



# FOREIGN TRADE IN SERVICES

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## **Abstract:**

Every economy consists of three sectors. They are primary sector (extraction such as mining, agriculture and fishing), secondary sector (manufacturing) and the tertiary sector (service sector). Economies tend to follow a developmental progression that takes them from a heavy reliance on primary, toward the development of manufacturing and finally toward a more service based structure. The study selected six service sectors of India namely Travel, Transport, Insurance, Software, Business and Financial services. The balance of payment of export and import of these sectors are easily available. The study used yearly closing values of export and import of the six selected service sectors for performing analysis. RBI website is the database of the study. The study computes Annual growth, Compound Annual Growth Rate (CAGR), Mean and Standard Deviation for making descriptive analysis of data. The study also made an attempt to make an inferential analysis of export and import in services in relative terms by using a most popular parametric tool, ANOVA.

## **Introduction**

The Indian economy has witnessed a major boost in the last decade, which can chiefly be attributed to the growth of its service sector. India has emerged as the fastest growing nation in global service trade. Service Sector in India today accounts for more than half of India's GDP. There was marked acceleration in the growth of services sector in the nineties. While the share of services in India's GDP increased by 21 per cent points in the 50 years between 1950 and 2000, nearly 40 per cent of that increase was concentrated in the nineties. According to data for the financial year 2016-17, the share of services contributes to 55.1 per cent of the GDP, where as industry, and agriculture in shares 26.4 per cent, and 18.5 per cent respectively. This shows the importance of service industry to the Indian economy .It is a fact that the growth in the Indian service sector is a result of change in the global environment. The opening up of the economy has certainly propelled the growth of services and its trade.

Indian service industry covers a wide gamut of activities like trading, banking & finance, infotainment, real estate, transportation, security, management and technical consultancy among several others. The major sectors that combine together to constitute service industry in India are listed below.

India's distinctive competencies and competitive advantage formed by the knowledge-based services makes it unique emerging market in the world. Backed by several government initiatives, the services sector in India has the potential to unlock a multi-trillion dollar opportunity which can create symbiotic growth for all nations. Importance of service sector is well recognized everywhere. Tom Peters, a renowned author once said, "When you build a manufacturing plant, it starts depreciating on the day it opens. The well served customer, on the other hand, is an appreciating asset. Every small act on his or her part ups the odds for repeat business, add-on business and priceless word-of-mouth referral." Among the three important sector (viz., agriculture and allied, secondary sector and services sector), contributing to the development of the economy of a country, the contribution of services sector is increasing steadily over the past few years. In most of the developed countries of the world, the services sector is contributing the major portion of its Gross Domestic Product and generates three times more employment than manufacturing sector. In most of the developing Countries, where agriculture and industry dominated the show In generating employment till

a few years ago, but things started to change in recent period. In recent years, services sector experienced a rapid shift in its favor in generating both income and employment. Thus it has been observed that the service sector has become a major player in almost all the countries of the world.

### Review of Literature

**Mukherjee (1984)** studied the role of General Agreement on Tariff and Trade (GATT) and United Nations Conference on Trade and Development (UNCTAD) in the context of service sector exports and imports. The study suggested that the UNCTAD was the right forum to seek the redress of the grievances in matters pertaining to the service sector exports of the developing countries. The study recommends reduction in the barriers and preferential treatment to the developing countries due to non-availability of level playing field in the competitive market. **Modwel (1985)** has mentioned that the share of service sector in gross domestic product at factor cost (at current prices) increased from 37 per cent in 1970-71 to 44 per cent in 1980-81 and which further attained the level of 46 per cent in 1983-84. The study has found that among different services the significant increase has been observed in the case of banking, trade, hotels, restaurants and other services. **Nagraj (1991)** study evaluated the growth process of tertiary sector since 1950 and noticed that the share of tertiary sector in Net Domestic Product (at 39.7 per cent) in 1987-88 has been higher than not only that of the secondary sector (at 26.3 per cent) but also of the primary sector (at 34.0 per cent) respectively. **UNCTAD (1994)** study reported that United States of America along with developing countries have remained the main proponents of the inclusion of trade in services in the Uruguay Round. Due to the formation of GATS (General Agreement of Trade in Services) four new modes of trade in services have been initiated viz., i.) Supply through cross-border movements, ii.) Movement of consumers, iii.) Commercial presence, and iv.) Presence of natural persons. The agreement further provides a framework for future rounds of negotiations aiming at the progressive liberalization of trade in services. **Sen (1995)** mentioned that Indian software exports has recorded an impressive growth in absolute term from Rs. 71 crores in 1987 to Rs. 700 crores in 1993. There are more expectations from this sector as India has the potential to become a global powerhouse. The software sector as pointed by the study is extremely human capital intensive and not physical capital-intensive **Reddy (2000)** mentioned that services has grown by about 5 per cent per annum during post-independence period, whereas, its share remained close to 6 per cent since mid-seventies.

### Objectives

- To make comparative analysis of selected service exports and imports in India.
- To study the convergence or divergence of service sector growth of export and import in India.
- To analyze the net balance in service trade.

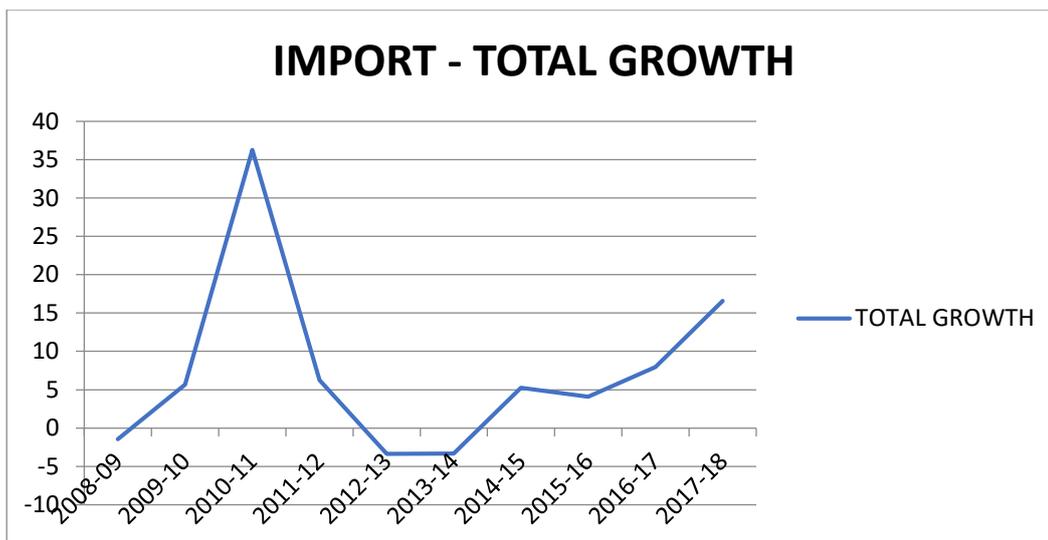
### Data and Methodology

The study selected six service sectors of India namely Travel, Transport, Insurance, Software, Business and Financial services. The balance of payment of export and import of these sectors are easily available. The study used yearly closing values of export and import of the six selected service sectors for performing analysis. RBI website is the database of the study. The study computes Annual growth, Compound Annual Growth Rate (CAGR), Mean and Standard Deviation for making descriptive analysis of data. The study also made an attempt to make an inferential analysis of export and import in services in relative terms by using a most popular parametric tool, ANOVA.

### Data analysis:

For the purpose of analysis, six service sectors are identified namely Travel, Transport, Insurance, Software, Business and Financial services. For the analysis of data both descriptive tools such as Growth rate, mean, standard deviation and inferential tool ANOVA have been used.

## IMPORT PERFORMANCE



### 1. Sector wise performance

#### A) Travel

The World Economic Forum Report (WEF 2008) on Travel and Tourism Competitiveness across the World placed India at the 65th position in overall growth among 130 nations. On comparing financial year 2008-09 with 2017-18 the travel and tourism sector import has increased 2.07 times and the Annual average growth rate is 8.56. The compound Annual growth rate is 7.01% and the Standard deviation is 14.02. The highest growth rate was recorded in 2011-12.

#### B) Transport

Transportation services cover all transport services which are carried out by the people of one economy for the citizens of another nation. On comparing financial year 2008-09 with 2017-18 the Transport sector import has increased 1.37 times and the Annual average growth rate is around 5. The compound Annual growth rate is 4% and the Standard deviation is 12.42. The highest growth rate was recorded in 2017-18.

#### C) Insurance

The insurance sector is an infrastructural pillar of the financial services sector and the economy as a whole. On comparing financial year 2008-09 with 2017-18 the Insurance sector import has increased 1.17 times and the Annual average growth rate is around 3. The compound Annual growth rate is 2.20% and the Standard deviation is 10.96. The highest growth rate was recorded in this sector in 2017-18.

#### D) Software

On comparing financial year 2008-09 with 2017-18 the software sector import has increased around 3 times and the Annual average growth rate is around 14.61. The compound Annual growth rate is 6.18% and the Standard deviation is 42.79. From 2012-13 to 2017-18, there was only a growth in import of software.

#### E) Business

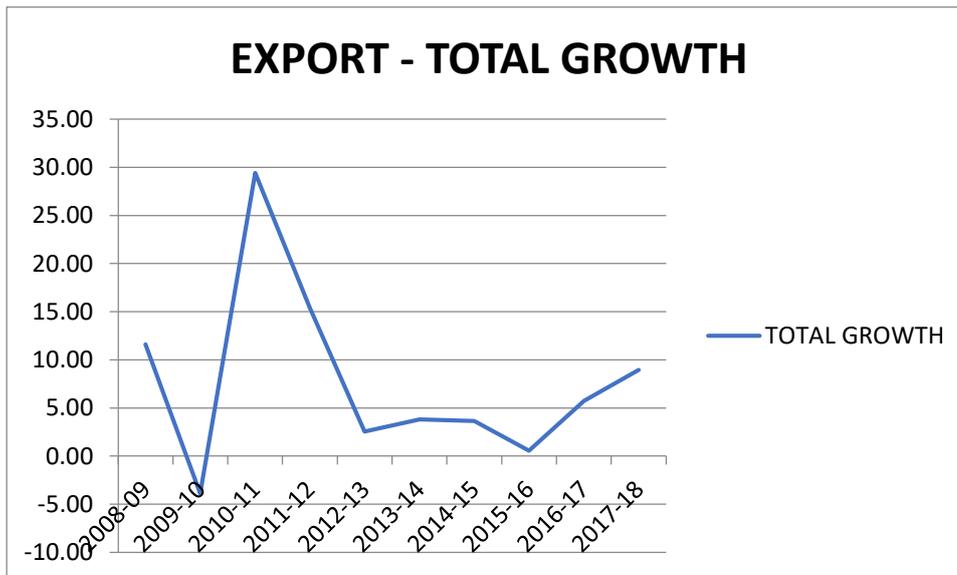
The highest growth rate in import was recorded in this sector in 2010-11. On comparing financial year 2008-09 with 2017-18 the business sector import has increased around 2.39 times and the Annual average growth rate is around 9.48. The compound Annual growth rate is 7.48% and the Standard deviation is 18.18.

**F) Financial**

Financial services include all banking and other financial services excluding insurance. . On comparing financial year 2008-09 with 2017-18 the Financial sector import has increased 1.87 times and the Annual average growth rate is around 13.32. The compound Annual growth rate is 5.31% and the Standard deviation is 43.28. On comparing with the financial year 2016-17 to 2017-18 the import of financial sector import recorded in negative.

**II. EXORT PERFORMANCE**

The India's Export performance in service sector is analyzed under the following heads.

**1. Overall performance****2. Sector wise performance****A) Travel**

On comparing financial year 2008-09 with 2017-18 the travel and tourism sector export has increased around 3 times and the Annual average growth rate is 10.10. The compound Annual growth rate is 8.68% and the Standard deviation is 11.65. The highest growth rate was recorded in 2011-12.

**B) Transport**

On comparing financial year 2008-09 with 2017-18 the Transport sector export has increased 1.54 times and the Annual average growth rate is around 7. The compound Annual growth rate is 5.17% and the Standard deviation is 14.69. The highest growth rate was recorded in 2011-12.

**C) Insurance**

On comparing financial year 2008-09 with 2017-18 the Insurance sector export has increased 1.68 times and the Annual average growth rate is around 5. The compound Annual growth rate is 3.48% and the Standard deviation is 15.20.

RBI)

**D) Business**

The highest growth rate in export was recorded in this sector in 2014-15. On comparing financial year 2008-09 with 2017-18 the business sector import has increased around 2 times and the Annual average growth rate is 13.10. The compound Annual growth rate is 7.54% and the Standard deviation is 38.01.

Table: 1 – The performance of exports in Business sector.

YEAR	ABSOLUTE VALUE (US \$ MILLION)	GROWTH
2008-09	18603	1.83
2009-10	11321	-0.89
2010-11	24050	18.01
2011-12	25910	24.81
2012-13	28447	-14.09
2013-14	28482	-0.11
2014-15	28422	29.6
2015-16	28944	-3.36
2016-17	32946	11.22
2017-18	37346	18.63
	<b>MEAN</b>	<b>13.10</b>
	<b>S.D</b>	<b>38.01</b>
	<b>CAGR</b>	<b>7.54</b>
	<b>Multiply ratio</b>	<b>2.01</b>

(Source-RBI)

**E) Financial**

On comparing financial year 2008-09 with 2017-18 the Financial sector export has increased 1.17 times and the Annual average growth rate is around 8.20. The compound Annual growth rate is 4.39% and the Standard deviation is 31.12.

**III. BALANCE OF INTERNATIONAL TRADE IN SERVICES**

The balance of international trade in service is the difference between the value of a country's service imports and exports for a given period. It is a measure which indicates the strength of a country's economy. Here the study analyzes India's net exports in various service sectors during the study period.

**A) Travel**

It is clear from the table 15, that the value of Net exports regarding the travel sector is highly favorable in the year 2017-18 and Net exports shows the lowest value in the year 2008-09. From the year 2014-15 onwards Net exports shows an increasing trend.

**B) Transport**

While analyzing the table 16, that the value of Net exports regarding the transport sector is highly favorable in the year 2013-14 and Net exports shows the lowest value in the year 2008-09. Net exports shows a fluctuating trend over the period of analysis.

**C) Insurance**

It is understood from the table 17 that the value of Net exports regarding insurance sector is highly favorable in the year 2016-17 and Net exports shows the lowest value in the year 2008-09. Over period of study Net exports is favorable.

**D) Software**

It is clear from the table 18, that the value of Net exports regarding software sector is highly favorable in the year 2017-18 and Net exports shows the lowest value in the year 2008-09. From the year 2010-11 onwards Net exports shows an increasing trend.

**E) Business**

While analyzing the table 19, that the value of Net exports regarding Business sector is highly favorable in the year 2008-09 and Net exports shows the lowest value in the year 2009-10. Net exports show a fluctuating trend over the period of analysis.

**F) Financial**

It is understood from the table 20 that the value of Net exports regarding financial sector is highly favorable in the year 2014-15 and Net exports shows the lowest value in the year 2011-12. Net exports show a fluctuating trend over the period of analysis.

**IV) PERFORMANCE IN INTERNATIONAL TRADE -AN INFERENTIAL ANALYSIS**

Apart from the descriptive analysis of import and export in different sectors in services, the study also made an attempt to make an inferential analysis of export and import in services in both absolute and relative term by using a most popular parametric tool, ANOVA.

**A) Comparison of Exports of Various Services.**

While comparing the growth of exports of various service sectors by using ANOVA, it is found that there is no statistically significant difference between the growths of export in various sectors. So, it is logical to infer that the growth of exports of services in India shows a converging character in respect of various sectors selected for the study (Table: 2).

TABLE: 2 – COMPARISON BETWEEN THE EXPORTS OF VARIOUS SERVICE SECTORS – RESULTS OF ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Between groups	421.487	5	84.297	0.166	0.974
Within groups	27382.96	54	507.09		
Total	27804.447	59			

(Data Complied)

## B) Comparison of Imports of Various Services

While comparing the growth of imports of various service sectors by using ANOVA, it is found that there is no statistically significant difference between the growths of import in various sectors. So, it is logical that the growth of imports of services shows a convergence between the different sectors

TABLE: 3 – COMPARISON BETWEEN THE IMPORTS OF VARIOUS SERVICE SECTORS – RESULTS OF ANOVA

	Sum of Squares	Df	Mean Square	F	Sig.
Between groups	1026.608	5	205.322	0.273	0.926
Within groups	40564.236	54	751.190		
Total	41590.845	59			

(Data Complied)

### Findings:

The present study “analysis of India’s trade in services” has been undertaken to analyze the comparative analysis of selected service exports and imports in India, to study the convergence or divergence of service sector growth of export and import in India and analyze the net balance in service trade. The study selected six service sectors of India namely Travel, Transport, Insurance, Software, Business and Financial services. Analysis of India’s trade in services studied with the help of secondary data from RBI website, from the sources of internet, journals and other published documents for understanding service trade in India.

The major findings of the study are summarized below

#### A) Export performance

1. It is found that the software sector shows tremendous increase in export during the period.
2. While analyzing the sectors, the business sector shows the highest annual average growth rate with 13.10.
3. Travel sector shows the highest multiply ratio with 2.60.

#### B) Import performance

1. While analyzing the sectors, the software sector shows the highest annual average growth rate with 14.61 and highest multiply ratio with 2.53.
2. It is found that the business sector shows highest CAGR with 7.48.

#### C) Balance Of International Trade In Services

1. It is observed that only three sectors (Travel, Insurance, and Software) shows the favorable values of net exports throughout the period of study.
2. The software sector shows highest value of net exports during the study period.

D) Comparison of Exports of various services.

1. It is found that there is no statistically significant difference between the growths of export in various sectors.
2. It is logical to infer that the growth of exports of services in India shows a converging character in respect of various sectors selected for the study.

E) Comparison of Imports of various services.

1. It is found that there is no statistically significant difference between the growths of import in various sectors.
2. It is logical that the growth of imports of services shows a convergence between the different sectors.

### Conclusion

Well-functioning services sector is an important key to the overall economic performance of countries and to the welfare of its citizens. Reform of services sector policies provides an important opportunity for policy makers to strengthen

employment, productivity and innovation. It especially helps in strengthening the capacity of Indian economy to adjust to economic globalization in services through good coordination and cooperation among countries. Trade in India's service sector is increasing every year. One of the highlights of this is the growth of the Software sector. Three sectors of service have a tremendous growth in net exports during the study period. The authorities should take the initiative in the negative growth in some sectors. It is understood that the growth of imports and exports of services shows a convergence between the different sectors. Needless to say, the service sector plays a huge role in the growth of the country.

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