

## Services Exports

6.39 Services exports grew by 71 per cent in 2004-05 to US\$46 billion, and 75 per cent to US\$32.8 billion in April-September, 2005. In 2004-05, software service exports grew by 34.4 per cent to US\$17.2 billion and by 32 per cent to US\$10.3 billion in the first half of 2005-06. India's share in the world market for IT software and services (including BPO) increased from around 1.7 per cent in 2003-04 to 2.3 per cent in 2004-05 and an estimated 2.8 per cent in 2005-06. (Box 6.7)

6.40 A new development in services exports is the explosive growth of business services, including professional services. This is reflected in the growth of miscellaneous services excluding software, which grew by 216 per cent to US\$16.3 billion in 2004-05, and 181 per cent in the first half of the current year to reach a level of US\$15.4

billion and surpass even the value of software services exports. The enormous opportunities for further growth of these services make WTO negotiations in services all the more important for India (Box 6.8).

6.41 While India is negotiating for greater market access in developed country markets, domestic regulations create barriers for Indian service providers even when trading partners have taken firm commitments. Quick domestic policy reforms are needed, especially in qualification and licensing requirements and procedures, to impart effective market access for our service providers. Some of the ways of promoting services could include facilitation to become known suppliers of quality services, providing relevant export market information, providing appropriate export financing with reduced transaction costs by reviewing the common

### Box 6.7 : India's IT Sector : Performance and Prospects

Total spending on products and services of the IT sector in India increased from US\$5 billion in 1997-98 to nearly \$20 billion in 2003-04 as per a NASSCOM study and software exports reached US\$ 17.2 billion in 2004-05. Employment in the sector grew by 30.1 per cent per year between 1999-00 to 2003-04. By 2008, the industry is projected to grow from 4.1 per cent of GDP in 2004-05 to 7.0 per cent of GDP and account for 35 per cent of total exports. Government's "hands off" approach has been the most cited reason for this success story.

India accounts for 65 per cent of the global market in offshore IT services and 46 per cent of the global BPO market in 2004-05. With only 10 per cent of the potential market tapped so far by all the countries put together, the potential for further growth is very large. With annual growth of over 25 per cent, these two can generate export revenues of US\$60 billion by 2010. Studies suggest that growth will be driven by more traditional outsourcing service lines – such as hardware and software maintenance, network administration and help desk services – and not lines such as application development and management (ADM) and R&D services, with penetration already at 30-35 per cent.

Achieving high growth in software exports will require deep and enduring innovation across multiple dimensions, like business model innovation; focusing on new service lines, like infrastructure off-shoring and knowledge innovation; developing Internet Protocol based solutions, systematic talent enhancement, better technology and research capabilities. Some of the key challenges which need to be overcome include documenting procedures and establishing performance benchmarks, addressing concerns around data security, improving the workforce quality and skills and continuously innovating and developing new service lines along with improved operational excellence.

Slow IT uptake in the domestic market has led to an underinvestment in IT capital. Among the 30 economies worldwide studied by NASSCOM, 10 per cent is the critical share of IT capital in total capital that separates invested from underinvested economies. The share in India of only 3.5 per cent is among the lowest. Personal computer penetration rate of around seven per 1000 people is less than an eighth of the average in other IT-underinvested economies and a fourth of that in China. Studies show that a 10 per cent increase in IT capital in economies underinvested in IT increases GDP by 1.6 per cent, and the impact is seven times greater than the impact of investing in non-IT capital.

Within IT, relative to software and services sector, IT hardware has lagged far behind. One of the reasons for the underinvestment in IT sector is the slow development of the hardware sector. With the implementation of the ITA 1 agreement in April, 2005, there are zero duties for the ITA 1 items and greater international competition for the hardware sector. IT production development has to focus on the combined hardware-software sector and production for domestic sector along with exports.

### **Box 6.8 : Services, GATS and Strategies for India**

Services account for more than 60 per cent of world GDP, and trade in services has grown more rapidly than merchandise trade since 1985. In 2004, while India's share in world merchandise exports was 0.8 per cent, the corresponding share in world commercial services was 1.9 per cent. Services, accounting for 54.1 per cent of GDP in 2005-06, is a sector of critical interest in India.

In the ongoing negotiations at WTO under the General Agreement on Trade in Services (GATS), the offers of most countries do not provide any significant new openings for trade, especially in areas of interest for developing countries. Given its strong competitive edge in IT and ITES, and competence of its professionals, India's efforts have been to get binding commitments in cross-border supply of services (Mode 1) and movement of natural persons (Mode 4). In Mode 4, India has been pushing for clear prescription of the duration of stay and removal of the Economic Needs Test (ENT). Though the Services negotiations have been salvaged at the Hong Kong Ministerial, quick and detailed work is needed in the form of examining the detailed requests and offers and arriving at concrete proposals in each of the 12 main categories and 156 sub-categories of services.

Besides software in which India has already made an impact, there is good potential for export of many other professional services, like super-speciality hospital; satellite mapping; printing and publishing; accounting, auditing and book-keeping services. Besides greater efforts at marketing, there is a need to negotiate both multilaterally and bilaterally, issues like the National Health Service Systems in European countries like UK which virtually deny market access; lack of coverage of medical expenditure incurred abroad by US medical insurance companies; need based quantitative limits; need to be natural persons; and accreditation rules. Similarly, in the case of accounting, auditing and bookkeeping services, market access limitations, which are mainly in the form of licensing, accreditation, in-state residency and state level restrictions in countries like US, have to be negotiated. Some liberal sectoral commitments by developed countries get automatically negated by the restrictive horizontal limitations of entry for speciality occupations which needs to be addressed in WTO negotiations.

practice of collateral backing, good marketing of services by energizing Indian embassies and industry associations, anchoring brand ambassadors for promoting services, and

leveraging the country's potential services purchasing power in multilateral and bilateral negotiations and in the CECA's.