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IMPACT OF GLOBALIZATION ON SERVICE SECTOR

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ABSTRACT

The wave of globalization appeared on India's shores only in 1991, much after China's and some other Southeast Asian countries such as Malaysia, Singapore and Hong Kong. Moreover, the intensity of *opening country's borders is much higher in other countries than in India where democratic political forces delay decision making significantly. Nevertheless, the Indian economy has broken the shackles of protectionism with great vigor, which has led to some positive developments.*

Service is the largest sector of Indian economy and its growth rate is higher than the other sectors. This sector is playing an increasingly greater role in productivity up gradation, employment generation, and revenue augmentation; export promotion and inflows of foreign investments. Its growth continues to be broad based. Service sector is supportive of and complementary to other sectors because of its linkages with other sectors, particularly industry.

The present study attempts to examine the trends of growth in service sector in India during the third phase of Post Economic Reforms in India and suggest measures to improve the performance of service sector in India. India's services sector has matured considerably during the last few years and has been globally recognized for its high growth and development. The efforts are needed to balance the trade and consider expansion of trade in other countries of the world. Major trading partners should be given importance and more of liberalizing attitude is to be followed.

Introduction

Globalisation is the buzzword that has come to dominate the world since the nineties of the last century with the end of the cold war and the break-up of the former Soviet Union and the global trend towards the rolling ball. The frontiers of the state with increased reliance on the market economy and renewed faith in the private capital and resources, a process of structural adjustment spurred by the studies and influences of the World Bank and other International organisations have started in many of the developing countries. Also Globalisation has brought in new opportunities to developing countries. Greater access to developed country markets and technology transfer hold out promise improved productivity and higher living standard. But globalisation has also thrown up new challenges like growing inequality across and within nations, instability in financial market and environmental deteriorations. Another negative aspect of globalisation is that a great majority of developing countries remain removed from the process. Till the nineties the process of globalisation of the Indian economy was constrained by the barriers to trade and investment liberalisation of trade, investment and financial flows initiated in the nineties has progressively lowered the barriers to competition and hastened the pace of globalisation.

One of the most encompassing and growing areas of activity is the service sector today. Traditionally we have been thinking only of finance, insurance, transport, communication and tourism in the service sector. But the present development has crossed these boundaries. Nascent and emerging areas such as environmental, educational and counselling also part of this emerging sector today. The sheer heterogeneity of activity within this sector is going beyond the hitherto static features of non-storability, non-tradability and intangibility.

Review of Literature

A review of literature in this area of study is made to understand the studies conducted in the past, major findings of the studies and the future need of studies.

Widening access to services like finance, communications, transport as well as education and health care is a critical element of any growth enhancement and poverty reduction programme. Inadequate access to services hurts citizens not only in their role as consumers but also perpetuates poverty by undermining the productivity of the firms and farms as well as their ability to engage in trade. Moreover the positive impact of access to efficient services can be amplified because of the synergies between service sectors:

access to insurance services can enhance farmers ability to access credit, availability of telecommunications services helps financial service providers reach forms and farms in outlying areas and the development of tourism depends critically on the availability and affordability of transport services.

Mattoo et. al. (2001) measured services trade liberalization and its impact on economic growth. The study reached three broad conclusions: First, services liberalization is different from trade in goods in that the former involves factor mobility and leads to scale effects that are distinctive though not unique. Second, it is possible to construct policy-based rather than outcome based measures of openness for the services that capture these differences. Third, there is some. econometric evidence-relatively strong for the financial sector and less strong but nevertheless statistically significant for the telecommunications sector- that openness in services influences long run growth performance. Their estimates suggest that countries with fully open telecom and financial services sectors grow up to 1.5 percentage points faster than other countries.

Rajan & Bird (2002) attempted to study that how Asian economies will benefit from liberalizing trade in services. The study briefly examines the theoretical case for liberalizing trade in services with the state of play with respect to the liberalization of trade in telecommunication and financial services in the five Asian economies. It also reviews the empirical evidence on the effects of liberalizing trade in services with an attempt to provide some indication of its implications for Asia, in particular with reference to supply of services via commercial presence. Their assembled evidence confirms the theoretical expectation of a beneficial impact of an appropriately timed and sequenced liberalization of the telecommunications and financial sectors on overall growth and welfare. On the empirical evidence on the effects of protection in services and the benefits of liberalization, the study suggests that the greatest gains come from "complete liberalization", the largest single benefit comes from reducing impediments to market access, particularly, in the context of "establishment" rather than "operations". A study by the World Bank has similarly shown that the more liberalised sectors in India have attracted more FDI and have shown far higher growth than less liberalised services. The study also shows that the segments that have been aggressively liberalised- telecommunications, computer and related services, other business services [management consultancy, research and development (R&D), advertising, etc.] and hotels and restaurants-have experienced higher employment growth than other sectors that are relatively less liberalised. Other service sub-sectors that have registered a fast growth rate include communications services, financial services, tourism, hotel and restaurants and distribution. The high-income elasticity of demand for services and increased input usage are likely to provide further impetus to future growth in the services sector.

Banga and Goldar (2004) have studied producer behaviour and productivity in Indian manufacturing. An analysis of the contribution of services to output growth and productivity in Indian manufacturing is made in the framework of the KLEMS (capital-labor-energy-materials-services) production function, explicitly recognising services as an input to the production process. It is concluded that the growing use of services had a significantly favourable effect on the growth of output in Indian manufacturing in the 1990s, when major trade and industrial reforms were being introduced.

Gordon and Gupta (2004) analyse the factors behind the growth of the service sector in India. Their study showed that the growth acceleration of services in the 1990s was mostly due to fast growth in communication services, financial services, business services, and community services. While factors such as a high income elasticity of demand for services, increased input usage of services by other sectors, and rising exports were important in boosting services growth in the 1990s, the supply side factors including reforms and technological advances also played a significant role. The large growth potential of Indian exports of services is well known, but the paper finds that there is also a considerable scope for future rapid growth in the Indian service sector provided that deregulation of the service sector continues. The paper shows that employment growth in the Indian service sector has been quite modest, thus underscoring the importance of the rapid growth of industry and agriculture.

Banga (2005) identifies the critical issues with respect to growth of India's service sector and provides policy insights thereof. An assessment of performance of services at the aggregated as well as the disaggregated level is undertaken in terms of their shares in GDP, employment, trade, and FDI. Accordingly different services have been categorised in order to identify crucial constraints on their growth. The paper identifies the following critical issues: the pattern of growth in India's service-sector, i.e., how different services have behaved in terms of growth rate and share in GDP, employment, trade, and FDI; factors that explain growth in India's service sector; factors responsible for the lack of employment growth in the service sector; whether India's service sector can sustain its growth; and the important external and internal barriers to trade in different services in India.

The review of literature survey revealed that in the past no research work is undertaken on the role and impact of globalization on service sector, this study is undertaken to fill the gap in research

OBJECTIVE OF STUDY

The present study attempts to examine the trends of growth in services sector in India during the third phase of Post Economic Reforms in India and suggest measures to improve the performance of service sector in India. It is an analytical study of component wise growth of commercial services trade – Exports and Imports in India during 2005 – 2009.

METHODOLOGY

The present study is based on secondary data. Data have been collected from various sources-Economic Survey reports, Government of India reports, Financial Express, Report of currency & Banking, RBI, Annual Reports of Reserve Bank of India (RBI), Statistics of the Foreign Trade in India, Foreign Trade Review, CMIE Reports and other relevant books and publications. It covers a period of study from 2005 - 2009, which is considered as the Third Phase of Post Economic Reforms in India.

To analyze the data the average percentage growth in exports and imports has been calculated. To study the composition of India's exports and imports, selected commodity composition of exports and imports have been analyzed and average percentages share has also been calculated for comparison purposes.

GLOBALIZATION

Globalisation has the reduction of transaction cost of transformer movements of capital and goods thus of factors of production and goods. The process of globalisation not only includes opening up of world trade, development of advanced means of communication, internationalisation of financial markets, growing importance of MNC's, population migrations and more generally increased mobility of persons, goods, capital, data and ideas but also infections, diseases and pollution.

Globalization and the growth of the knowledge-based economy are perhaps the two key forces at work in the economy today. The service sector encompasses a wide and varied range of economic activity, including banking, janitorial services, education, entertainment, transportation, health, and much more. Any analysis of the effects of globalization and new information technologies on the economy must, therefore, unavoidably include the service sector. The need to focus on the service sector goes beyond the simple fact of size, however. The global trade policy agenda has been shifting toward services, and we need to ensure that we have a good understanding of the economics of the sector before embarking on trade agreements in this area.

Globalization is inextricably linked with services. Services both facilitate globalization and are subject to the pressures and benefits of globalization. The key linkages between countries occur via telecommunications and transport, both of which are services. Changes in technology, competition policy and trade policy in these industries have helped to lubricate the channels of global economic integration. Services are also becoming increasingly open to international trade. Although most world trade is still in goods, global international trade in services recently has been growing faster than trade in goods, and more than half of new direct foreign investment is in services. This creates new opportunities for consumers and producers of services; but it also creates new challenges.

In recent years, this had begun to change. International trade agreements are now being extended to cover trade and investment in services. Some regional trade and investment in services were covered by the North American Free Trade Agreement (NAFTA). As well, under the auspices of the World Trade Organization (WTO), member countries have committed to the General Agreement on Trade in Services (GATS), which is a framework for the development of a liberalized rules-based regime for international trade and investment in services. While previous rounds of trade liberalization that focused on goods were backed up by a wide array of studies of their potential effects, there is still very little known about the size or costs of current barriers to trade in services and the consequences of different approaches to trade liberalization.

New developments in information technology are also having a large impact on the service sector. The top five industries in terms of computer purchases are all services (Triplett and Bosworth, 2001). Telecommunication costs have plummeted and the quality and variety of services have increased dramatically over the last 15 years. These and other changes have altered the nature of work for many in the service sector, as the pace of change has required firms and their workers to adapt and innovate to remain competitive. The pace and importance of innovation in a world that is becoming more integrated creates significant challenges for policy. Regulation and policy need to evolve to reflect changes in technology and global markets, and this requires that we develop a better understanding of the underlying economics.

IPACT OF GLOBALISATION ON INDIA

India opened up the economy in the early nineties following a major crisis that led by a foreign exchange crunch that dragged the economy close to defaulting on loans. The response was a slew of Domestic and external sector policy measures partly prompted by the immediate needs and partly by the demand of the multilateral organisations. The new policy regime radically pushed forward in favour of amore open and market oriented economy.

Major measures initiated as a part of the liberalisation and globalisation strategy in the early nineties included scrapping of the industrial licensing regime, reduction in the number of areas reserved for the public sector, amendment of the monopolies and the restrictive trade practices act, start of the privatisation programme, reduction in tariff rates and change over to market determined exchange rates.

Over the years there has been a steady liberalisation of the current account transactions, more and more sectors opened up for foreign direct investments and portfolio investments facilitating entry of foreign investors in telecom, roads, ports, airports, insurance and other major sectors.

The Indian tariff rates reduced sharply over the decade from a weighted average of 72.5% in 1991-92 to 24.6 in 1996-97.Though tariff rates went up slowly in the late nineties it touched 35.1% in 2001-02. India is committed to reduce tariff rates. Peak tariff rates are to be reduced to the minimum with a peak rate of 20%, in another 2 years most non-tariff barriers have been dismantled by March 2002, including almost all quantitative restrictions.

The liberalisation of the domestic economy and the increasing integration of India with the global economy have helped step up GDP growth rates, which picked up from 5.6% in 1990-91 to a peak level of 77.8% in 1996-97. Growth rates have slowed down since the country has still bee able to achieve 5-6% growth rate in three of the last six years. Though growth rates had slumped to the lowest level 4.3% in 2002-03 mainly because of the worst droughts in two decades the growth rates are expected to go up close to 70% in 2003-04. A Global comparison shows that India is now the fastest growing just after China.

It is a major improvement given that India is growth rate in the 1970's was very low at 3% and GDP growth in countries like Brazil, Indonesia, Korea, and Mexico was more than twice that of India. Though India's average annual growth rate almost doubled in the eighties to 5.9% it was still lower than the growth rate in China, Korea and Indonesia. The pick up in GDP growth has helped improve India's global position. Consequently India's position in the global economy has improved from the 8th position in 1991 to 4th place in 2001.

India is well endowed with a large pool of low cost, technically skilled laborers. India presently accounts for 28 per cent of IT and BPO talent among 28 low-cost countries in the world. India's balance of payments had been marked by strong growth in invisible receipts comprising services income from financial assets while labour, property and workers' remittance is fast catching up with merchandise trade. After a period of relative stagnation during the 80s, the share of invisibles in current receipts rose to 47 per cent in 2005-06 from 29 per cent in 1990-91. The invisibles surplus continued to rise to reach a level of USD 40.9 billion in 2005-06. In tandem with the growth momentum in the services sector and its rising contribution to GDP, the comparative advantage of India in services exports is reflected in India's services exports growing at above 20 per cent on an average, since the mid nineties.

It is a significant rise in the invisible receipts is attributable to an improved competitive advantage in the business and technological services. Within the services exports, rising prominence of business services reflects the high skill intensity of the Indian workforce. An important feature of services export is that India has emerged as a major software exporting country with exports amounting to USD 23.6 billion in 2005-06, growing at a steady rate of over 30 per cent in the recent past. While merchandise export growth was 21% in 2006-07 services exports grew by 32.5%.

A striking feature of the services sector boom in India is its relatively 'jobless' nature. Although the services sector has recorded dynamic growth in the nineties, thereby registering a significant increase in its share in India's GDP (55% in 2005-06), the share of services in India's employment has not depicted a commensurate growth (26.4% in 2004-05). Thus, while output generation had shifted to services, employment creation in services has lagged far behind. This slower growth of jobs in the Indian services sector is in sharp contrast to the experience of many developed countries, where the services sector's share in employment rose faster than did its share in national output.

In the context of growing role of services sector in trade and development of the economy, this study attempts to benchmark the development impact of liberalization of trade in important services sectors in India. But any attempt in quantifying the development impact of growth in services remains futile because of lack of data with respect to output and employment in disaggregated services. Given the inter linkages of services the impact assessment becomes an even more Herculean task. The study therefore begins by making an attempt to generate output and employment multipliers of services sectors in India.

It is known that services trade is more complex than goods trade because of a number of barriers. They often take the form of regulatory measures, varying between and within sectors, some preventing market entry, others restricting the scope of operations within the market. For instance, in many countries provision of professional services is restricted to nationals. Market-access barriers in services can also limit the entry of new domestic suppliers into the market, restricting both domestic and foreign competition, especially in sectors where there are public or private monopolies, for example, telecommunications, insurance, environmental services, transport, banking and retail. Further domestic regulatory barriers are very important in sectors such as accountancy. Available evidence suggests that developing countries have more restrictive barriers than developed countries in key infrastructure services such as telecommunications and financial services. Developed countries may have higher barriers in other sectors such as education, maritime, professional and distribution services. Every services sector thus has specific issues associated with it. In addition to estimating the estimating the impact of overall services growth, this report thereafter focuses on five selected sectors; information technology in which India has a recognized comparative advantage; health-related and social services which is emerging as an export sector and one which has widespread positive externalities, tourism and travel-related services, education services and financial services. In addition to their export potential, the chosen sectors are also investigated for their impact on growth, access and poverty reduction.

The Employment Survey estimated that growth poverty elasticity of the services sector to be considerably higher than either agriculture or manufacturing. A study by the International Monetary Fund (IMF) attempted to capture the impact of growth of service exports on poverty. Services growth in India averaged at 7.5 per cent per annum, thus providing valuable support to industry and agriculture, which grew at 5.8 per cent and 3.1 per cent respectively during the decade of the 1990s. In order to arrive at a rough estimate of the contribution of this sector's exports to growth, the value the IMF has estimated added component of these exports at 60 per cent. Based on this estimation, services exports contributed 0.6 percentage points to the total growth of this sector. This would imply that poverty would be reduced by approximately 0.06 per cent with the current rates of growth of exports of the services sector. Given that it is estimated that there are about 300 million people below the poverty line, this would imply that 1.6 million would be moved out of poverty per year by services liberalisation, in turn leading to growth in other sectors. The direct effects through employment would be larger. Most of the poverty-reduction effects of export growth of the services sector can, however, is attributed to the indirect multiplier effects rather than to direct employment growth.

A close look at India's service trade sector indicates that in real terms growth in India's exports and imports on both goods and services had declined. Maximum decline is witnessed in growth of export of services which grew at the rate of 26.8% in 2005-06, but experienced a negative growth of -1.8% in 2007-08. Growth of import of services declined from 24.0 in 2006-07 to -3.7 in 2007-08 that is negative growth.

Table No 1 Growth in India's Trade (In Real Terms) : 2005-2008 (%):

	2005-06	2006-07	2007-08
Export of Services	26.8	27.4	-1.8
Import of Services	17.8	24.0	-3.7
Private Remittances	12.9	10.0	24.1
Real GDP at Market Prices	9.2	9.7	9.2

Source: National Accounts Statistics, CSO and RBI

Given the high dependence of Indian economy on its external trade sector, where exports of goods and services is around 20% of GDP, a slowdown in trade sector can have adverse ripple effects in the economy. More importantly it can lead to job losses and increase the number of poor in the country.

In the last three decades, it is evident; the service sector has expanded rapidly all over the world, though by comparison in India the growth has not been so pronounced. In fact, India has lagged behind even compared to some countries in south Asia. Interestingly some of the developing countries like those of Latin America have services accounting for a higher percentage of GDP than the world average and even Japan. Generally speaking the developed countries have dominated this expansion of services accounting of three quarters of world services output.

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Table No 2 Shares of Services in GDP

Countries	Share of Services in GDP (Percent)		
	1980	1999	2007
India	**36**	**46**	**52**
Pakistan	46	49	53
Bangladesh	34	50	52
Sri Lanka	43	52	58
Nepal	26	37	49
Singapore	61	64	69
Korea	45	51	58
China	21	33	40
Argentina	52	67	57
South Africa	43	64	66
USA	64	74	77
Japan	54	62	68
France	62	74	77
World	**55**	**63**	**69**

Source: World Development Indicators, 2008

IMPACT OF SLOW DOWN OF THE ECONOMY ON SERVICE SECTOR

Due to globalization, the Indian economy cannot be insulated from the present financial crisis in the developed economies. The development in the U.S financial sector has affected America but also European Union, U.K and Asia. The Indian economy too has felt the impact of the crisis though not to the same extent. It is premature to try to quantify the consequences of the crisis on the Indian economy. However the impact will be multi-fold

Due to increased integration of the world markets, transmission of economic crisis from one country to the rest of the world had become smoother. The larger the country, where the crisis originates, the greater is the impact on other countries. US, one of the largest economy in the world, both in term of its share in world GDP (27%) and global imports (17%) experienced the sub-prime mortgage collapse in August 2007. This was followed by the reversal of the housing boom in other industrialized economies, which had a ripple effect all around the world. Integrated financial sectors unmasked other weaknesses in the global financial system as a result of which some of the financial products and instruments became so complex and twisted, that as things started to unravel, trust in the whole system to fail. Stock markets crashed all over the world, with declines ranging from 35-40% over the past 12 to 18 months in developed countries and even more in most emerging markets.

SERVICES TRADE

While the contribution of agriculture to the GDP has been steadily declining, the share of manufacture sector has been stagnant and the services sector has been making rapid strides. Presently the share of the services sector to the GDP is about 52%. The trends in sectoral composition of GDP have several implications to the development process of the economy, which need to be addressed and carefully analyzed.

Interestingly, the contribution of agriculture to GDP in counties such as China, Korea, Indonesia, Malaysia, Philippines and Thailand is much lower that that of India. Further, it is the manufacturing sector that is dominant in all these economies by contributing about 65% to GDP in China about 45% in Korea, 44% Indonesia and Thailand and about 69% in Singapore. In contrast in India the contribution of the manufacturing sector is one of the lowest at about 28% and the services sector is one of the highest.

The services sector witnessed a phenomenal growth during the post – liberalization era. A glance at the growth rated of sub-sectors of the services sector during 2003-04 reveals that sub-sectors such as trade, hotels and communications have been witnessing rapid growth at about 11 per cent per annum, while other sectors such as construction, community, social and personal services showing about six per cent growth. This clearly indicated lack of symmetry in the development across the sub-sectors of the services sector raising issues such as public investment in these sectors, private participation, foreign investment, deregulation, foreign direct investment, tax and other incentives, etc.

While in the developed economies, for instance the USA, the contributions of services sector to the GDP is 80% accounting for 70% of the total employment, in India Contrastingly the contribution of services sector to employment is not even one-fifth of the total employment. The reasons for the discouraging performance of the services sector in terms of employment generation need an in depth analysis.

India has become a hub of business process outsourcing for the developed countries due to the availability of cost effective and skilled human resources. This is fact thrown up a big opportunity as well as a challenge. We have to find ways to harness and tone up the vast growing reservoir of human capital to make it fit for meeting the demands placed on it. This may warrant a thorough overhaul of the curriculum and the pedagogy particularly in the Commerce discipline.

Services sector has also thrown open several opportunities on the export front. For example, the exports of software products and services, technical know - how, technology, transfer and the human capital. In this context, a closer examination of the policy domain of the Government, unexplored areas and markets, cost effective ways of reaching out to the people across the Globe etc.

The extent of penetration of the services into rural areas, where about 70 per cent of the population of the country still lives, is abysmally low. One of the important issues related to the services sector is outsourcing of services by the urban economy from the rural areas. Many services can be produced at a much cheaper price in rural areas on account of availability of cost effective human resources.

Services contribute to economic growth and development through the creation of a competitive economy, by providing new jobs, by enhancing access to essential services, and by stimulating trade. Service sectors such as business and finance, telecommunications, construction, environment, distribution, healthcare, education, and cultural services provide the backbone of an integrated and effective economy, nationally, regionally and globally. An improved services economy contributes to improved performance in merchandise trade since the increased sophistication and availability of producer services enhances international competitiveness in the export of primary and manufactured goods. The informal services sector is also an important aspect of the services economy in developing countries.

Services, particularly finance (insurance) and transportation of goods, are traditional complements to goods trade. With the spread of telecommunications and computer technologies, virtually all-commercial services have become tradable across borders. The trend of globalization, reinforced by liberalization policies and the removal of regulatory obstacles, has fuelled steady growth of international investment and trade in services.

INDIA'S - EXPORT OF COMMERCIAL SERVICES

In less than two decades, India has become one of the top five exporters of services amongst developing countries, and has surpassed some the other Asian countries that had dominated the services trade in the 1990s. India has been deemed as a major exporter of services in the world with a market share of 2.72 % in 2008 as against 0.6 % in 1995. India's services sector has matured considerably during the last few years and has been globally recognized for its high growth and development. U.S. is one of the major markets for export of services for India. Its share in total services exports has been around 10% with the growth of services exports to U.S. being higher than that to the world since 2005-06.

Exports of services from India have been oriented mostly towards the EU25 and US in the developed world. India's country-wise exports of services show that the US and the UK are two most important destinations for service exports. EU and South East Asia are relatively less important destinations. According to the Economics Survey 2007-08, India exports travel services mainly to EU and transportation service to South East Asia.

Around 13% of the total Indian services exports were oriented towards the EU25 in 2003. However, the share has come down to 10% in 2005. US accounted for about 8.7% of total India's services export in 2005. Interestingly, the share of US has gone up to around 10.7% in 2007.

TABLE NO 3: INDIA'S EXPORTS COMMERCIAL SERVICES TRADE PERFORMANCE (2005-09)

	2005	2006	2007	2008
Commercial Services *exports,*(million US$)	56,094	73,839	89,746	102 648
Annual percentage change			35	23
Share in world total exports	2.32	2.68	2.73	2.72
Breakdown In Economy's Total exports By Principal Service item				
Transportation (%)	10.4	10.5	9.8	10.8
Travel (%)	11.4	10.5	12.4	11.5
Other Commercial Services (%)	78.1	79.0	77.8	77.7

Source: Compiled from the WTO Trade Profile reports (2005-09)

India is a major services exporting country with around 3% of the world total service exports. India's exports of services are mainly to the EU and the US. The latter alone accounting for around 11% of India's total services exports.

Services exports have not been as affected as exports of merchandise. The sub-sectors within services exports that have registered some contraction are travel, insurance, business and communication services. Software services exports, which are for some reason classified under miscellaneous receipts for India have been a major contributor to the growth of services exports, accounting for as much as 45% of total exports, goods and services combined (2007-08). However the intensity of the adverse impact of the global economic downturn on India's exports is perhaps best demonstrated by noting that even India's software exports recorded a contraction in the fourth quarter of 2008-09 by more than 15%. While the actual decline was confined to only a single quarter, the growth of software exports in 2008-09 has been far from the levels achieved in the years preceding the global crisis.

TABLE NO 4: INDIA'S SHARE AND PERCENTAGE GROWTH/CHANGE OF MAJOR EXPORT SERVICES

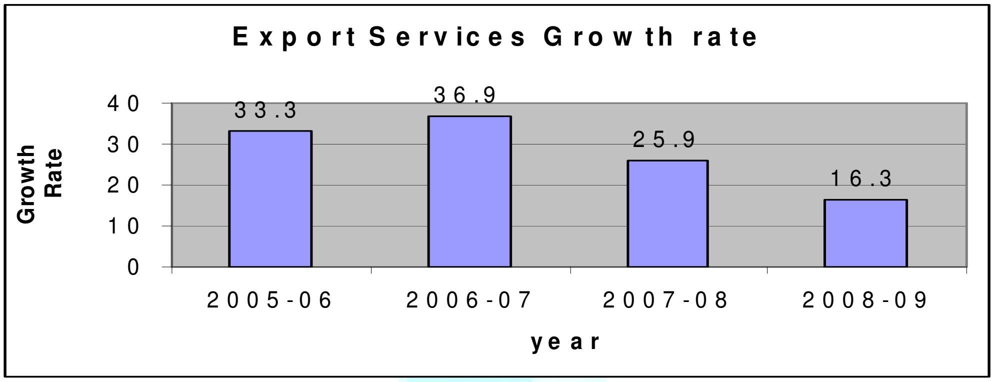
Commodity Groups	(Percentage of Share)				Growth rate*			
	2005-06	2006-07	2007-08	2008-09	2005-06	2006-07	2007-08	2008-09
Travel	13.6	10.6	12.1	11.0	17.8	15.7	26.2	6.2
Transportation	11.0	11.3	10.7	10.7	35.1	27.1	18.4	16.3
Insurance	1.8	1.7	1.8	1.4	21.1	-4.5	37.0	-8.2
GNIE	0.5	0.3	0.4	04	-21.7	-18.5	34.0	22.2
Miscellaneous of which	73.0	76.1	75.1	76.5	37.5	44.0	26.7	18.4
Software services	40.9	42.9	42.9	46.4	33.3	37.2	26.3	25.9
Non-software services of which	32.1	33.2	32.2	30.0	43.1	54.0	27.2	8.5
Business services	16.1	24.1	19.1	17.1	80.1	138.1	16.4	3.9
Financial services	2.1	2.8	3.6	4.5	136.1	56.1	13.3	45.7
Communication services	2.7	3.2	2.7	2.4	13.8	90.3	5.2	4.1
Total	**100**	**100**	**100**	**100**	**33.3**	**36.9**	**25.9**	**16.3**

Source: Calculations based on RBI data (2005-09)

GNIE: Government Not Included Elsewhere

- Growth rate in US dollar terms

Figure No 1, Exports Services Growth Rate



Source: ***Compiled from the WTO Trade Profile reports (2005-09)***

Travel

Travel, which is represented by the Foreign Tourist Arrivals and Foreign Exchange Earnings, registered a higher year-on-year growth rate of 26.2% in 2007-08 as compared to the previous year growth rate of 15.7%. Foreign Tourist Arrivals during the year 2008 were 5.37 million as compared to Foreign Tourist Arrivals of 5.08 million during the year 2007. Foreign Exchange Earnings (FEE) in US$ terms during the year 2008 were US$ 11,747 million as compared to US$ 10,729 million in 2007. During April-September 2008, However, the impact of global financial meltdown is evident in the latest numbers released by the ministry of tourism, India which reports foreign tourist arrivals at 1.461 million in 4Q 2008-09 were 13.75% lower as compared to 1.694 million in 4Q 2007-08. Also, foreign exchange earnings during the same period were lower at US$ 2,731 million as compared to US$ 3,935 million during January to March 2008.

Export of Transportation services

Export of Transportation services had slowed down in past few years registering 26.5% year-on-year growth in 2007-08 as compared to a growth rate of 24.2%in 2005-06.

Non-Software services

Non-Software services, under miscellaneous receipts, recorded a fall in year-on year growth rate from 49.3% in 2006-07 to (-7.9%) in 2007-08. Communication, business and financial services were the major contributors to the decline in non-software services. Though Communication and Financial services recorded positive growth rates in 2007-08, the growth rates were substantially lower than previous year growth rates and similarly the decline was also attributable to a major negative growth rate recorded in export of business services. This slowdown is the result of the banking financial services and insurance sector being at the core of global economic slowdown. However, services such as Construction, News Agency, Royalties, Copyrights and License Fees and Personal, Cultural Recreational services registered higher year-on-year growth rates in the non-software category. Amongst the export of business services- Business & Management Consultancy as well as Architectural, Engineering and Other Technical Services registered the largest decline.

In addition, Banking, Financial and Insurance (BFSI) sector which has been the epicenter of this global financial crisis accounts for approximately 50% of the revenues of IT & ITeS providers which makes IT & ITeS highly vulnerable to the current global slowdown in terms of delayed decision making and reduction in IT spending by customers of frontline IT companies.

Services exports reached US$ 90.1 billion in 2007-08 with a sustained high growth of export of services, which however moderated to 22.1 per cent in 2007-08. Growth has been rapid in the miscellaneous services category particularly software services and business services. The annual average growth of

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miscellaneous services was 33.8 per cent during 2000-01 to 2005-06 and 31.2 per cent and 20.8 per cent respectively in 2006-07 and 2007-08.

TABLE NO 5 MISCELLANEOUS RECEIPTS: NON-SOFTWARE

	2005-06	2006-07	2007-08
Communication Services	**1,575**	**2,099**	**2,436**
YoY Growth		32.274%	16.06%
Construction	**242**	**332**	**780**
YoY Growth		37.19%	134.94%
Financial	**1,209**	**2,913**	**3,085**
YoY Growth		140.94%	5.90%
News Agency	**185**	**334**	**643**
YoY Growth		80.54%	92.51%
Royalties ,copy rights and license fees	**191**	**97**	**157**
YoY Growth		-49.21%	61.86%
Business Services	**9,307**	**19,266**	**16,624**
YoY Growth		107.01%	-13.71%
Personal, Cultural, Recreational	**189**	**173**	**559**
YoY Growth		-8.47%	223.12%
Others	**5,607**	**26,256**	**24,619**
Total	**18,505**	**26,256**	**24,619**
YoY Growth		41.89%	-6.23%

Source: www.rbi.org.in

The impact of global recession was relatively less on India's services exports till December 2008 although the services export growth rate during April-December (2008-09), moderated to 16.3 per cent. A negative growth rate of (-) 8.2 per cent in insurance and sharp fall in growth rate to 6.2 per cent in travel services was registered during this period. Even transport services and miscellaneous services registered lower growth. Software services grew at 26 per cent, while financial services registered a robust growth of 45.7 per cent despite the global financial crisis and fall in growth rate in world financial services exports. But business services growth was at a lower rate of 3.9 per cent.

The impact of global slowdown on India's exports of services has not been as deep as the impact on goods and services exports are still recording positive export growth, the increasing legislations and inbuilt conditions in the stimulus packages offered for revival in the developed countries may lead to escalating the impact of slowdown on services exports overtime.

INDIA'S - IMPORT OF COMMERCIAL SERVICES

In terms of imports of services software, miscellaneous, business and financial services were adversely affected suffering a decline of growth rate 11% in 2008-09 compare to 2007-08 that is 33%.

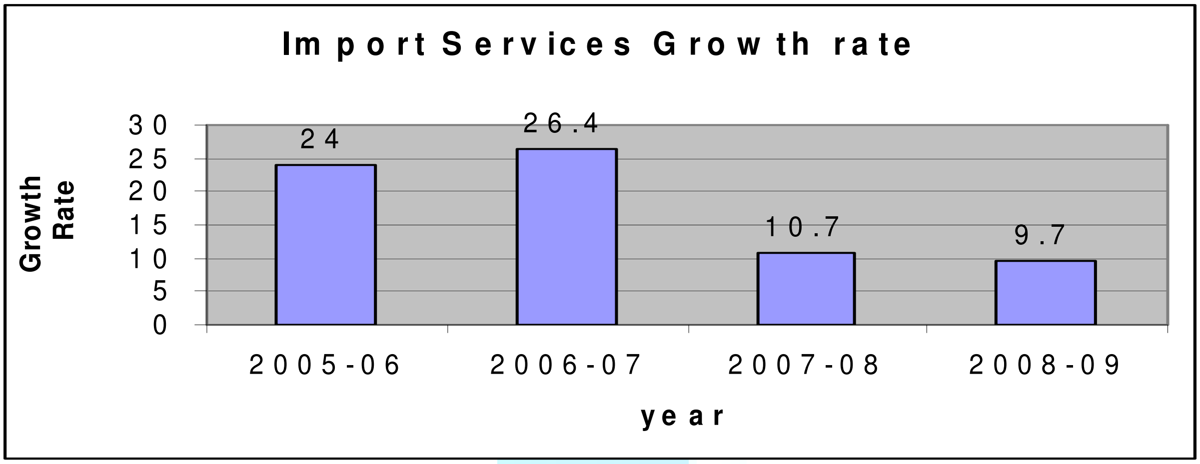
While India's services exports have not been as adversely impacted as merchandise trade, an increasing number of legislative measures and restrictive conditions included in the stimulus packages of the US, the UK, etc. may aggravate the negative impact in the coming period. In the context the agreement at the successive G20 summits to prevent any move towards competitive protectionism is of major importance.

TABLE NO 6: INDIA'S IMPORTS COMMERCIAL SERVICES TRADE PERFORMANCE (2005-09)

	2005	2006	2007	2008
Commercial Services imports (million US$)	52,211	63,696	77,200	83,599
Annual percentage change	-	-	33	22
Share in world total *imports*	2.22	2.41	2.50	2.40
Breakdown In Economy's Total imports By Principal Service item				
Transportation (%)	38.0	39.4	40.3	49.5
Travel (%)	11.1	11.4	11.4	11.5
Other Commercial Services (%)	50.9	49.2	48.3	39.0

Source: Compiled from the WTO Trade Profile reports (2005-09)

FIGURE NO 2, IMPORT SERVICES GROWTH RATE



Source: Compiled from the WTO Trade Profile reports (2005-09)

The Indian policy response to the plummeting of its exports has been principally to provide fiscal incentives in the form of reduced import duties on imports needed for exports and raising the rates of duty drawback available to exporters. In addition, exporters have been given a 2% interest rate subsidy on the refinancing of trade finance as well as for their working capital requirements. This may have helped in the slight recovery that is now being seen in the month on month de-seasonalised data. However, the refinance facility has been recently withdrawn and could affect the export effort.

TABLE NO 7: INDIA'S SHARE AND PERCENTAGE GROWTH/CHANGE OF MAJOR IMPORTS SERVICES

	(Percentage of Share)				Growth rate*			
Commodity Groups	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2005-06**	**2006-07**	**2007-08**	**2008-09**
Travel	19.2	17.8	19.0	18.3	26.5	12.6	31.1	5.9
Transportation	24.2	21.5	23.8	27.5	83.7	0.0	33.8	26.5
Insurance	3.2	1.5	2.1	2.1	54.6	-25.3	50.8	10.0
GNIE	1.5	1.1	0.9	1.2	28.7	-13.0	5.0	39.9
Miscellaneous of which	51.8	58.1	54.1	50.9	5.7	50.7	-3.0	3.1
Software services	3.9	4.4	6.8	6.3	67.3	71.2	55.1	1.2
Non-software services of which	47.9	53.7	47.3	44.5	2.7	49.3	-7.9	3.3
Business services	22.5	31.9	32.1	26.5	5.9	115.8	7.2	-9.3
Financial services	2.8	3.4	5.6	6.2	16.0	25.1	14.7	21.6
Communication services	0.8	1.5	1.7	2.0	-60.8	142.3	12.7	24.4
Total	**100**	**100**	**100**	**100**	**24.0**	**26.4**	**10.7**	**9.7**

Source: Calculations based on RBI data (2005-09)

GNIE = Government not included elsewhere

- Growth rate in US dollar terms

Imports of commercial services have become important in recent years reaching US$ 52.5 billion in 2007-08 though its growth moderated to 18.5 per cent in 2007-08. Business service is the most important category of service in imports, followed by transportation and travel. However, with a high base rate of growth, business services grew by only 7.2 per cent in 2007-08. Transportation, travel and insurance registered robust growth partly due to lower base effect. In 2008-09 (April December), there was a sharp fall in the growth rate of business services imports (as in the case of business services exports) mainly due to the fall in imports of business and management services and relatively low growth in imports of architectural, engineering and other technical services. Import growth of travel services fell sharply to 5.9 per cent, while transportation import growth registered good growth though it moderated to 26.5 per cent. Interestingly, good growth of imports was registered in financial services and communication services despite the global financial crisis.

FINDINGS OF STUDY

World trade the liberalization and globalization of trade have enabled developing countries to participate in world trade at an increasing rate. Although the share of India in total world has also increase over time its share is minuscule.

1. The study revealed that India has been deemed as a major exporter of services in the world with a market share of 2.72 % in 2008 as against 0.6 % in 1995. India's services sector has matured considerably during the last few years and has been globally recognized for its high growth and development.
2. The study revealed that India's exports of services are mainly to the EU and the US. The remaining countries exports accounting for around 11% of India's total services exports.

3. In terms of imports of services software, miscellaneous, business and financial services were adversely affected suffering a decline of growth rate 11% in 2008-09 compare to 2007-08 that is 33%.
4. Imports of commercial services have become important in recent years reaching US$ 52.5 billion in 2007-08 though its growth moderated to 18.5 per cent in 2007-08.

The trends in India's exports and imports indicate that the impact of slowdown on India was felt with a lag probably due to overtime diversification in India's exports both in terms of composition and direction. However, there is a large scope for further diversification both in terms of composition and direction of exports. Around 30% of exports are still directed towards developed countries, which need to be diversified to developing countries. Share of fewer commodities in top 50% of India's exports at six-digit level in 2007 as compared to earlier period reflects the need and scope for further diversification.

SUGGESTION AND CONCLUSIONS

Indian economy has made rapid strides in the process of globalization; Globalization is increasing the integration of national markets and the interdependence of countries worldwide for a wide range of goods, services, and commodities. Several factors have engendered such a transition including the liberalization of tariffs and other barriers to trade; foreign direct investment through trade and investment agreements; autonomous unilateral structural reforms; technological innovations in transport and communications; international development cooperation; and the strategic use of policies, experimentation and innovation.

The most important lesion that we must learn from the crisis is that we must be self-reliant. Though World Trade Organization (WTO) propagates free trade, we must adopt protectionist measures in certain sectors of the economy so that recession in any part of the globe does not affect out country.

Great savings habit among people, strong fundamentals, and strong conservative and regulatory regime had saved Indian economy from going out of gear, though significant parts of the economy have slowed down and there is a wide variance of opinion about how long it will continue. It is expected that growth will be moderate in India. The most important lesson that we must learn from the crisis is that we must be self-reliant. Though World Trade Organization (WTO) propagates free trade, we must adopt protectionist measures in certain sectors of the economy so that recession in any part of the globe does not affect our country.

The study concludes that India's trade reform programme resulted in strong economic growth in the globalization age. The recent slowdown, although partly due to the overall slowdown in the world economy, has demonstrated the necessity of continuing these reform efforts. In particular, difficult decisions are required to redress the fiscal imbalance, by reducing subsidies, completing the process of tariff and tax reform, and stepping-up privatization of state-owned enterprises.

The efforts are needed to balance the trade and consider expansion of trade in other countries of the world. Major trading partners should be given importance and more of liberalizing attitude is to be followed.

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