

GROWTH AND PERFORMANCE OF INDIA'S EXPORTS IN SELECT SERVICES SECTORS

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1. Background

The services sector accounts for over two-thirds of India's GDP, trade in services accounts for over one-fourth of overall trade and services exports for over one-third total exports. India is the world's sixth largest services exporter. However, the sector has not received due attention in the economic analysis. While the IT sub-sector has received more attention in the economic literature and sectors like financial, tourism, education, health and communication services have also shared some attention, it is their trade aspect that remains far less explored. This study therefore aims at examining the international competitiveness of the services sector and then undertaking an in-depth study of the chosen sectors to further explore their international competitiveness with the help of the primary and secondary data. The most significant motivating factor for undertaking this study is the understanding of the possible role of services in making India prosperous. As China has become the world's largest merchandise exporter, India is believed to have the potential to emerge as the world's largest services exporter.

1.1 Research Objectives and Hypotheses

The study focuses on the following research objectives:

1. To examine international competitiveness of India's services sector;
2. To examine the determinants of India's services exports to select countries;
3. To evaluate India's policies in promoting services exports;
4. To explore the role of relevant regulatory bodies in enhancing India's services export capacity; and

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5. To suggest an appropriate strategy for increasing competitiveness of India's services exports.

Three services sectors: education, professional and financial services were chosen for an in-depth study. The education sector was subjected to an extensive empirical research. The study though looks at internationalization of education, its focus is on investigating into the reasons why has India failed to receive respectable numbers of foreign students. It is thus hypothesized that:

- (1) The presence of foreign students in a country is positively associated with the availability of resources, the quality and level of education, and a conducive education policy.
- (2) The presence of foreign students in an Indian education institution is positively influenced by the type, quality of education, infrastructure and some incentive offered to them.

1.2 Research Methodology

First, the available literature was reviewed and a services competitiveness model, with three components: *policy reforms*, *availability of skilled labour* and *external markets*, was developed. Identification of external markets was facilitated by the gravity model. This was followed by a sectoral analysis of India's services exports using an RCA (Revealed Comparative Advantage) index. Thereafter, ten leading services exporting developing countries were taken up for a comparative analysis of the international competitiveness of all the services sectors using an RCA index.

Further, an extensive two-phase empirical research was undertaken in education services. While the first phase was based on the secondary data on 69 countries, the second phase was based on the primary data collected through a survey of 157 Indian universities/institutions. The first phase used *panel data techniques* and *pooled OLS technique*. The second phase used *logistic regression technique* and the robustness was tested by the *probit model*. The overall aim was to see the impact of the selected variables on attracting foreign students first by countries and then by institutions. The second phase of research also analysed the primary data using tabulation and cross-tabulation methods to find out which other factors affect the choice of international students. The data collected from another survey of 64 foreign universities was analysed to find out the extent of their willingness to collaborate with Indian universities.

The analysis of financial and professional services was different in view of data constraint. However, international competitiveness was worked out with the help of an RCA index. Further, efforts were made towards quantifying Mode 1 exports of professional services and Mode 3 exports of financial services. The extent of liberalization in respect of all the three services sectors was discussed in the light of the commitments undertaken by WTO member countries. Similarly, the regulatory aspects of all the three services sectors were discussed in greater detail. Finally, officials of the relevant regulatory agencies were interviewed to get further insights into the competitiveness of these sectors.

1.3 Research Findings

India has shown to be an important services exporter since 1980 among 38 countries from the lower-middle income (LMI) group and now the country appears to be one of the outliers in terms of the share of exports of services of total exports. The sector contributing proportionately less to employment than to GDP has been attributed to the British legacy and the low level of education attainment. As developing countries' role in the world GDP growth, world trade, and investment has been expanding, India has been suggested to look at these countries as potential markets. India's services growth was analysed from a longer perspective since independence and services trade since 1970. Both have shown a phenomenal growth. The sectoral examination shows that broadly it is the OCS (Other Commercial Services) that have seen the highest growth. A further sectoral analysis shows that out of five sub-sectors software has shown the highest growth, followed by business services. While financial services have also started showing some growth, insurance and communications have shown little growth. A comparative analysis of the international competitiveness of services using an RCA index shows that India does not have any RCA in travel; transport; construction; personal, cultural and recreational services; and in royalties and license fee. However, India has the strongest RCA in computer and information services, followed by business services and communications services.

While the results of the first phase of empirical research suggest that all the three independent variables – *per capita income*, *GER in higher education* and *world university rankings* – have a positive and significant impact on attracting foreign students, that of the second phase suggest that six independent variables – *NAAC accreditation*, *ICCR fellowship*, *a separate hostel*, *a dedicated agency*, *private* and *unitary type of institutions*

– have a positive and significant impact on attracting foreign institutions. The above two findings prove the hypotheses. The second phase analysis using tabulation and cross-tabulation methods shows that India has emerged as a major education provider through Mode 3 and as an active trader through Modes 1 and 4. The institutes that offer the widest variety of courses and at all levels are likely to attract more foreign students. India has received the largest numbers of foreign students from Asia and Africa. The rigid and outdated regulatory mechanism is found to be the main barrier hampering the growth of higher education in India.

India is the fourth largest professional services exporter in the world. The country has also shown to have a very strong RCA in exports of professional services. In addition, India has emerged a world leader in exports of legal services and medical services through Mode 1. However, earning per professional in India is low by international standards and India does not have scale in legal, accountancy and architectural services. Although India has shown to be competitive in exports of professional services as a group, individually these services face a number of challenges. Professional services are found to be highly protected in India and therefore need to be reformed.

India has also emerged a leading financial services exporter. Though India does not have any RCA, it is gaining competitive strength. When exports of BFSI (Banking, Financial Services and Insurance) were included for calculating an RCA index, the sector had an RCA index of over one indicating that India's overall financial services exports are competitive. India is an established leader in exports of financial services through Mode 1. India is also emerging as a significant financial services provider through Mode 3. Several factors driving financial services have also been identified. Finally, in order to be internationally competitive, the sector needs to be reformed.