## Invisibles

6.8 The current account surpluses during the current decade are largely attributable to the buoyant inflows of invisible receipts. As a proportion of GDP, the invisibles balance increased by 1.2 percentage points from 3.1 per cent in 2001-02 to 4.3 per cent in 2003-04 (Table 6.3). The increase was particularly sharp in 2003-04, when net invisibles inflows increased by more than 50 per cent from US$17 billion in 2002-03 to US$26 billion in 2003-04. Non-factor services and private transfers comprised more than 90 per cent of total invisible receipts in 2003-04, with their individual shares in total receipts at 47.1 per cent and 43.7 per cent, respectively.

6.9 The steady growth of non-factor services receipts, and the concomitant strengthening of the invisibles balance, can be, inter alia, attributed to the rapid rise in software services exports. From a relatively low share of only 10.2 per cent in 1995-96, exports of software services came to occupy 48.9 per cent of India's total services exports in 2003-04, highlighting the country's growing comparative advantage in production and export of such services. The growth in information technology IT-enabled services (ITES) and business process outsourcing (BPO) has been very satisfactory, with such exports experiencing more than six-fold increase between 1999-00 (US$565 million) and 2003-04 (US$3.6 billion). The year 2003-04 was also characterized by a turnaround in travel receipts, which increased by more than US$800 million compared to 2002-03. This turnaround not only bolstered overall invisible inflows, but also underlined a sharp revival in tourism interest in India. Besides software services and travel, transportation receipts increased by nearly US$700 million in 2003-04, primarily on account of higher earnings by the Indian shipping industry. The year experienced net positive transportation earnings (almost US$1 billion) after almost two decades.

6.10 Apart from software services, growing volume of private transfers, driven essentially by workers remittances, have been one of the main reasons behind the expanding surpluses in the current account. Private transfer inflows increased by around US$6 billion in 2003-04, up nearly 35 per cent over the previous year. Remittances from overseas Indians constituted 83 per cent of these transfers. As a proportion of GDP, workers remittances have increased from 0.7 per cent in 1990-91 (US$2.1 billion) to 3.2 per cent in 2003-04 (US$19.2 billion), making India one of the largest global recipients of such inflows. Source-wise, remittances from Indians in advanced economies (mainly the US and Europe) now form the bulk of such transfers, as compared to those from the Gulf countries in the past.

6.11 By growing faster than merchandise trade, services trade is increasingly becoming of paramount importance in the global trade matrix. Services trade has special relevance to India, a country with a good potential in many services (Box 6.2).

6.12 While the first quarter of the current fiscal witnessed buoyant invisibles inflows (net), the second quarter, in a sharp reversal of the trend, experienced a fairly significant drop in the volume of invisibles (net). As a result, the trade deficit of US$12.3 billion during the second quarter was left uncovered by US$6.4 billion, which resulted in not only a current account deficit of an equivalent amount for the quarter, but also a current account deficit for the first half of the current year. Receipts of both non-factor services and private transfers dropped during the second quarter, by US$1 billion and US$1.7 billion, respectively, compared to the first quarter of the current fiscal. Among non-factor services, transportation earnings recorded net outflows (US$90 million) during the second quarter, as against net inflows (US$339 million) during the first quarter, largely on account of higher transportation expenses arising from growing domestic demand for imports. Software service exports, however, continued to remain buoyant, registering an increase of 28.7 per cent in April-September 2004 over April-September 2003. The invisibles balance for the first half, however, was significantly, affected by the sharp decline in workers remittances.

**Box 6.2 : Trade in services**

In terms of annual average rate of growth, world exports of commercial services, i.e. non-factor services (services henceforth), not only increased faster (7 per cent) than such exports of merchandise (5 per cent) between 2000 and 2003, but also accelerated from 7 per cent in 2002 to 13 per cent in 2003. Reflecting the importance of services in their overall economic activities, industrial countries dominate global exports of services. Nearly two-thirds of the global trade in services is contributed by the EU, US and Japan. While the share of US and Spain continue to rise, that of UK, France, Italy, Japan and the Netherlands have registered declines over the years. India accounted for 1.4 per cent of total exports and 1.2 per cent of world imports of services in 2003. China, Ireland, Korea and India have emerged as important service exporters. Between 1992 and 2003, China's and India's export of services increased from US$9.1 billion to US$46.4 billion, and from US$4.9 billion to US$25.0 billion, respectively. A sharp rise in earnings from tourism and increased earnings from IT and ITES, including software exports, were the reasons for the enhanced services exports in China and India, respectively. India was the 20th leading exporter of services in 2003..

For India, services account for 51 per cent of GDP and 31 per cent of total exports. The potential for growth, however, continues to be large. There was an upward shift in the trend growth of services exports (in US dollar terms) from 7.9 per cent in the first half of the decade of the 1990s to 15.3 per cent during 2000-01 to 2003-04. Software and other miscellaneous services (including professional, technical and business services) have emerged as the main categories in India's export of services. The relative shares of travel and transportation in India's service exports have declined over the years, while the share of software exports has gone up to 49 per cent in 2003-04 (Table 6.12). The buoyant growth of professional, technical and business services has provided a cushion against the slowdown in traditional services such as travel and transportation. The share of other miscellaneous services, which was around 20 per cent until 2003-04, registered a sudden rise to 37 per cent in April-September 2004. The comparative advantage of India in software, telecom and other business services is well-documented in several studies.

**Table : Export of major services as per cent of total services exports**

| Year | Travel | Transportation | Software | Miscellaneous* |
|---|---|---|---|---|
| 1995-96 | 36.9 | 27.4 | 10.2 | 22.9 |
| 2000-01 | 21.5 | 12.6 | 39.0 | 21.3 |
| 2001-02 | 18.3 | 12.6 | 44.1 | 20.3 |
| 2002-03 | 16.0 | 12.2 | 46.2 | 22.4 |
| 2003-04 | 16.5 | 13.1 | 48.9 | 18.7 |
| Apr-Sept 04 | 9.9 | 11.7 | 36.9 | 37.2 |

* Miscellaneous services excluding software

Services exports grew by 20.2 per cent in 2003-04. With the liberalization of exchange restrictions on current account, services imports have also increased over time. Travel payments, for example, rose on account of outward movement of workers and professionals, and a spurt in outbound tourist traffic from India and exceeded travel receipts in April-September 2004. However, overall faster growth of services receipts over payments resulted in the net surplus from services trade increasing from US$980 million in 1990-91 to US$6,591 million in 2003-04.

Software exports have grown at an annual compound growth rate of around 36 per cent between 1995-96 and 2003-04. While the market share of India in global IT spending has increased, yet its low level of an estimated 3.4 per cent in 2003-04 indicates a large scope for future expansion, particularly in payment services, administration and finance. It is estimated that outsourcing has been resulting in cost saving in the range of 40-60 per cent of trans-national corporations. The IT industry is projected to grow to 7 per cent of GDP (2.64 in 2003-04) and account for 35 per cent of total exports (21.3 per cent in 2003-04) by 2008. An export potential of US$57-65 billion for the software and services sector can be realised, with ITES-BPO sector contributing $21-24 billion by 2008.

The constraints on potential opportunities in services trade include lack of set up like export promotion councils other than for computer software, various visible and invisible barriers to services trade, for example visa restrictions, economic needs test, sector specific restrictions and selective preferential market access through regional initiatives. These need careful examination in the context of the requests and offers of different countries in WTO. Despite the constraints, there is scope for increasing diversification into a variety of areas such as consultancy and R&D services, healthcare, entertainment services, ship repair services, satellite mapping services, telecom, educational services, accounting services and hospitality services and also beyond the major markets of EU, US, and Japan.The policy measures announced in the Foreign Trade Policy 2004-09 to promote services exports (see Box 6.2) should help along with proper synergy between economic policies and trade strategies.