

SERVICES TRADE

6.71 Services, particularly finance including 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.

World trade in services

6.72 In the US\$ 3.7 trillion world export of commercial services in the year 2008, the major exporters of services are the developed countries. India and China were among the top 10 exporters of commercial services in the world in 2008, the rest being the developed countries. As in the case of merchandise trade, India has also improved its rank in commercial services trade. As per the latest "International Trade Statistics, 2008" brought out by WTO. World export and import growth of services decelerated from 19 & 18 per cent respectively to 11 per cent in both cases. The deceleration was more or less similar in most of the major regions like North America, Europe and Asia. Import growth of services in the United States was particularly low at 7 per cent, while the deceleration in EU by 9 percentage points was particularly sharp. While India improved its rank in world merchandise exports from 28th position in 2006 to 26th position in 2007 and maintained the same in 2008 also, in commercial

services exports it has improved its rank from 10th position in 2006 to 9th position in 2007 and maintained it in 2008. China ranked 7th in commercial services exports in 2008.

6.73 Based on OECD data, WTO has stated that in Q3 of 2008, the value of exports and imports of services in OECD countries, measured in current US dollars, fell by a seasonally-adjusted -1.5 per cent and -2.2 per cent respectively compared with the previous quarter. These were the first declines since the third quarter of 2006. Year-on-year, growth in the value of services exports in OECD countries slowed sharply to 11.8 per cent, while import growth fell to 10.6 per cent. Apart from the contraction in financial services industry, other global industries like air transport, maritime transport, and tourism were also affected. The contraction in air freight traffic in December 2008 over December 2007 (-22.6 per cent) worsened in January 2009 for the eighth consecutive month as per the International Air Transport Association (IATA) with International passenger demand falling year-on-year basis by (-) 5.6 per cent in January 2009, marking the fifth consecutive month of contraction. There was a significant slowdown in tourism demand in the second half of 2008, a trend which is expected to continue in 2009.

6.74 The three broad categories of commercial services namely transport, travel and other commercial services witnessed a decline in growth rate in 2008 compared to a high growth in 2007. (Table 6.14).

Table 6.14 : World exports of commercial services trade by major category, 2008

	Value (US\$ billion) 2008	Annual percentage change			
		2000-08	2006	2007	2008
Commercial services	3730	12	13	19	11
Transport	875	12	10	20	15
Travel	945	9	10	15	10
Other commercial services	1910	14	16	22	10

Source : WTO

6.75 In commercial services imports, India moved from 15th position in 2004 to 13th position in 2005 and further to 12th position in 2008, with 2.6 per cent share. The United States, European Union-15 and Japan are the major importers of services in the world.

India's services exports

6.76 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 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 6.15).

6.77 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

Table 6.15 : Export of services

Commodity Groups	Percentage share				CAGR 2000-01 to 2005-06	Growth rate ^a			
	2000-01	2007-08	April-December			2006-07	2007-08	April-December	
			2007-08	2008-09				2007-08	2008-09
Travel	21.5	12.6	12.1	11.0	17.6	16.2	24.4	26.2	6.2
Transportation	12.6	11.1	10.7	10.7	25.3	26.1	25.6	18.4	16.3
Insurance	1.7	1.8	1.8	1.4	31.5	12.5	37.2	37.0	-8.2
GNIE	4.0	0.4	0.4	0.4	-13.6	-19.4	30.4	34.0	22.2
Miscellaneous of which	60.3	74.1	75.1	76.5	33.8	31.2	20.8	26.7	18.4
Software services	39.0	44.7	42.9	46.4	30.1	32.6	28.8	26.3	25.9
Non-software services of which	21.3	29.4	32.2	30.0	39.8	29.3	10.5	27.2	8.5
Business services	2.1	18.6	19.1	17.1	94.5	56.3	15.3	16.4	3.9
Financial services	2.1	3.6	3.6	4.5	28.4	156.9	3.6	13.3	45.7
Communication services	7.0	2.7	2.7	2.4	6.7	43.6	6.5	5.2	4.1
Total services exports	100.0	100.0	100.0	100.0	28.8	28.0	22.1	25.9	16.3

Source : Calculations based on RBI data

^a Growth rate in US dollar terms

Table 6.16 : Imports of services

Commodity Group	Share (per cent)				CAGR 2000-01 to 2005-06	Growth rate (per cent)			
	2000-01	2007-08	April-December			2006-07	2007-08	April-December	
			2007-08	2008-09				2007-08	2008-09
Travel	19.2	17.6	19.0	18.3	18.8	0.7	38.5	31.1	5.9
Transportation	24.4	21.9	23.8	27.5	18.6	-3.2	42.7	33.8	26.5
Insurance	1.5	2.0	2.1	2.1	38.0	-42.5	62.6	50.8	10.0
GNIE	2.2	0.7	0.9	1.2	10.6	-23.8	-6.7	5.0	39.9
Miscellaneous of which	52.6	57.7	54.1	50.9	18.4	59.6	6.3	-3.0	3.1
Software services	4.1	5.8	6.8	6.3	17.8	69.4	34.9	55.1	1.2
Non-software services of which	48.6	51.9	47.3	44.5	18.5	58.8	3.9	-7.9	3.3
Business services	7.0	31.8	32.1	26.5	50.0	104.8	5.4	7.2	-9.3
Financial services	13.5	6.0	5.6	6.2	-13.3	209.9	4.9	14.7	21.6
Communication services	0.9	1.6	1.7	2.0	17.9	175.4	7.9	12.7	24.4
Total Services imports	100.0	100.0	100.0	100.0	18.8	28.5	18.5	10.7	9.7

Source : Calculations based on RBI data. GNIE : Government not included elsewhere ^a Growth rate in US dollar terms

world financial services exports. But business services growth was at a lower rate of 3.9 per cent.

India's services imports

6.78 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 (Table 6.16). 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 5.4 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.