SERVICE EXPORTS
Moving Up The Value Chain

In today’s world, services form a crucial component of the economy. Service sectors provide many benefits as they contribute to exports and GDP. This enables smooth functioning of the primary and secondary sectors such as agriculture and manufacturing and helps create white collar jobs as well as employment in other sectors, thus enhancing the standard of living. For example, banking services offer credit to businessmen to build factories or expand. A construction company may help the businessman by providing services to construct the factory. This factory will create employment opportunities in the manufacturing sector. Similar to most modern economies, the service sector also forms the backbone of the Indian economy.
GLOBAL SERVICE EXPORTS MARKET

International services trade contributed 6% to global GDP in 2020. Some of the world’s largest exporters are the USA, the UK, Germany, China, Ireland, France and India. After the pandemic led to a significant decline, global services exports, estimated at US$ 5 trillion in 2020, witnessed a strong rebound in 2021. Exports in the three months ended September 2021 were higher than 23% compared to the same period in 2020. The United Nations Conference on Trade and Development (UNCTAD), a body established by the UN, expects services exports to grow 13.6% in 2021 compared to 2020. This growth was due to recovery in services such as travel, which increased due to higher vaccination levels and the lifting of lockdown. As more economies reopen, the lagging sectors are expected to catch up and provide an impetus to services exports, surpassing the pre-pandemic peak of US$ 6 trillion in 2019.

GLOBAL SERVICES EXPORTS (IN US$ TRILLION)

<table>
<thead>
<tr>
<th>Year</th>
<th>Value (US$ Trillion)</th>
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<tbody>
<tr>
<td>2017</td>
<td>5.3</td>
</tr>
<tr>
<td>2018</td>
<td>5.8</td>
</tr>
<tr>
<td>2019</td>
<td>6.0</td>
</tr>
<tr>
<td>2020</td>
<td>4.9</td>
</tr>
<tr>
<td>2021</td>
<td>5.6</td>
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</tbody>
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Source: UNCTAD

INDIA SERVICES INDUSTRY

India’s services industry is vast and the country has significant global standing in terms of services produced and exported. The sector contributes over 50% to GDP; from April 2021 to January 2022, services accounted for 53% of the Gross Value Added (GVA) and this is expected to increase by 8.2%. At the state level, the service sector accounts for more than 50% of the Gross State Value Added (GSVA) of 12 states in the country.

The service sector includes the following industries:

<table>
<thead>
<tr>
<th>IT</th>
<th>Financial Services</th>
<th>Business Services</th>
<th>Software Services</th>
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</thead>
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<tr>
<td>Hotels &amp; Restaurants</td>
<td>Transport</td>
<td>Real Estate</td>
<td>Defence</td>
</tr>
<tr>
<td>Telecommunication</td>
<td>Information &amp; Broadcasting</td>
<td>Trading</td>
<td>Tourism</td>
</tr>
<tr>
<td>Education</td>
<td>Consultancy</td>
<td>Hospital &amp; Diagnostics</td>
<td>Agriculture</td>
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Information Technology

Information Technology (IT) and IT-enabled Services (ITeS) is one of India’s most important service sectors. Among all the services provided, software and business services are the biggest contributors to the total services produced, consumed and exported out of the country. The IT and ITeS sector is one of the largest employment generators in the country. In FY21, the IT services and Business Process Outsourcing (BPO) segment’s direct employment reached around 4.5 million, up ~16% from the last five years. Indirect job creation crossed 12 million during this period. Revenue of the IT and ITeS sector grew 2.26% Y-o-Y during 2020-21, reaching US$ 194 billion. This increased further to US$ 227 billion during this period, adding about 450,000 new hires in the same year and taking the total direct employment to 5 million.

The IT and ITeS industry is expected to witness growth with rising demand for business consulting services, public relations services, engineering, medical transcription and document management services from developed markets such as the US, Canada, New Zealand and Australia. The Government of India has also kept the industry’s growth on its agenda and is working with related institutions to improve the ease of doing business in the IT and BPO service sector.

Tourism

The tourism industry is crucial for the growth of the nation, employing India’s underdeveloped parts. The return to normalcy in the post-pandemic world is expected to help the travel market which is projected to reach US$ 125 billion by FY27. With the addition of international airports and improvement in infrastructure, the number of international passengers in India is expected to increase, giving a boost to the tourism industry. This industry is a significant contributor to the economy, with a projected GDP contribution of US$ 512 billion by 2028.
Healthcare

Healthcare is one of the fastest growing sectors with a large revenue contribution and is among the major employment providers in India. The government has been exploring strategic alliances to increase business prospects and strengthen bilateral collaborations to further develop the healthcare services of the country. Under the Union Budget 2022-23, Rs. 86,200 crore (US$ 11 billion) is allocated to the Ministry of Health and Family Welfare, up 16.5% from last year. The government is also working aggressively for the development of Ayurveda, yoga and other traditional medicine industry development.

Ports, Shipping and Waterway Transport

The ports, shipping and waterway transport services are crucial to India’s trade and the economy. The country’s ports handle about 95% of the volume and 70% of the value of export-import cargo. The government has implemented several schemes and initiatives to develop the infrastructure of ports and waterways in the various parts of the country.

Banking and insurance

India’s banking sector includes 22 private sector banks, 12 public sector banks, 56 regional rural banks, 96,000 rural cooperative banks and 46 foreign banks. In December 2020, as per the Reserve Bank of India (RBI), bank credit was Rs. 116.8 lakh crore (US$ 1.5 trillion) at the end of 2021. Total bank assets were valued at US$ 2.4 trillion in FY21 and have continually increased between FY18 and FY21. Total assets of private banks were US$ 878.6 billion and those of public sector banks stood at US$ 1,602.65 billion. Fintech or financial technology is also booming as it strives to increase the inclusion of the population in the formal banking sector. Payment technologies such as the Unified Payments Interface (UPI), an instant payment system set up by the National Payments Corporation of India (NPCI), are steadily replacing cash as the preferred mode of payment. This is primarily due to the ease of use, increased security, faster payments and lack of need for having change.

The insurance industry can be broadly divided into two parts: life and health, and property and casualty. The life insurance industry is forecast to advance at a CAGR of 5.3% between FY19 and FY23. The penetration of the insurance sector in India is at around 4.2% of GDP. In FY21, the penetration of the life insurance segment was 3.2%, while that of the non-life segment was 1%. The market share of private players in the general and health insurance space rose to 49% in FY21 from 48% in FY20. Additionally, as per S&P Global Market Intelligence data, India ranks second in size in the insurance
technology market in the Asia-Pacific region and accounts for 35% of the US$ 3.66 billion insurtech-focused venture investments.

**Education**

India’s education sector was valued at US$ 117 billion in 2020 and is expected to reach US$ 225 billion by FY25. The sector has high growth potential as approximately 27% of the population is between the age of 0 and 14, and the Gross Enrolment Ratio for higher education stood at 27.1% in FY20. In FY20, around 38.5 million students were enrolled on higher education, out of which 18.9 million students were female and 19.6 million were male. The edtech or education technology industry has also grown significantly. The pandemic and the resulting lockdown proved a boon for this industry as classrooms moved from schools to homes and students had to attend classes online. This also resulted in edtech firms benefitting as they had an online business model from the start. Seeing their potential, nearly US$ 4.7 billion was invested in edtech start-ups in 2021 compared to US$ 2.2 billion in 2020, which translates to a growth of 113.6%.

The government has taken several steps to improve and grow this sector. Today, 100% FDI through the automatic route is allowed in this sector. It has also opened new IITs and IIMs in the country and allowed grants for research scholars in several government institutions. In 2022, the government announced the approval of the New India Literacy Programme for 2022–27 for covering aspects of adult education to align with the budget announcements of FY23 and National Education Policy 2020.

**INDIA’S ROLE IN GLOBAL SERVICES EXPORTS**

India is a leading service exporting country. In 2020, it ranked second among developing countries and had a share of 14%. This was an improvement from 2018 statistics when the country ranked third and had an 11% share. The country’s IT sector is well-known in the world and derives most of its revenue from foreign markets. India has distinct competitive advantages when it comes to service exports. These include lower workforce costs, knowledge-based services and English-speaking proficiency, which help Indians easily communicate with the rest of the world. Sectors such as management and professional consulting services, telecommunications, freight transport services, and services related to audio and visual media are driving service export growth in India.

Currently, India has a target of reaching US$ 1 trillion in services exports by 2030. However, in a recent meeting between Mr Piyush Goyal, Commerce Minister, and the Services Export Promotion Council (SEPC), it was discussed that this
target may be achieved three years earlier, that is, by 2027. This is possible due to the strong recovery in travel and tourism and other sectors hit by the pandemic as well as robust demand seen for services in sectors of law, gaming and healthcare.

Despite the adverse effect of Covid-19 on the overall economy, over 2021–22, India achieved the highest-ever merchandise and services exports of US$ 669.65 billion. At US$ 250 billion, the share of the service sector in total exports was 37% in FY22. The sector witnessed an increase of 21% and 17% during 2020–21 and 2019–20, respectively.

**SERVICES EXPORTS TREND (US$ BILLION)**

![Graph showing services exports trend from 2017-18 to 2021-22 with CAGR 9.8%]

Source: Press Information Bureau, Ministry of Commerce & Industry

The overall exports of the service sector rose at a compounded annual growth rate (CAGR) of 9.8% from 2017–18 to 2021–22. As the effects of the pandemic started to abate, the economy started picking up over 2021–22; this boosted production and financial activity. As a result, the overall exports increased in FY22, recording new highs in trade values. This trend is expected to continue in the coming years. The SEPC expects services exports to grow to US$ 325 billion over 2020–23. The country aims to reach a total of US$ 1 trillion in services exports by 2030 and has undertaken several initiatives to achieve these goals.

Software and business services usually have a maximum share in total services exports, holding 49% and 24% share, respectively, during 2020–21. As India is a hub for IT-IteS, BPO and software services, the industry usually has a big impact on total exports from India. The travel industry was hit by the pandemic, but it is expected to pick up in the coming years with the lifting of curbs on lockdown and mobility.

**INDUSTRY-WISE SHARE OF SERVICES EXPORTS (2020–21)**

![Pie chart showing industry-wise share of services exports]

Source: RBI
The IT-ITeS industry has seen exponential growth in exports over the years. During 2020–21, the total revenue of this sector stood at US$ 195 billion, of which US$ 150 billion came from exports. The total exports during 2021–22 increased by about 17% and reached US$ 178 billion. From 2016 to 2017, IT industry exports registered a CAGR of 8.7%.

**IMPORTANCE AND CONTRIBUTION OF SERVICES TO INDIA’S ECONOMY**

The importance and contribution of the service sector are explained below.

- **Employment Creation:** Service sectors are labour-driven and thus help in significant employment creation. Generally, the jobs created in these sectors are more respectable and have a higher compensation compared to the primary and secondary sectors. This also contributes to a higher standard of living. Additionally, many companies in service sectors claim employees to be their most important asset. Around a third of the country’s population was working in the service sector in 2020. Covid-19 and the resulting lockdown affected the sector, leading to a fall in service sector employment in 2021.
• **Significant Contribution to GDP:**
Service sectors are extremely important to the progress of a country. As Mr Darpan Jain, IAS, Joint Secretary, Department of Commerce, Ministry of Commerce and Industry, said in 2019, the economy’s growth is indicated by service sector earnings. He also stated that the service sector contributes approximately 95% to GDP in many developed countries. In India, this figure stood at 53% from April 2021 to January 2022. This indicates there is significant room for growth in service industries as India becomes a developed nation.

• **Major Contribution to Exports:**
Service sectors contribute heavily to exports. India has a current account deficit as its imports are higher than its exports. However, in terms of services, India enjoys positive terms of trade, which means the value of services exports is higher than that of services imports. This helps in reducing the current account deficit and stabilising the rupee’s value relative to other currencies.

• **Significant Growth Potential:**
The service sector has the potential to become a major growth driver of the Indian economy. As shown earlier, service sectors can grow significantly if their contribution to GDP increases to be in line with developed countries. Other areas of growth are the healthcare and tourism industries. India’s healthcare industry is known for its inexpensive talent and modern infrastructure. The healthcare industry may witness rapid growth in the coming years as it increases its share in the global healthcare industry. India has a vast land area with varied climates and unique flora and fauna. Additionally, its relatively well-developed infrastructure enables easy to travel between regions. These factors can lead to higher growth in the tourism industry.

Furthermore, India is witnessing significant internal migration as people migrate from villages to cities. The service sector can benefit from this migration as more people take up jobs in the sector or start their service businesses (such as retail shops, restaurants and parlours). Thus, the entire service sector will grow along with the people working in it.

• **Improvement in Productivity:**
Service sectors, such as education, help develop new technical and non-technical skills and specialise in existing skills. This sector plays a key role in training current and future employees. Education also aids in retraining workers as they shift from declining industries to growing ones. As more people understand the importance of education and pursue higher education, the education industry is likely to help other industries and the country grow to new heights. Additionally, India boasts of some of the best educational universities in the fields of science and technology, and management in the world. These universities include the world-famous IITs and IIMs. Even in the ancient era, India was well-known for Nalanda and Takshashila universities. This also suggests that education is deeply integrated with the Indian culture.

• **Support to Primary and Secondary Sectors:**
The service sector works along with the primary and secondary sectors to help and support them. Given below are some of how service industries benefit from the above-mentioned sectors.
  o Banks and financial institutions provide finance for the purchase of raw materials, working capital requirements, capital expenditure and so on.
  o Education services provide training to workers to enable them to
perform their jobs efficiently.
- Transportation services help in the movement of people and goods from one place to another and enable regional connectivity and trade as goods reach from the place of production to the place where they are sold.
- Communication services help in the free movement of information from one part of the world to another and thus facilitate global connectivity.
- The use of IT and ITeS has led to process simplification, better record-keeping, faster execution and higher transparency.

FDI INFOWS AND INITIATIVES TOWARDS FDI GROWTH IN SECTOR

India is one of the world’s most attractive destinations for foreign investors due to factors such as a strong rule of law, property rights, stability in the government and a growing economy. These factors make foreign investors feel safe while investing in India. Most of the FDI in India is in the service sector. In FY22, India received its highest-ever FDI inflows of US$ 83.57 billion. The service sector is the largest receiver of FDI in India. In the first half of FY21, FDI inflows in the sector stood at US$ 16.7 billion and were nearly 54% of the total FDI inflows. Computer software and hardware received the highest inflow, accounting for 42.6% of the total, followed by financial, business outsourcing, R&D, courier, tech, testing and analysis, which received 18.9%. FDI inflows in the first half of FY21 were lower than those in the same period in FY20. This fall was primarily due to lower investments in the computer software and hardware sector. FDI inflows declined by nearly US$ 10 billion during this period. However, the inflows were still 77% higher compared to the same period in FY19. The reduction was cushioned by growth in inflows in other sectors

SERVICES EXPORT FROM INDIA SCHEME (SEIS) AND OTHER GOVERNMENT INITIATIVES

Given the importance of the service sector to the economy and its contribution to exports, the government has announced several reforms to encourage service providers to export their services and cater to the global market. Some of these initiatives are explained below.

SEIS

SEIS was introduced in FY15 to promote service exports. Under this scheme, exporters of eligible products are incentivised to export their services in the form of Duty Credit Scrips. These scrips are used to pay certain duties such as the basic customs duty. These scrips can also be transferred and have a validity of two years from the date of issue. There are eligibility criteria for this scheme as mentioned below.
- The exporter must have an active Import Export Code (IEC) while rendering such services.
- The firm must have minimum earnings.
- The firm must be exporting services eligible under this scheme.
- The firm must have Net Foreign Exchange (NFE) earnings, meaning that its gross foreign exchange earnings must
be higher than foreign exchange expense. To be eligible, service providers need to have minimum NFE earnings of US$ 15,000 in the previous financial year. For individual service providers and sole proprietorship firms, this limit is lowered to US$ 10,000.

The service provider may also be a manufacturing firm, primarily engaged in producing and selling goods. However, only revenue received and expenses incurred for rendering services will be considered for this scheme. The SEIS provides an incentive of 3–7% on NFE to service exporters. The government announced plans to reform the scheme in September 2021. The new scheme is expected to be broader and includes more sectors. Furthermore, the government also imposed a limit of Rs. 5 crores (US$ 644,579.1) per exporter on the total entitlement due under this scheme for services exports in FY20. This limit was levied as a way to benefit small and medium service exporting firms.

Special Economic Zone

India was among the pioneers in Asia in recognising the importance of Special Economic Zones (SEZs) and Export Processing Zones (EPZs). While the first EPZ was set up in 1965 in Kandla, Gujarat, the SEZ Act was announced several years later in 2006. The policy was announced to create SEZs, drivers of economic growth, by reducing and simplifying compliances and procedures and providing a single window clearance for all state and central government matters. The objectives of the SEZ Act are given below:

- Generation of additional economic activity
- Export promotion of goods and services
- Promotion of investment from domestic and foreign sources
- Generation of employment opportunities
- Development of infrastructure facilities

The scheme allows duty-free export and import of goods and services for firms operating in the SEZ. All the goods and services sold to an SEZ from the country are considered exports, while goods and services bought from an SEZ are considered imports. SEZs have simpler regulations and a lower compliance burden by reducing bureaucratic hassles, procedural complexities and similar other trade barriers. Economic laws are less stringent for firms operating in the SEZ. Furthermore, the state government provides certain reliefs that include exemptions from certain taxes and duties such as those for providing water and electricity. All these factors help in improving the ease of doing business.

Services Export Promotion Council

The SEPC is a body set up for promoting service exports. It was established by the Ministry of Commerce and Industry in 2006 and currently has over 6,000 members. It has upgraded India’s image in the world as a high quality and reliable service provider. It monitors the quality standards and ensures exporters follow them to keep providing high-quality services. The SEPC also provides members with market research and other trends data to help them take advantage of such situations, which helps in the diversification and expansion of export markets as well as export products and services. The council provides a global platform for improving strategic cooperation, strengthening multilateral relationships between stakeholders and promoting trade in service sectors. The council engages with the government to help with the faster implementation of benefits and schemes announced by the government.

The SEPC sets an annual target for service exports. It has set an ambitious target of US$ 350 billion for FY23. For the sake of comparison, service exports reached a record high of US$ 250 billion in FY22, implying a growth expectation of 40%. In FY22, the target was set at US$ 240 billion and even that was called ambitious. Despite these challenges, the country not only achieved but also
exceeded this target.

Earlier, the FY23 target was set at US$ 300 billion. However, it was revised due to expectations of recovery in pandemic-affected sectors and growth in certain other sectors such as engineering, construction, consulting and market research. The council aims to focus on these sectors in FY23. The prices of certain inputs have risen, which is increasing margin pressure on exporters. To achieve the target, the SEPC is encouraging Micro, Small and Medium Enterprises (MSMEs) to advertise and promote their products and services. Such high and ambitious targets indicate the conviction of the council and industry stakeholders in high growth in service sectors.

THE ROAD AHEAD

The service sector forms a crucial part of the Indian economy. It has various benefits such as employment generation, contribution to exports and high growth potential, and is supplementary to the primary and secondary sectors. In terms of exports, the Indian government and SEPC expect service exports to reach US$ 1 trillion by 2027, three years below the target of 2030. In FY22, India recorded the highest-ever service exports, amounting to US$ 250 million. Setting a target four times that of the current level evinces the government’s confidence in the growth potential of the service sector. At present, India is among the largest service exporting countries. In 2020, it ranked second among developing countries in service exports, with IT and ITeS being the largest contributors.

The government has initiated various reforms to boost service exports and meet the export targets. It is looking to reform the SEIS and make it broader to include more service sectors and provide better benefits. Other initiatives such as the SEZ scheme are intended to benefit both merchandise and service exports. It has also enacted several initiatives to grow various service sectors such as increasing the FDI limits. In light of these factors, India is observing considerable growth in the service sector.