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# **Developments and Measurement Issues in Services Exports: The Indian Experience**

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## *Abstract*

This paper discusses major recent developments in India's services exports and highlights the emerging issues in measurement and compilation of cross border services transactions. Among India's services exports, software and ITES services, engineering services and communication services have achieved a high growth momentum and have become major components in India's balance of payments. Increasing relaxation in regulations coupled with significant growth in transactions, emergence of a variety of services and rapid technological progress are posing challenges to compile comprehensive, accurate and timely data with regard to trade in services. With advances in information technology, the possibility could not be denied of overlapping of some of services transactions and even demarcation between goods and services transactions in certain cases.

## **Introduction**

The liberalization policies coupled with better communications and multinational enterprises led to steady growth in services exports across the countries. The services exports account for over one-fourth of current account receipts in a number of countries (such as Austria, India, Ireland and Spain) and are emerging as a major source for enhancing and sustaining growth. The World's trade in services has been growing more rapidly than trade in goods since the 1980s. In the 1990s, India's services exports displayed one of the fastest growth rates in the world (Banga 2005). India's services

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exports account for over one third of India's total trade (goods and services exports) – higher than world average (around 20 per cent in 2004). As the trade in services is gaining importance, a timely and disaggregated data base on the same is critical for formation of appropriate policies. There is increasing interest among the policy makers, analysts and trade negotiators for data of trade in services. Relaxation in regulations across the countries coupled with growing services transactions, emergence of new services and rapid technological progress continue to pose challenges in the measurements and data compilation of services exports. Possibility could not be denied for having a mix up of transactions of goods and services in certain cases. Given the speed of technological progress and increasing integration of the world economies, better statistical infrastructure, ongoing review of concepts and data sources and methods would play an important role in enhancing the quality of data.

Against the above background, the paper discusses major developments in India's services exports. The paper highlights the emerging issues in measurements and data compilation of services exports. The paper contains four sections including introductory section. Section II provides data sources and compilation practices of India's trade in services. Section III presents pattern and trends in India's services exports followed by emerging issues in measurement and data compilation and conclusion in Section IV.

## **Section II**

### **Data Sources and Compilation Practices**

#### ***II.1 Importance of India's Trade in Services data***

In India, the timely and disaggregated data of trade in services as a part of BoP have attained an added importance mainly due to (i) acceptance of obligations by India under the IMF's Special Data Dissemination Standards (SDDS), (ii) requirement of disaggregated data on services as per the Inter-Agency Task Force's Manual on Statistics of International Trade in Services (MSITS), (iii) inclusion of services and the concomitant negotiations under the WTO jurisdiction, and (iv) increasing interest of policy makers, researchers, trade negotiators, and Government due to significant role of services transactions in economy's development.

#### ***II.2 Data Sources of India's Trade in Services***

The major source of information is the data reported by banks dealing in forex transactions under the international transaction reporting system (ITRS). Accordingly, the classification of India's trade in services statistics into various components is done with the help of purpose-wise disaggregated data reported by banks called authorised dealers (ADs). In accordance with the Foreign Exchange Management Act (FEMA), 1999, all foreign exchange transactions must be channeled through the banking system, and the banks that undertake foreign exchange transactions must submit various periodical returns and supporting documents prescribed under the FEMA to the Reserve Bank of India (RBI). Thus, ADs report all forex transactions to RBI with purpose-wise classification over a threshold transactions limit. For small value transactions, a survey of unclassified receipts is conducted by the RBI. In addition to above, the data are supplemented by information available from a number of sources such as Directorate General of Commercial Intelligence and Statistics (DGCI&S), various embassies/consulates, National Association of Software Service Companies (NASSCOM), various ministries/government agencies, financial institutions and the RBI's own records.

### ***II.3 Methodological Aspects***

The brief details of methodological aspects of India's trade in services components are set out below.

*Travel:* Travel' represents all expenditure by foreign tourists in India on the receipts side and all expenditure by Indian tourists abroad on payments side. Travel receipts largely depend on the arrival of foreign tourists in India during a given time period.

*Transportation:* 'Transportation' records receipts and payments on account of the carriage of goods and natural persons as well as other services (like port charges, bunker fuel, warehousing) linked to merchandise trade.

*Insurance:* 'Insurance receipts' consist of insurance on exports, premium on life and non-life policies and reinsurance premium from foreign insurance companies. Insurance on exports is directly related to total exports from India.

*Government Not Included Elsewhere (GNIE) :* 'GNIE' receipts represent inward remittances towards maintenance of foreign embassies, diplomatic missions and offices of international/regional institutions in India, while GNIE payments record the remittances on account of maintenance of Indian embassies and diplomatic missions abroad and remittances by foreign embassies on their account.

*Others Services:* These comprise of a host of business and professional services including those of communication, construction, financial, software services, engineering services royalties, copyright and license fees, management services. The data of these services are sourced from the ADs under the international transactions reporting system.

### ***II.4 Compilation Practices of India's Trade in Services***

The data of India's Services exports are compiled as a part of India's balance of payments statistics on a quarterly basis with a lag of one quarter by the RBI. The data are compiled both in terms of Indian Rupee and US Dollar. In order to meet the

requirements of compilation under Extended Balance of Payments Statistics (EBOPS), a "Technical Group on Statistics of International Trade in Services" was formed by the RBI. The Group submitted its report in March 2002. As per the recommendations of the Group, the purpose codes for recording data under ITRS on India's international trade in services were expanded with inclusion of a number of business and professional services. At present, the partner country-wise data are not published by the Reserve Bank of India.

### ***II.5 Data Dissemination Arrangements in India***

The data are published by the RBI in two formats *viz.*, (i) standard presentation with major heads and (ii) detailed presentation with break-up of major heads. The presentation of data in standard presentation is broadly in accordance with the methodology set out in the IMF Balance of Payments Manual, 5th Edition (BPM5). This presentation provides details of services trade under the five broad heads, *viz.*, (i) Travel, (ii) Transportation, (iii) Insurance, (iv) Government not included elsewhere, and (v) Miscellaneous services with break-up of software services. The disaggregated data of India's trade in services are released through an article titled "*India's Invisibles*" which takes into account the need for disaggregated information on services as outlined in the EBOPS and also the requirements under WTO negotiations in respect of GATS from India's point of view. India's trade in services data can be accessed from a number of publications of the RBI. These include: (i) RBI's quarterly press release on BoP (website: [www.rbi.org.in](http://www.rbi.org.in)), (ii) RBI's Monthly Bulletin and Handbook of Statistics on Indian Economy, and (iii) disaggregated details on services exports in the Article on "*India's Invisibles*" published in the RBI Monthly Bulletin once the final BoP data are available.

### Section III Pattern and Trends in India's Services Exports

#### III.1 Changing Pattern of India's Services Exports

Services exports consist of travel, transportation, insurance, communication, construction, financial services, software, agency services, royalties, copyright and license fees, management services, personal and cultural services, and other business services. Within the services exports, rising prominence of software services, business and professional services reflects high skill intensity of the Indian work force. The new services particularly high skill and technology intensive services are rising and dominant in the share of total services exports since the mid-1990s (Table 1).

**Table 1 : Changing Pattern of India's Services Exports**

Year	<i>(Percentage share in Total)</i>						Total
	Travel	Transportation	Insurance	GNIE	Software	Others*	
1970-71	16.8	49.7	5.5	13.7	0	14.4	100
1980-81	43.5	16.3	2.3	4.0	0	33.9	100
1990-91	32.0	21.6	2.4	0.3	0	43.7	100
1995-96	36.9	27.4	2.4	0.2	10.3	22.8	100
2000-01	21.5	12.6	1.7	4.0	39.0	21.2	100
2003-04	18.7	11.9	1.6	0.9	47.6	19.3	100
2004-05	14.1	10.4	2.0	0.7	37.4	35.4	100
2005-06	12.9	10.4	1.7	0.5	38.9	35.6	100

GNIE: Government not included elsewhere. \* other business and professional services.  
Source: RBI and NASSCOM.

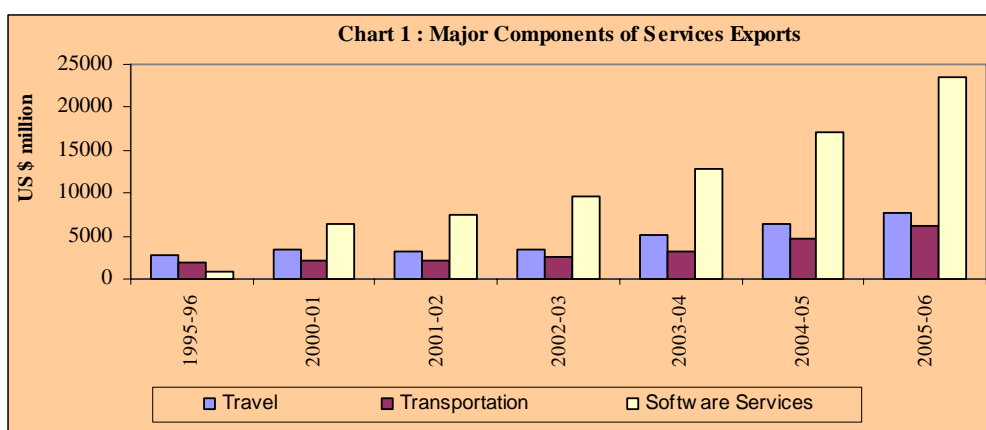
#### III.2 Trends in India's Services Exports

An analysis of the historical trends of India's services exports reveals that services exports from India emerged from a state of stagnation during the 1950s and the 1960s to post a strong growth in the 1970s, contributed mainly by travel services and other business services. The momentum of growth, however, could not be sustained and a general deceleration set in during the 1980s. The rejuvenation in the 1990s and in the current decade so far is mainly on account of exports of software and other IT-enabled services (Table 2 and Chart 1).

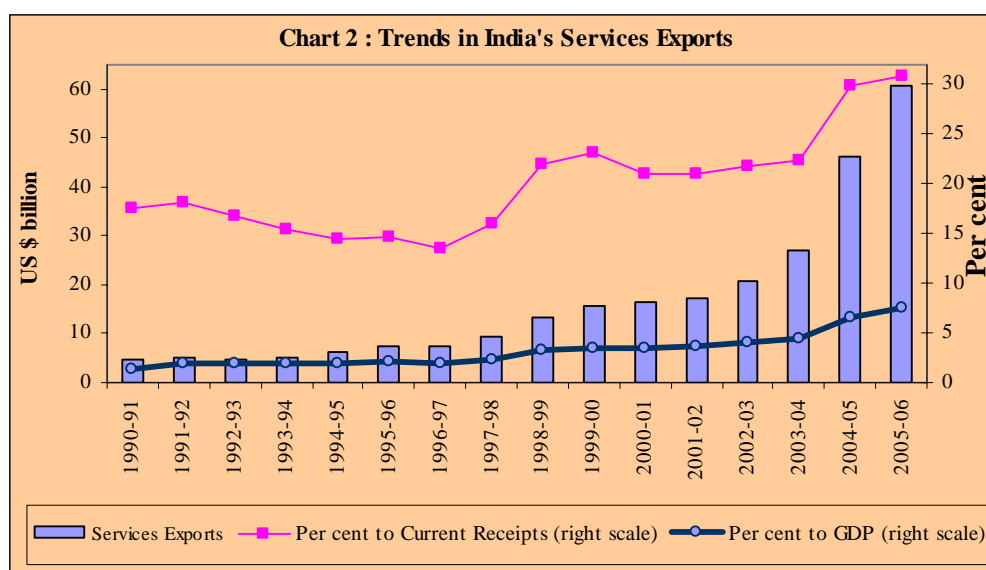
Table 2 : Growth of India's Services Exports	
Period	Per cent
1	2
1950s	6.1
1960s	0.8
1970s	21.8
1980s	8.9
1990s	14.6
2000-06	27.1

Source: Reserve Bank of India.

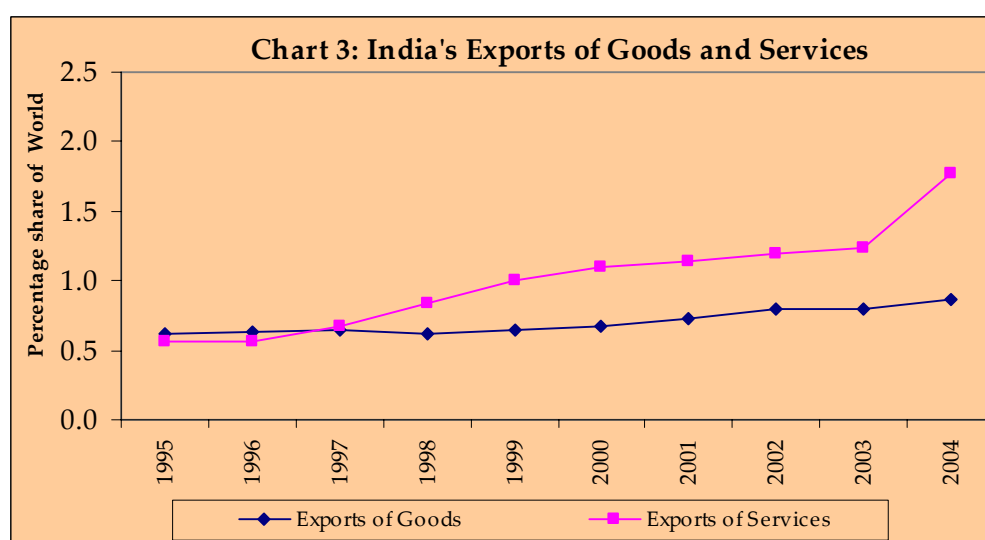
In tandem with the growth momentum in the services sector and its rising contribution to GDP, the comparative advantage of India in services exports is reflected in India's services exports growing at above 20 per cent, on an average, since the mid-1990s.



A marked feature of India's services exports, besides the shift in the level of exports, has been the reduced volatility, which has provided stability to current receipts (Chart 2).

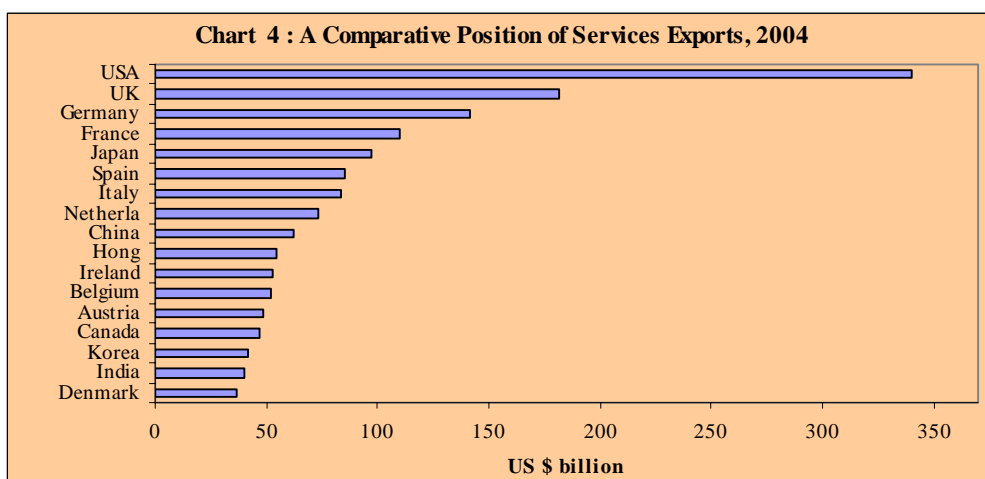


An important feature of services exports has been a structural shift driven by the emergence of new avenues of service exports. The new services particularly high skill and technology intensive services showed tendency to grow significantly in the current decade. The gains recorded by the services exports have far exceeded those recorded by exports of goods (Chart 3).



Services exports have been rising in importance globally, and particularly so for developing countries. World export of commercial services almost doubled between 1990 and 2001, accompanied by a marked shift from traditional elements such as travel and transportation to modern business services (RBI, 2004). In the high-income countries,

these new economy services dominate exports. In contrast, travel exports generally account for a major share of services exports of low and middle-income countries. South Asia is an interesting exception, largely on account of India’s software export surge since the mid-1990s. The continued buoyancy of India’s services exports are evident with the fact that India emerged as the 18th largest service exporter in the world in 2004 with a market share of 1.8 per cent in the World services exports as against 0.5 per cent (27th position) in 1990. Recent ranking of economies including India with regard to services exports are presented in chart 4.



### III.3 India’s Services Exports: Some Emerging Business Services

#### III.3.1 Software and ITIES Services

India remains continue among the major software services exporters' countries in the world. To preserve and build on its lead in IT services and BPO, it is essential for India to facilitate further deregulation and privatisation in key sectors, such as, financial services, retailing and telecom, penetrate new markets such as Japan, and make Indian exports more broad based. The comparative position of India in the World economies with regard to computer & information services exports is set out in Table 3.

Rank	Country	Amount
1	Ireland	18.6

2	India	17.7
3	U.K.	10.6
4	Germany	7.9
5	U.S.A.	6.6
6	Israel	4.3
7	Spain	2.9
8	Canada	2.8
9	Belgium	2.4
10	Netherlands	3.6

Source: Balance of Payments Statistics Year Book 2005, IMF.

In recent years, India's software services exports showed significant increase and continue to modernize the Indian economy (Table 4). With the shift in the competitiveness towards technology related services, particularly, India has emerged as one of the fastest growing exporters of services in the world outstripping the growth rate of industrial countries as well as all countries taken together (RBI, 2002).

**Table 4: Services and Software Exports of India**

Year	(US \$ million)		
	IT Services Exports	ITES-BPO Exports	Total Software and Services Exports
1995-96	754	-	754
2000-01	5,287	930	6,217
2001-02	6,152	1,495	7,647
2002-03	7,045	2,500	9,545
2003-04	9,200	3,600	12,800
2004-05	13,100	4,600	17,700
2005-06	17,300	6,300	23,600

ITES: IT enabled services. BPO: Business Process Outsourcing.

Source: NASSCOM.

India has become one of the most favoured destinations for software and IT enabled services, achieving an export mark of about US \$ 24 billion in 2005-06. India remained attractive mainly due to (i) its low cost of operations, (ii) high quality of product and services, (iii) ready availability of skilled manpower, and (iv) favourable time zone difference with North America and Europe – helping organisations to achieve round the clock internal operations and customer service. The above factors have

enabled the Indian software industry to continuously enhance its market share in the global market.

It is noteworthy that Indian IT industry is in the process of expanding its presence beyond traditional destinations, to newer geographies. The industry's focus is no longer on english-speaking countries alone, and a key strategy for Indian IT majors has been to harness local talent to tap domestic markets and de-risk the revenue model by reducing their dependence on one geographical region. While Indian service providers have built delivery centers in key source markets, they are expanding their footprints in specialist locations like China for engineering and design, South Africa for insurance, and near-shore locations like Eastern Europe and Mexico. Apart from companies in the US, organizations from Europe, South East Asia, Australia, Japan, Hong Kong and New Zealand are also reaching out for Indian software expertise, supported by the conducive policy environment and incentives for software exports offered by India.

Notwithstanding the efforts to enhance the expansion for new destinations, America and Europe remain the key markets, accounting for over 90 per cent of India's IT-ITES exports. However, export earnings from markets other than the US and the UK are also witnessing significant double-digit year-on-year growth.

### *III.3.2 Business and Professional Services*

The major development in recent years in services exports has been a sharp acceleration in non-software services exports partly emanating from underlying dynamism in export of business and professional services. In recognition of their growing importance, new reporting arrangements were put in place in 2004-05 wherein a number of new purpose codes were introduced with a view to collect data separately for these services. The category "other business services" comprises merchanting services, trade related services, operational leasing services without operating crew,

including charter hire, legal services, accounting, auditing, book keeping and tax consulting services, advertising, trade fair, market research and public opinion polling service, research and development services, architectural, engineering and other technical services, agricultural, mining and on-site processing services, audio-visual and related services and personal and cultural services.

### *III.3.3 Engineering Services Exports: The Potential Market*

India is likely to emerge a major engineering services outsourcing. According to a research study of NASSCOM, in addition to Information Technology Outsourcing (ITO) and Business Process Outsourcing (BPO) services, the possibility now exists for India to add a third major services growth stream - Engineering Services Outsourcing (ESO) — to its rapidly evolving economy. Engineering services is a huge market with global spending for engineering services is currently estimated at US \$ 750 billion per year of which US \$ 10 to 15 billion is currently being offshored. As per estimates, India brings home about 12 per cent of today's offshored market, which it currently shares with Canada, China, Mexico, and Eastern Europe. As per study, by 2020, it is estimated that as much as 25 to 30 percent of a much larger US \$ 150 to US \$ 225 billion market for offshored engineering services could belong to India—as much as US \$ 50 billion in annual revenue subject to if the country builds the capacities, capabilities, infrastructure, and the international reputation to become the preferred destination for these complex, high-value services. India has advantage of one of the largest pool of engineering talent among the emerging countries capable of taking on this kind of work—more than Russia and China combined. The current graduate talent pool suitable for ESO and ITO/BPO work in India represents 28 percent of the total in low-cost countries.

## **Section V**

### **Emerging Issues and Conclusion**

Notwithstanding the increased focus on basic concepts, definitions and international standards for describing services and compiling statistics, many practical challenges are coming in the way. Though there is widespread agreement in theory about how services activity should be measured but in practice measurement is much more complex. The increasing liberalization of foreign exchange transactions coupled with increasing services transactions and emergence of a variety of services, rapid technological advances, and more integration of world markets remains continue to complex the measurement and posing challenges for compilers.

Efforts have been put to obtain information from a number of sources including those of surveys in addition to main data source *i.e.*, banking channel, however, these have their own limitations due to poor response of participants particularly in a more liberalised environment. Even under the ITRS, the introduction of formats seeking disaggregated information may not ensure receipt of better quality data when respondents are not careful about furnishing such details to the monitoring authorities. In today's technology driven era, the possibility could not be denied for overlapping of some of services transactions. Furthermore, problem seems to occur even in clear cut demarcation of goods and services in certain cases.

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