Emerging Services Sector and Inclusiveness

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Evidence from India

Edited by

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Dedicated to my parents

The Late Smt. Krishna Devi

and

The Late Sh. Surya Prakash Gupta

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Pralok Gupta

PREFACE

The services sector consists of a wide range of activities including transportation, communication, financial, business and professional services, community, social and personal services and government services. Many services act as important inputs to the production of other goods and services. As an economy progresses, the contribution of the services sector becomes more and more important. The world over, the services sector has emerged as one of the largest and fastest-growing sectors and made significant contributions to global output. The Indian story is no different and this sector has emerged as the most dynamic and important sector in the post-liberalization era. It has increased its contribution to the Indian economy not only in terms of GDP, but also in exports. However, one area where the services sector has not yet contributed significantly is employment creation. Thus, critics have raised questions on the inclusivity of India's services sector-led growth story.

Against this backdrop, this book is a compilation of selected papers devoted to understanding and analyzing the role of the services sector in GDP, trade and inclusive growth in the Indian economy. Most of these papers were presented during the National Conference on "Trade in Services in India and Inclusive Growth Paradigm: Emerging Opportunities and Future Challenges", held on August 22nd-23rd, 2013, in New Delhi, organized by the Centre for WTO Studies, Indian Institute of Foreign Trade, New Delhi. The conference was aimed at discussing research on the emerging role of services in India's foreign trade and the opportunities and challenges created by the services sector boom in the Indian economy. The papers presented during the conference examined specific issues related to the growth of and trade in the services sector in India, such as outsourcing, foreign direct investment, migration, employment, etc., and also analyzed sector specific issues in various services.

The first three chapters of this book are devoted to understanding the role of the services sector in the Indian economy within the broad parameters of growth, employment, balance of payment, trade cycles etc. These are followed by a chapter on linking the services trade with migration, which has attracted the attention of policy makers recently. The next three chapters discuss FDI in the services sector, with sector specific case studies dealing with retail and aviation. The last two chapters are devoted to sectoral case studies of two important service sectors in India, namely IT-BPO services and insurance services.

The first chapter of the book discusses the unemployment aspect of India's liberalization of the services sector and the related adjustment policies that India has adopted to minimize the adverse effects of such liberalization on the employment scenario in India. It highlights how the employment scenario has changed over the years in India without any significant increase in the share of the services sector in job creation, despite its significant contribution to India's GDP. It explains the possible reasons for the paradox and discusses the mitigating measures adopted by India to counter this situation.

Chapter Two analyzes the relationship between the services trade, economic growth and external stabilization based on the Indian experience. It states that the quantum, quality and financing of the current account deficit (CAD) have recently emerged as a major concern for Indian policy makers, faced with a gloomy macro-economic scenario of decelerating growth, large-scale capital exit from stock markets and massive rupee depreciation. This paper finds that private transfers have been more crisis-prone as compared to net services exports in the case of the Indian economy. It suggests that adopting policies that promote India's services exports, diversify its export markets, and raise its export competitiveness globally is a much better recipe for India's external stabilization.

Chapter Three empirically analyzes the growth and cycles of India's trade in services for the period 1950-2010. Using Lee and Strazicich's structural break test, the study tests whether the growth in services trade has evolved gradually over a period of time or whether it was a response to policy changes. The structural break test does not reveal a significant break in services exports and imports. Hence, the study finds that the growth in services trade evolved gradually over the years. Further, the study also addresses the question of whether the integration of the sector with the rest of the world has paved the way for the transmission of external cyclical upturns and downturns to India. The study identifies three cycles during the period 1950-2010; the first one from 1963-64 to 1981-82; the second from 1981-82 to 1999-2000 and the third with a short peak in the post-2000 period. Moreover, it finds that services exports propel cycles, as the shocks in exports exhibit a higher intensity than those in imports.

Chapter Four attempts to explore the growing links between trade and migration by looking at the trade in services and linking it with the migration question. It analyzes the only multilateral agreement governing the temporary movement of workers – the World Trade Organization's General Agreement on Trade in Services. It also analyzes regional trade agreements; however, it confines itself to only those regional trade agreements that have been entered into by a regional organization.

In Chapter Five, an attempt has been made to evaluate the performance of the services sector in the pre- and post-global crisis period in terms of FDI and its corresponding contribution to the economy. For empirical analysis, the variables selected are GDP, FDI and Gross Capital Formation Rate (GCFR) during 1991-2012. The analysis is done on the basis of the panel unit root test, panel regression analysis, the Granger causality test and the co-integration test. The services sector is segregated into financial and non-financial services, construction, trade, hotel, transportation and telecommunication, insurance, real estate, and community, social and personal services for better understanding of the sector at the micro level. An attempt has also been made to assess the expected impact of global recession on the Indian economy at large and the services sector in particular. This paper argues that an economy that is growing only on the basis of services sector growth is like building a castle in the air without strong foundations.

Chapter Six gives an understanding of the conditions laid down in the 2013 FDI Policy for FDI in the aviation sector in India. It analyzes the impact of the 2013 policy on, and highlights the determinants of, FDI in the airline industry. The objective is to analyze the challenges in the path of FDI in the airline industry, identify gaps and analyze them, and draw up an action plan. The paper argues that there is urgent need for more reforms in the Indian aviation sector to maximize FDI inflows and the consequent benefits to passengers, the ailing airline industry, and the economy at large.

Chapter Seven examines the case of FDI in retail in India, which has been a very hotly debated issue in recent times. The retail industry in India is still at a nascent and developing stage in the economy. It has attracted attention from foreign investors, but the adverse effects of FDI in retail have been neglected by the government. Foreign direct investment (FDI) in retail – given the current economic realities of India and the lack of equitable distribution of the Gross National Product (GNP) – might do more harm than good. The paper argues that although large format retailing and the entry of FDI will bring many good things with it, policy makers must also be cognizant of the harm it may do. The paper further argues that while large format retailing is inevitable, we must not hasten it. Rather, the task right now should be to change the composition of GNP and create jobs so that the rush into self-employed retailing slows down.

Chapter Eight presents the case study of an important service sector in India – the IT-BPO sector. India is at the forefront of the rapidly evolving global IT Business Process Outsourcing (BPO), now known as Business

Process Management, market and is well established as a ‘destination of choice’. Today, the superlatives such as ‘Soft Superpower’, ‘IT Hub’ and ‘World’s IT Capital’ have become synonymous with India. This research paper examines the transformation of the IT/ITeS sector since 1991 in general and since 2008, after the sub-prime crisis in the USA, in particular. The focus of the paper is to re-examine the composition, size and direction of business outsourcing over the past two and a half decades. The paper recommends that to strengthen its global competitiveness, India should increasingly diversify its IT/ITeS business to move higher in the value chain, explore business opportunities in Asian and African countries to reduce over-dependence on the West, and build up its infrastructure for a wider spread across the nation.

Chapter Nine presents a case study of the insurance sector in India. The insurance sector, as a branch of financial services, occupies an important place in the economy, since risk, which can be hedged, has increased enormously in every sphere. The life insurance market has played an increasingly substantial role within the insurance industry. The paper endeavors to show the relationship between the level of insurance penetration and Gross Domestic Product (GDP) in India. In addition, a state-wise analysis of insurance penetration and per capita net state domestic product has also been taken into consideration. The chapter observes that lack of financial awareness causes lower savings in financial instruments, which has contributed to the low level of insurance penetration. It argues that in order to capitalize on growth in the economy and improve penetration, the insurance industry will need to tap not only public investment but also private and foreign investment.

CHAPTER ONE

SERVICES SECTOR LIBERALIZATION, UNEMPLOYMENT AND TRADE-RELATED ADJUSTMENT POLICIES IN INDIA[1]

PRALOK GUPTA

Introduction

The rapid growth of India's services sector in the post-reform era (1991 onwards) has contributed to the country's recent emergence as one of the fastest-growing economies in the world. India's services sector not only remained resilient during and after the global financial crisis but also provided significant support to overall GDP growth. As a result, India was ranked 10th and 12th in the world in terms of overall gross domestic product (GDP) and services GDP respectively in 2012. The compound annual growth rate (CAGR) of services for the period 2001-14 in India was 8.5 per cent, second in the world only to China. Given its growth performance, the contribution of the services sector (including construction) to overall GDP has increased sharply, from 41 per cent in 1990-91 to 64.8 per cent in 2013-14 (Government of India 2014, 175). The CAGR of services sector GDP for the period 2000-01 to 2013-14 was higher than the CAGR of overall GDP. The emerging services sector in India consists of sophisticated and technology-driven services like IT and telecommunications, infrastructural services like ports and railways, business services like consultancy and professional services, traditional services like barbers and plumbers and many other varieties of service.

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[1] This chapter is based on Gupta, P. (2013a) "Paradox of High Growth and Low Employment", Yojana, Govt. of India, Vol. 57 (October); pp 41-44 and Gupta P. (2013b), 'Chapter on Services Sector in India' in the Mid-Year Review of Indian Economy by National Council for Applied Economic Research, New Delhi.

The services sector has also facilitated India's integration with the world economy through trade and investment. Services exports have grown significantly, from less than USD 7 billion in 1995 to over USD 141 billion by 2012. India's share in global services exports has risen from 0.5 per cent in 1995 to over 3 per cent in 2012. The sector's share in the country's exports rose from around 18 per cent in 1995 to over 39 per cent in 2011 (UNCTAD 2013).

The current dynamism of India's services sector is largely a reflection of domestic liberalization and growing links with external markets. However, there has been debate in India over the implications of liberalization on the services sector and of services-led growth on employment creation. It is interesting to note that, whereas some services like tourism services are labor intensive and have high employment elasticity, some others, such as IT and telecom, are less labor intensive and have low employment elasticity. As a consequence, in spite of a significant jump in services' share in GDP, services' contribution to employment increased only marginally over the liberalization period in India. Due to this phenomenon, many economists have criticized India's growth story as "jobless growth", i.e. there is high growth in the Indian economy but jobs are not being created. This has compelled the government to start focusing on policies and programmes that not only mitigate the adverse effects of such liberalization but also help in creating additional employment opportunities.

Against this backdrop, this paper focuses on the unemployment aspect of India's services liberalization. It discusses the adjustment policies that India has adopted to minimize the adverse effects of this liberalization on the employment scenario in India and to increase services sector employment.

Services Liberalization and Employment in India

Services liberalization has been actively pursued in India by adopting relaxed and liberal regulatory policies from time to time. Apart from fulfilling the obligations resulting from multilateral commitments and offers made in its regional trade agreements (RTAs), India has undertaken significant liberalization in many services unilaterally. As a result, the level of autonomous services liberalization (unilateral liberalization) is much higher than the committed level in either the WTO or the RTAs. The equity limit for foreign direct investment (FDI) has been progressively increased in various services and, in many services, 100 per cent FDI is allowed, either through the automatic approval route or the prior approval route.

The liberalization of India's services sector and a continuous rise in its share in India's GDP over the years have not resulted in corresponding employment generation in this sector. Table 1.1 shows the share of employment per sector in India for the years 1993-94, 2004-05, 2007-08 and 2009-10. The data reveals that, while the share of employment in the tertiary sector (predominantly services) has increased over the years, the primary sector (predominantly agriculture) is still the dominant employer. The share of the primary sector in employment fell sharply between 1993-94 and 2004-05. The consequent rise in the share of employment in the secondary (predominantly industry) and tertiary sectors was fairly balanced between the two.

Table 1.1: Share of Employment per Sector in India (%), 1993-94, 2004-05, 2007-08 and 2009-10[2]

Year	Primary	Secondary	Tertiary
1993–94	64.5	14.3	21.2
2004–05	57.0	18.2	24.8
2007–08	55.9	18.7	25.4
2009-10	53.2	21.5	25.3

Source: Government of India, Ministry of Finance, Economic Survey, 2010–11 and 2012-13

This observed trend for India is in contrast to the trend in developed and some developing countries, in which not only has the contribution of the services sector to employment increased over time with the process of development, but services have also become the dominant player in employing human resources in these economies. For instance, by the beginning of 2000, in several OECD countries, about three quarters of employees were working in services (D'Agostino, Serafini and Ward-Warmedinger 2006, 7). Many Asian countries, such as Korea, also have a significantly higher share of services in their overall employment. Barring China and India, all the top 15 countries (in terms of services GDP) have high shares of both services GDP and services employment. Although neither India nor China has a high share of services employment, they are

[2] The sectoral contribution of services does not include the construction sector. If we include construction within services, the employment contribution of services becomes around 36 per cent in 2009-10.

different from each other. Whereas China has low shares of both services income and employment, in India, on the other hand, the services sector has a high share in income but a lower share in employment. The gap between the shares of services income and employment in India is also widening, from 27.3 percentage points in 2001 to 28.8 percentage points in 2012 (Government of India 2014, 174).

If we analyze employment data at the state level, it is observed that there are widespread differences in employment in various sectors across India. While some states, such as Kerala, have a high share of employment in the services sector, states like Chhattisgarh, Madhya Pradesh and Gujarat have relatively low shares of people employed in services. Some north-eastern states like Sikkim, Tripura, and Manipur have a high share of employment in the services sector. Construction, trade, hotels, and restaurants and public administration, education, and community services are the three major employment-providing services in different states (Government of India 2012, 231).

There are also big differences between the shares of the services sector in employment in rural and urban India. The share is very high in urban areas in most states compared to rural areas. This implies that services liberalization and services-led growth have been limited more or less to urban India and the fruits of such liberalization and growth have not percolated to rural India. A natural corollary to this imbalance is that, of late, there has been a lot of internal migration in India from rural to urban areas due to the absence or lack of employment opportunities in rural areas. This migration has increased the challenges faced by urban civic bodies, which already find it difficult to meet the growing demands posed by rapid urbanization in India. Table 1.2 shows sector-wise rural and urban employment per 1,000 employed people for various Indian states.

Table 1.2: State-wise Employment in Different Sectors in Rural and Urban India in 2009-10 (per 1000 employed people)

State/UT	Agriculture and Allied		Industry		Services with Construction		Services without Construction	
	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban
Andhra Pradesh	687	53	97	241	217	705	150	583
Arunachal Pradesh	757	140	32	41	213	817	158	722
Assam	725	27	38	137	257	833	222	757
Bihar	669	146	53	121	279	732	174	609
Chhattisgarh	849	53	39	282	112	666	83	553
Delhi	0	1	120	285	879	712	542	682
Goa	239	14	365	289	397	696	353	552
Gujarat	783	53	62	306	156	641	112	576
Haryana	598	53	98	319	304	627	195	511
Himachal Pradesh	629	85	53	149	320	767	167	676
Jammu & Kashmir	597	110	84	227	316	662	218	552
Jharkhand	548	52	92	160	361	787	145	602
Karnataka	757	94	67	221	176	686	132	558
Kerala	357	110	132	178	511	711	357	570
Madhya Pradesh	824	98	48	203	128	700	62	569
Maharashtra	794	47	52	236	154	716	116	638
Manipur	534	205	90	118	377	677	240	604
Meghalaya	707	58	56	65	236	877	178	780
Mizoram	806	360	14	53	180	587	128	499
Nagaland	741	219	17	35	241	745	200	684
Odisha	676	103	84	215	240	683	144	549

Punjab	618	83	81	249	298	669	168	552
Rajasthan	633	70	54	186	312	743	110	595
Sikkim	539	0	48	99	414	901	282	874
Tamil Nadu	637	136	117	276	246	586	146	482
Tripura	306	21	63	89	633	891	244	716
Uttarakhand	695	54	41	199	263	747	131	629
Uttar Pradesh	669	91	76	257	257	653	134	551
West Bengal	563	36	173	279	265	683	206	621
A & N Islands	430	30	91	98	477	873	330	766
Chandigarh	31	22	145	122	826	856	629	778
Dadra & Nagar Haveli	591	38	160	632	251	332	155	315
Daman & Diu	548	394	340	177	110	430	106	398
Lakshadweep	452	277	57	164	491	558	361	483
Pondicherry	461	29	144	201	396	770	238	647
All India	**679**	**75**	**80**	**242**	**241**	**683**	**147**	**582**

Source: Government of India, Ministry of Finance, Economic Survey, 2011-12

Trade-Related Adjustment Policies

Trade-related adjustment policies are common in many developed countries. For instance, the USA established the Trade Adjustment Assistant (TAA) Program in 1974, which aimed to assist workers and enterprises negatively affected by trade reforms or changes in trade flows. The TAA Program is a federally funded programme, with no cost to employers. It aims to help workers adversely affected by foreign imports or job shifts to a foreign country. It provides assistance to eligible workers in the form of re-employment services, training, job searches, relocation, and support benefits in the form of Trade Readjustment Allowances (TRA) and/or Alternative/Re-employment Trade Adjustment Assistance (ATAA/RTAA) for older workers (United States Department of Labor 2012).

Similarly, the EU introduced the European Globalization Adjustment Fund in 2006 (Francois, Jansen and Peters 2011, 213). The fund provides support to people who lose their jobs as a result of major structural changes in world trade patterns due to globalization. For instance, the fund provides appropriate support when workers are laid off because a large company shuts down or production is moved outside the EU or as a result of a global financial or economic crisis. The fund has a maximum annual budget of EUR 150 million for the period 2014-2020 and can fund up to 60 per cent of the cost of projects designed to help workers made redundant find others job or set up their own businesses (European Commission 2014).

However, such adjustment programmes and policies are not very common in developing countries. As far as trade-related adjustment policies in India with specific reference to services liberalization and unemployment are concerned, the policies and programmes of the government are not specifically designed to cater to trade-related adjustments. Rather, they are designed to solve the underlying problem of unemployment and related issues, which have been intensified because of the liberalization of the economy in general and the services sector in particular. Thus, such policies *de facto* become trade-related adjustment policies in a broader sense. The definition of trade-related adjustment policies needs to consider both *de jure* and *de facto* cases of such adjustment policies and programmes, i.e. it should consider not only those policies that are specifically designed for trade-related adjustments (*de jure* cases) but also those that are not primarily formulated for such adjustments but assist in adjusting the adverse effects that either occur purely as a consequence of trade liberalization or are intensified by this liberalization (*de facto* cases). It also needs to be understood that trade-related adjustment policies need not be corrective in nature. Rather, they may include proactive policies and programs that the government initiates in order to overcome the likely negative effects of liberalization.

In this context, it is worth mentioning a few policies and programs of the Government of India that were intended to solve the employment generation problem in the services sector during the liberalization period. First, in order to tackle the "jobless" growth phenomenon associated with services sector liberalization, the Government of India has started focusing on services that are more labor intensive, such as tourism, retail distribution, construction, health services etc. The government, both at the federal and state level, has initiated various programs for capacity building in these service sectors. For example, in the tourism sector, the State Government of Gujarat has set up a Centre for Tourism and Hospitality Management as a public private partnership (PPP) initiative to train service providers, guides and tourism personnel, targeting specifically the weaker sections of society. The Ministry of Tourism of the Government of India implemented various schemes, such as Product Infrastructure Development for Destination and Circuits (PIDDC), Overseas Promotion and Publicity including market development assistance, assistance for academic institutions for capacity building for service providers, assistance with large revenue generating projects, etc. during the period of 2007-12. The Approach Paper to the 12th Five-year Plan of the Government of India recommended a "pro-poor tourism" approach to increase the net benefits to the poor from tourism and to ensure that tourism growth contributes to employment and poverty reduction (Government of India 2011).

An important step taken by the government to mitigate the adverse effects of liberalization is to set up specialized funds for workers in the unorganized sector, as they are the most vulnerable section of society and are prone to being side-lined in the process of development. The Ministry of Labour has set up welfare funds for various categories and sub-categories of workers in the unorganized sector, including the services sector. For instance, the government has enacted central legislation for builders and other construction workers to create welfare funds at the state level. There are around 20 million construction workers in the country. A small levy is collected on the basis of the cost of a construction project, which makes up the corpus of the welfare fund for construction workers. The welfare fund model has successfully been implemented by various states for various categories of workers. For example, the state of Tamil

Nadu runs 11 welfare boards for workers including construction workers, truck drivers, footwear workers, handloom and silk weaving workers.[3]

Another relevant issue related to the unorganized sector in India is that so far, most of the education and skill development has been geared toward the needs of the organized sector, and the unorganized sector has remained untouched. This has resulted in unfavorable and sometimes extremely miserable conditions for people working in the unorganized sector, which includes primarily labor intensive services such as construction work, midwifery, domestic work, barbering, vegetable and fruit vending, newspaper vending etc. However, the government has started focusing on employment-related issues in the unorganized sector, including social security measures. According to the National Sample Survey Organization (NSSO) survey conducted in 2004-05, there were 433 million workers in the unorganized sector, constituting about 94 per cent of the total labor force in India. Recognizing the need to provide social security to unorganized workers, the government enacted the Unorganized Workers' Social Security Act in 2008.

The Act provides for the constitution of a Nation Social Security Board to recommend social security schemes viz. life and disability cover, maternity health benefits, old age protection and any other benefit as may be determined by the government for unorganized workers. The government also launched the "Rashtriya Swasthya Bima Yojana" (National Health Insurance Policy) for "Below Poverty Line" (BPL) families in the unorganized sector in 2007. The scheme, providing for smartcard-based cashless health insurance cover of INR 30,000 per family per annum on a family floater basis, has been in operation since 2008. The scheme has been effective in terms of its coverage, as more than 25 million families have been covered under the scheme as of October 31st, 2011.[4] It is to be noted that although these schemes are generic in nature and not specifically focused on trade reforms in services, they also work as trade adjustment policies (*de facto* cases) as unorganized workers, many of whom are in the services sector, are the ones most affected by the adverse consequences of trade, particularly during the initial years of liberalization.

The government has also imparted skill upgrade training to those who may get adversely affected by services sector reforms, including

[3] Unorganized Sector in India: Social Security and Welfare Funds, http://labour.nic.in/ss/UNORGANISEDSECTORININDIA-SocialSecurityandWelfareFunds.pdf

[4] Social Security Schemes for Workers in Unorganized Sector, http://equalityindia.wordpress.com/2011/11/23/social-security-schemes-for-workers-in-unorganized-sector/

increasing computerization, in India. The Director General of Employment and Training, Ministry of Labour, initiated the Skill Development Initiative Scheme (SDIS) based on Modular Employable Skills (MES) in May 2007. An important feature of this scheme is that it focuses on providing short-term courses to poor and less educated people, as they cannot afford long-term training programmes due to higher entry qualification requirements, opportunity costs, etc. (DGE&T 2014). The government also formulated the "National Policy on Skill Development" in 2009. The policy is a guiding document for the implementation of various skill development programs in the country. The policy has set a target of skilling 500 million people by the year 2022 (Sharma 2010, 5).

The government has also proactively included conditions that will assist in generating employment in India while further liberalizing its services sector. For instance, in retail distribution services, the government has increased the foreign equity limit from 51 per cent to 100 per cent in single brand retail and up to 51 per cent in multi-brand retail. In order to ensure employment generation in this sector, the government has imposed conditions such as mandatory sourcing of at least 30 per cent of the value of products sold from small and medium industries/village and cottage industries, artisans and craftsmen for proposals involving FDI in multi-brand retail and over 51 per cent in single brand retail (DIPP 2014).

Thus, the Government of India has taken steps, both reactively and proactively, to solve the unemployment problem, which arose out of the structural deficiencies of the economy but has been intensified by the liberalization of the economy over the past two decades. As services are becoming more and more important in the Indian economy, policies are being adjusted to create enough employment opportunities in the services sector so that the liberalization and reforms in India's services sector can also be associated with high employment generation.

Conclusion

There has been no significant increase in the service sector's share in employment considering the very large increase in its share in GDP during the last two decades. Broader based growth within the sector is required to ensure balanced, equitable and employment-oriented growth that is linked to the rest of the economy. Although the government has started focusing on the issues of "jobless growth" related to services liberalization, no government policies or programs have been designed specifically to tackle this problem. More government intervention and targeted adjustment policies are required to generate employment in India's services sector.

Further reforms in infrastructure, the regulatory environment and FDI liberalization will also be required to diversify the sources of growth and hence increase employment opportunities and provide the required momentum for further growth.

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CHAPTER TWO

THE RELATIONSHIP BETWEEN THE SERVICES TRADE, ECONOMIC GROWTH AND EXTERNAL STABILISATION: EVIDENCE FROM INDIA[1]

MINI P. THOMAS

Introduction

International trade in services started expanding rapidly in the last decades of the twentieth century, growing much faster than both world output and world merchandise trade. Global trade in services increased from USD 1798.9 billion in 1991 to USD 8699.8 billion by 2012 (UNCTAD 2013). International trade in services gained importance in policy circles after the General Agreement on Trade in Services (GATS) came into being in 1995. Developing countries now account for a quarter of the world trade in services. In spite of a rising contribution to services trade by developing countries, developed countries accounted for 67 per cent of world services exports and 59 per cent of world services imports in 2012 (UNCTAD 2013). Services trade brings along technology, which is a source of endogenous growth. New economy services, i.e. services that are increasingly tradable internationally on account of advances in Information and Communication Technology and raise productivity growth, have emerged as a powerful force contributing to the economic growth and external stabilisation of many countries in recent years.

The emergence of service sector-led growth in India is in consensus with the growing importance of services trade globally. The economic

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reforms initiated in India after the emergence of the balance of payments (BoP) crisis in 1990-91 resulted in the Government of India reversing its policy of import substitution, followed since independence. A policy of export-oriented growth was adopted, following the footsteps of East Asian countries. India's international trade in services benefited immensely from this change in policy stance, and received a further boost when India became a signatory to the WTO in 1995. As per GOI (2012), the share of services in India's total GDP rose from 43 per cent in 1990-91 to 59 per cent in 2011-12. The service sector's annual GDP growth rate has been higher than the country's overall GDP since 1997-98. Services exports have been growing even faster than services GDP in the post-reform period, reflecting the export-oriented nature of India's service sector growth. India exhibits a strong advantage in services compared to goods. India's share in global services exports stood at 3.2 per cent in 2011, whereas its share in global merchandise exports was only 1.66 per cent for the same year (WTO 2012).

Services exports also have the potential to bring about the external stabilisation of the Indian economy. Since the advent of the global economic recession in 2008-09, India's external sector has been under growing pressure, as is evident from the widening current account deficit (CAD). The CAD in 2011-12 was 4.2 per cent of GDP, historically the highest ever (even higher than the CAD of 3 per cent of GDP during the peak of the 1991 BoP crisis). The current account balance, which averaged nil over the Tenth Plan period, deteriorated during the Eleventh Plan to an average CAD of 2.4 per cent. The Approach Paper to the Twelfth Five-year Plan (GOI 2011, 21) stated that for prudent management of the external account, it is desirable to restrict the CAD to an average below 2.5 per cent of India's GDP over the plan period. This is the CAD that would be commensurate with the 12th Plan growth target of 9-9.5 per cent. Excessive CAD tends to make an economy vulnerable to external debt and currency crisis, and brings in its wake financial instability, substantial output and welfare losses. An RBI study (R. Goyal 2012, 1) has concluded that a CAD of between 2.4 and 2.8 per cent of GDP is sustainable over the medium term, on the assumptions that GDP growth ranges between 6-8 per cent, inflation hovers around the 5 per cent level, and the interest rate and size of capital flows broadly follow their recent trends.

There are three different perspectives on current account balance: a domestic perspective based on national income and product accounts; an international perspective based on trade flows in goods and services, and another international perspective based on the flows and holdings of financial assets. Each perspective involves a decision to focus on certain