

# An Analytical Study of Export of Services in India

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## ABSTRACT

Today we live in a service economy. Just as there was a shift from the farm to the factory, the shift has now been from manufacturing to service. If an industrial society is defined by the quantity of goods as making a standard of living, the post-industrial society is defined by quality of life as measured by the services and amenities—health, education, recreation, arts, and entertainments—which are now deemed desirable and possible for everyone for all-round self development.

Many firms are willing to buy specialised services from other service organisations. For example, instead of employing maintenance workers, they are using the services of professional maintenance companies. Similarly, instead of employing specialists, they want to buy the services of specialists such as management consultants, auditors, lawyers, tax experts, valuation experts, etc. Hence, we have now specialised service firms and institutions ever-willing to sell specialised services to business organisations across the globe.

For India, like all developing countries, international trade i.e., exports and imports are the backbone of our economy. In exports, precious foreign exchange is earned and it is spent on making import payments, repayment of foreign debt etc.

All countries want to be net exporters i.e., export earnings more than import payments. But India's overall trade deficit in 2018-19 US \$ 95.85 billion (merchandise + services). But in the services sector for the same period, exports are US \$ 204.43 billion, while imports are US \$ 123.86 billion and net surplus is +\$80.57 billion. It is known from the fact that the fastest-growing exports are services exports.

**Key words:** Exports, Imports, Balance of Trade, Exports of Services, Foreign Trade Policy, Services Sector and Services Export Promotion Council.

## 1. INTRODUCTION

The term 'export of service' is neither defined in the Finance act nor in the Export of services rules. In International Trade the term 'export' is used to mean "selling of services from home country to other markets". However according to the Export of Service rules, any taxable service shall be treated as export of service "if such service is provided from India and used outside India". Services exports means exporting our services to other nations or countries. In simple terms, it represents any service provided by any person or body or company in one country to people or companies in other countries. Export in a general sense thus means rendering service outside India. Services are different from goods. The services are intangible and diverse in nature.

In India, services exports are regulated under Chapter 3 of Foreign Trade Policy (FTP) 2015-20. To encourage the same, Government of India (GoI) under FTP 2015-20 implemented Service Exports under India Scheme (SEIS). To promote the service sector, Services Export Promotion Council (SEPC) was set up by the Ministry of Commerce and Industry, GoI. SEPC was registered under the Societies Regulation Act in November, 2006. Directorate General of Foreign Trade (DGFT) included SEPC in the list of the recognised Export Promotion Councils. As per the data of the World Bank, services exports accounted for US \$5,868 million in 2018. Services exports of some of the major countries are given in Table 1.

**Table – 1: Services exports of some of the major countries (value in US\$ billion)**

Name of the Country	Service Exports 2018
Belgium	123.834
China	233.56
France	294.223
Germany	342.771
Hongkong	113.721
India	204.955
Ireland	212.208
Italy	121.527
Japan	193.670
Luxembourg	114.932
Netherlands	196.463
Singapore	182.535
Spain	150.104
Switzerland	124.274
United Kingdom	377.948
USA	826.975
Others	2054.294
World (Total)	5868.00

Source: data.worldbank.org

## 2. INDIA'S SERVICES TRADE

India's services trade has been a major driver of its exports over the past two decades. The country has emerged among the fastest growing nations in global services trade. This sector has not only attracted significant foreign investment flows but also contributed significantly to exports as well as provided large-scale employment.

India's services sector covers a wide variety of activities such as trade, hotels and restaurants, transport, storage and communication, financing, insurance, real estate, business services, community, social and personal services, and services associated with construction.

The services sector is the key driver of India's economic growth. It contributed 54.17% of India's gross value added (GVA) at current prices in 2018-19.

**Table – 2: India's trade in services (2014-18) (value in US\$ billion)**

Year	Exports	Imports	Trade Balance
2014	157.20	128.36	28.83
2015	156.28	123.57	32.71
2016	161.82	133.53	28.29
2017	185.29	154.60	30.70
2018	205.11	176.58	28.52

Source: ITC Trade Map.

Table 2 reveals that India's export of services has shown an increasing trend from 2014-18, except for a small dip in 2015 whereas imports have also shown an increase from US\$ 128.36 billion in 2014 to US\$ 176.58 billion in 2018 with a trade surplus in the above period. The trade surplus has shown fluctuations in the past five years. India's services exports are majorly destined to USA, UK and Japan.

### 3. India's exports of services

India's services exports have increased from US\$ 157.20 billion in 2014 to US\$ 205.11 billion in 2018, with the growth in commercial services from US\$ 156.61 billion in 2014 to US\$ 204.48 billion in 2018.

The other business services segment has shown a remarkable increase from US\$ 48.46 billion in 2014 to US\$ 64.93 billion in 2018 followed by another major category of telecommunications, computer and information services from US\$ 54.53 billion in 2014 to US\$ 58.25 billion in 2018.

The travel services has also shown an increase, while transport services have hovered around US\$ 18.5-19 billion in 2014 and 2018. All the other services have shown an increase except financial service which has shown a slight decline. It is summarized in the table 3.

**Table – 3: India's exports of services (2014-18) (value in US\$ billion)**

Code	Service label	2014	2015	2016	2017	2018
S	All services	157.20	156.28	161.82	185.29	205.11
SOX	Memo item: Commercial services	156.61	155.72	161.23	184.67	204.48
10	Other business services	48.46	50.10	54.66	59.87	64.93
9	Telecommunications, computer, and information services	54.53	55.05	53.80	54.38	58.25
4	Travel	19.70	21.01	22.43	27.37	28.57
SN	Services not allocated	3.47	4.37	3.68	14.39	19.43
3	Transport	18.60	14.32	15.18	16.98	19.00
7	Financial services	5.64	5.34	5.07	4.49	5.43
5	Construction	1.61	1.48	2.08	2.28	3.18
6	Insurance and pension services	2.28	1.99	2.13	2.46	2.58
11	Personal, cultural, and recreational services	1.27	1.27	1.40	1.47	1.88
8	Charges for the use of intellectual property n.i.e.	0.66	0.47	0.52	0.66	0.78
12	Government goods and services n.i.e.	0.58	0.56	0.58	0.62	0.63
1	Manufacturing services on physical inputs owned by others	0.20	0.17	0.13	0.11	0.24
2	Maintenance and repair services n.i.e.	0.19	0.16	0.15	0.22	0.21

Source: ITC Trade Map.

### 4. India's imports of services

India's imports of services is less than the Export of services. In exports, precious foreign exchange is earned and it is spent on making import payments, repayment of foreign debt etc. So, it is clear fact that the fastest-growing exports are services exports.

Table -- 4: India's imports of services (2014-18) (value in US\$ billion)

Code	Service label	2014	2015	2016	2017	2018
S	All services	128.36	123.57	133.53	154.60	176.58
SOX	Memo item: Commercial services	127.40	122.69	132.85	153.96	175.45
3	Transport	58.90	52.26	47.95	57.06	66.74
10	Other business services	26.87	29.81	32.74	35.44	38.71
4	Travel	14.59	14.84	16.38	18.44	21.31
SN	Services not allocated	5.10	5.97	12.26	14.43	16.83
8	Charges for the use of intellectual property n.i.e.	4.85	5.01	5.47	6.52	7.91
9	Telecommunications, computer, and information services	4.32	3.80	4.75	6.07	7.09
6	Insurance and pension services	5.88	5.23	5.07	6.29	6.75
7	Financial services	4.12	3.12	5.02	5.80	4.04
11	Personal, cultural, and recreational services	1.39	1.37	1.89	2.14	2.54
5	Construction	1.13	0.96	0.95	1.22	2.49
12	Government goods and services n.i.e.	0.96	0.88	0.68	0.64	1.13
2	Maintenance and repair services n.i.e.	0.22	0.31	0.32	0.51	1.00
1	Manufacturing services on physical inputs owned by others	0.03	0.03	0.05	0.04	0.04

Source: ITC Trade Map.

Table 4 states that India's imports of services have increased from US\$ 128.36 billion in 2014 to US\$ 176.58 billion in 2018. Commercial services rose from US\$ 127.40 billion in 2014 to US\$ 175.45 billion in 2018. Travel services imports have also increased from US\$ 14.59 billion in 2014 to US\$ 21.31 billion in 2018. In addition to this, services not allocated have also shown an increase in imports from India. Transport and other business services has also increased while financial services has shown a slight decline.

## 5. India's trade balance of services

Balance of trade (BOT) is the difference between the value of a country's imports and exports for a given period and is the largest component of a country's balance of payments (BOP).

**Table – 5: India’s trade balance of services (2014-18) (value in US\$ billion)**

Code	Service label	2014	2015	2016	2017	2018
S	All services	28.83	32.71	28.29	30.70	28.52
9	Telecommunications, computer, and information services	50.22	51.25	49.05	48.31	51.16
SOX	Memo item: Commercial services	29.21	33.03	28.39	30.71	29.03
10	Other business services	21.59	20.29	21.92	24.43	26.22
4	Travel	5.11	6.18	6.05	8.92	7.26
SN	Services not allocated	-1.63	-1.59	-8.58	-0.04	2.60
7	Financial services	1.53	2.23	0.06	-1.31	1.39
5	Construction	0.48	0.53	1.13	1.06	0.69
1	Manufacturing services on physical inputs owned by others	0.17	0.14	0.08	0.07	0.19
12	Government goods and services n.i.e.	-0.38	-0.32	-0.10	-0.01	-0.50
11	Personal, cultural, and recreational services	-0.12	-0.10	-0.49	-0.68	-0.66
2	Maintenance and repair services n.i.e.	-0.03	-0.15	-0.18	-0.29	-0.79
6	Insurance and pension services	-3.60	-3.25	-2.93	-3.83	-4.17
8	Charges for the use of intellectual property n.i.e.	-4.19	-4.54	-4.94	-5.86	-7.12
3	Transport	-40.30	-37.94	-32.78	-40.08	-47.74

Source: ITC Trade Map.

Table 5 highlights that India has maintained trade surplus in all the major services with the exception of the services not allocated segment, which witnessed a trade deficit from 2014 to 2017 before recording a trade surplus in 2018 at US\$ 2.60 billion.

Government goods and services n.i.e., personal, cultural, and recreational services, maintenance and repair services n.i.e., insurance and pension services, charges for the use of intellectual property n.i.e. and transport are few of the services that have been in trade deficit during 2014-2018.

It is clear that, India is one of the fastest growing economies in trade of services in the world with major contributing sectors being telecommunications, computer, and information services, commercial services and travel.

## 6. Services Export Promotion Council (SEPC) guidelines for export of services

As stated above, to promote the service sector, Services Export Promotion Council (SEPC) was set up by the Ministry of Commerce and Industry, GoI. SEPC was registered under the Societies Regulation Act in

November, 2006. Directorate General of Foreign Trade (DGFT) included SEPC in the list of the recognised Export Promotion Councils. Services Export Promotion Council (SEPC) has been mandated to promote the export of services.

Some of the important export of services are as follows.

**A. EDUCATIONAL SERVICES:** The sector includes primary, secondary, post-secondary and adult education services, as well as specialised training such as for sports in the Services Sectoral Classification List (MTN.GNS/W/120), educational services include:

- ❖ Primary education services
- ❖ Secondary education services
- ❖ Higher education services
- ❖ Adult education
- ❖ Other education services.

GATS covers four modes of delivery of services in cross-border trade. Typical examples of trade in education services in four modes of supply are mentioned in Table 6A.

**Table – 6 A: Educational Services**

<b>Cross border services (Mode 1)</b>	Cross-broader supply of educational services uses technological means. For example: A Teacher may send lesson plans to a USA based college via e-mail.
<b>Consumption abroad (Mode 2)</b>	Usage of educational services in the territory of another country. For example: Students from USA come to study in Indian College.
<b>Commercial presence (Mode 3)</b>	Expansion of educational institute into another country. For example: An Indian college establishes an additional campus in the USA.
<b>Movement of natural persons (Mode 4)</b>	Educational professionals enter into foreign territory to provide their services. For example: An Indian teacher teaches in an American college by professionally moving there.

**B. ACCOUNTING AND AUDITING SERVICES:** Accounting may be defined as preparation and analysis of financial information reported to internal and external users via financial statements. Auditing may be defined as the evaluation of the reliability and credibility of financial information as well as ‘the systems and process responsible for recording and summarising that information.’ Under the Services Sectoral Classification List (MTN.GNS/W/120), Accounting and Auditing services are included under Professional Services. GATS covers four modes of delivery of services in cross-border trade. Typical examples of trade in Accounting and Auditing services in four modes of supply are mentioned in Table 6B.

**Table – 6 B: Accounting and auditing services**

<b>Cross border services (Mode 1)</b>	Cross-broader supply of Accounting services using technological services. For example: An Indian Audit firm sends audited accounts to client operating in the USA.
<b>Consumption abroad (Mode 2)</b>	Usage of accounting/auditing services in the territory of another country. For example: An American client visits India and use accounting/auditing services from an Indian accounting/auditing firm.
<b>Commercial presence (Mode 3)</b>	Expansion of local accounting/auditing firm into foreign country. For example: An Indian accounting firm establishes an office in the USA.

<b>Movement of natural persons (Mode 4)</b>	Accounting or auditing professionals enter into foreign territory temporarily to provide services. For example: An Indian Chartered Accountant provides legal services by visiting a client in the USA to prepare a business acquisition.
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**C. LEGAL SERVICES:** A broad definition of legal services would include advisory and representation services as well as all the activities relating to the administration of justice (judges, court clerks, public prosecutors, state advocates etc.). According to the WTO Services Sectoral Classification List (MTN.GNS/W/120), legal services are included under Professional Services. GATS covers four modes of delivery of services in cross-border trade. Typical examples of trade in legal services in four modes of supply are mentioned in Table 6 C.

**Table – 6 C: Legal services**

<b>Cross border services (Mode 1)</b>	Cross-broader supply of legal services uses technological services; for example: An Indian law firm e-mails memo to client operating in the USA.
<b>Consumption abroad (Mode 2)</b>	Purchase of legal services in the territory of another country. For example: An Indian legal firm represents an American client in an Indian court.
<b>Commercial presence (Mode 3)</b>	Expansion of legal firm into another country. For example: An Indian law firm establishes an office in the USA.
<b>Movement of natural persons (Mode 4)</b>	Law professionals enter into foreign territory temporarily to provide services. For example: An Indian lawyer provides legal services by visiting a client in the USA to prepare a business acquisition.

**D. MARKETING SERVICES:** GATS covers four modes of delivery of services in cross-border trade. Typical examples of trade in Marketing Research services in four modes of supply are mentioned in Table 6 D.

**Table – 6 D: Marketing services**

<b>Cross border services (Mode 1)</b>	Cross-broader supply of Marketing Research services using technological means. For example: A Marketing Research firm prepares a market analysis report for USA based client and communicates the same via e-mail.
<b>Consumption abroad (Mode 2)</b>	Usage of Marketing Research services in the territory of another country. For example: an American client visits India and uses the service of a Marketing Research firm.
<b>Commercial presence (Mode 3)</b>	Expansion of Marketing Research firm into another country. For example: An Indian Marketing Research firm establishes an office in the USA.
<b>Movement of natural persons (Mode 4)</b>	Marketing Research professionals enter into foreign territory to provide their services. For example: An Indian professional provides his services by visiting a client in the USA.

**E. ADVERTISING SERVICES:** This service includes sale or leasing services of advertising space or time (services provided in soliciting advertising space or time for newspapers, other periodicals, and television stations): Planning, creating and placement services advertising and other advertising services. GATS covers four modes of delivery of services in cross-border trade. Typical examples of trade in Advertising services in four modes of supply are mentioned in Table 6 E.

**Table – 6 E: Advertising services**

<b>Cross border services (Mode 1)</b>	Cross-broader supply of Advertising An advertising firm prepares an advertisement for a USA based client and communicate the same via e-mail.
<b>Consumption abroad (Mode 2)</b>	Usage of Advertising services in the territory of another country. For example: An

	American client visits India and uses the services of an advertising firm.
<b>Commercial presence (Mode 3)</b>	Expansion of advertising firm into another country. For example: An Indian advertising firm establishes an office in the USA.
<b>Movement of natural persons (Mode 4)</b>	Advertising professionals enter into foreign territory to provide their services. For example: An Indian Advertising Professionals provides his services by visiting a client in USA.

**F. DISTRIBUTION SERVICES:** Distribution services include commission agents' services, wholesale trade services, retailing services, franchising, GATS covers four modes of delivery of services in cross-border trade.

**Sub-services of distribution services are**

- Commission agents' services
- Wholesale trade services
- Retailing services
- Franchising
- Others

Typical examples of supply are mentioned in Table 6 F.

**Table – 6 F: Distribution services**

<b>Cross border services (Mode 1)</b>	Cross-broader supply of distribution services using Technological means.
<b>Consumption abroad (Mode 2)</b>	Using of distribution services in the territory of another country. For example: An American client visits India and uses the services from an Indian firm dealing in distribution services.
<b>Commercial presence (Mode 3)</b>	Expansion of distribution firm into a foreign country. For example: An Indian firm establishes an office in the USA.
<b>Movement of natural persons (Mode 4)</b>	Distribution professionals enter into foreign territory to provide their services.

**G. CONSULTANCY SERVICES:** GATS covers four modes of delivery of services in cross-border trade. Typical examples of trade in marketing research services in four modes of supply are mentioned in table 6 G.

**Table – 6 G: Distribution services**

<b>Cross border services (Mode 1)</b>	Cross-broader supply of distribution services using Technological means. For example: An Indian consultant prepares an organisation analysis for a USA based client and communicates the same via e-mail.
<b>Consumption abroad (Mode 2)</b>	Using of consultancy services in the territory of another country. For example: An American client visits India and uses the services of a consultancy firm.
<b>Commercial presence (Mode 3)</b>	Expansion of consultancy firm into a foreign country. For example: An Indian consultancy firm establishes an office in the USA.
<b>Movement of natural persons (Mode 4)</b>	Consultants enter into foreign territory to provide their services. For example: An Indian consultant provides his services by visiting a client in the USA.

## **8. CONCLUSION: Once the economy augments its export capability,**

In an open economy, import is a variable dependent on export, i.e. import depends on the capacity to export and hence, export variable is of utmost significance. So exports can be taken as a leading sector and a positive



transmitter of economic growth and development in the developing countries. In the open economy, all countries want to be net exporters i.e., export earnings more than import payments. But India's overall trade deficit in 2018-19 US \$ 95.85 billion (merchandise + services). But in the services sector for the same period, exports are US \$ 204.43 billion, while imports are US \$ 123.86 billion and net surplus is +\$80.57 billion. It is known from the fact that the fastest-growing exports are services exports.

If proper and effective advertisement and communication are sent to all stakeholders and new entrepreneurs, services exports will be a game-changer in our trade figures. The Government of India should realise the importance of export of services and increase awareness about these sectors and arrange to advertise about the importance of Service Sector Exports and to nurture this sector Government should offer incentives, it will not only help to increase the net earning but also help in the overall development of the Economy and going to reduce one of the acute problems of unemployment.

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