IT related services and education services.
- Following the Silicon Valley example where Banks securities the CEOs of companies.
- Marketing of services with the help of Indian Embassies/Industry associations, etc; anchoring people, particularly, committed specialists for promoting services and focusing on services in some SEZs.
- Leveraging India's potential purchasing power in services negotiations at multilateral and bilateral levels.
- Concluding totalisation agreements with target countries to resolve the social security benefits issue.
- Including appropriately issues related to services in Regional Trade Agreements (RTAs), Free Trade Agreements (FTAs) and Comprehensive Economic Cooperation Agreement (CECAs).

- Developing front yard technology, in different services instead of focusing merely on the Business Process Outsourcing(BPO) segment.

Section III: Pattern of Service Sector Exports

Indian service export has been divided into three categories: transport services, travel services and other services. Other services includes commercial services, construction services, insurance services, financial services, computer information services, royalty services, other business services and govt. services. The share of transport services exports has decreased from 20.74% in 1990/91 to 11.86% in 2000/01 and to 9.83% in 2007/08. Similar trend was followed by travel services exports. The corresponding figures are : 33.69%, 20.74% and 12.37%. Compared to this the share of other services exports has increased sharply from 45.57% in 1990/91 to 67.40% in 2000/01 and to 77.81% in 2007/08. So other services exports has the prime share in total service exports. The percentage distribution of share of different services exports is represented by following diagram.

Bar Diagram: Percentage Distribution of Different Service Exports during 1990/91-2007/08



Series 1: Transport Service, Series 2: Travel Service, series 3: Other Service

Section IV: Growth of Service Sector Exports

After analyzing the pattern of components of service exports of India during 1990/91-2007/08, now we consider the trend annual compound growth rate of exports during the period under study. For analyzing this growth again we divide the total period into two sub-periods: Period I(1990/91-2000/01) and Period II(2000/01-2007/08). The growth rates are statistically significant. The total service exports has grown at the rate of 19.33% during the period under study. The growth rate of transport, travel and other services exports are 12.24%, 10.02% and 26.18% respectively. The growth rate of total service exports is higher (31.11%) in period II than in period I(14.27%). This is true for all components services exports except other services exports. Among the three components the growth rate of other services is more. So we can conclude that high growth rate of other services is the prime cause of high growth rate of service exports during the period under study.

Section IV: Diversification of Service Exports

After analyzing the pattern and growth of service exports of India now we examine the diversification of service exports. The value of diversification index of service exports has decreased from 0.957 in 1990/91 to 0.759 in 2000/01 and to 0.620 in 2007/08. This decline in diversification index implies service exports has been diversified less and concentrates on other services during the period under study.

Section V: Concluding Remarks:

India is also moving towards a services-dominated export growth with a CAGR of 28.7 per cent for services during 2000-01 to 2006-07 which is higher than the 19 per cent for merchandise exports during the corresponding period. Services sector is important particularly for India. In the short and even medium term, the sure bet for higher growth of the Indian economy lies in further accelerating the growth of the services sector, which can be done with considerable ease compared to other sectors due to India's competitive advantage in services. So service sector exports is one of the important aspects in this respect. Indian service export has been divided into three categories: transport services, travel services and other services. Out of these three other services exports take the prime role for growing service exports during the period under study. But acceleration service exports has been led by greater emphasis on other service exports.

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**Table 1: Percentage Distribution of Service Sector Exports during
1990/91-2008/09**

Year	Transport	Travel	Other	Total
1990/91	20.74	33.69	45.57	100
1991/92	19.79	37.39	42.81	100
1992/93	20.98	46.51	32.51	100
1993/94	24.32	42.28	33.41	100
1994/95	28.39	37.63	33.98	100
1995/96	27.90	38.11	33.99	100
1996/97	27.48	39.11	33.41	100
1997/98	21.31	31.72	46.97	100
1998/99	15.16	25.22	59.61	100
1999/00	12.95	20.69	66.36	100
2000/01	11.86	20.74	67.40	100
2001/02	11.82	18.45	69.73	100
2002/03	12.70	15.93	71.38	100
2003/04	12.64	18.67	68.68	100
2004/05	11.42	16.12	72.46	100
2005/06	10.25	13.42	76.33	100
2006/07	10.12	11.86	78.02	100
2007/08	9.82	12.37	77.81	100

Source: UNCTAD

**Table 2: Annual Compound Growth Rate(%) of Service Exports and
Its Components**

Time	Transport	Travel	Other	Total
Total(1990/91-2007/08)	12.24	10.02	26.18	19.33
PI(1990/91-2000/01)	8.44	7.06	20.89	14.27
PII(2000/01-2007/08)	26.75	21.37	33.99	31.11

Source: UNCTAD

Table 3: Diversification index of Service Sector Exports during 1990/91-2007/08

Year	DI
1990/91	0.957
1991/92	0.957
1992/93	0.955
1993/94	0.978
1994/95	0.994
1995/96	0.993
1996/97	0.991
1997/98	0.955
1998/99	0.857
1999/00	0.785
2000/01	0.769
2001/02	0.742
2002/03	0.724
2003/04	0.758
2004/05	0.706
2005/06	0.645
2006/07	0.617
2007/08	0.620

Source: UNCTAD