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Index

1.	Changing Lifestyle and Nutrition Education Agharde Pratibha Vishnu	1
2.	Women And Food Security Smt.Archana Kundlikrao Chavare	3
3.	Use of Social Media in Libraries Prof Ashok Laxman Pathade	6
4.	Indian Agricultural And Economic Development Dr.Balbhim Amrutrao Patil	10
5.	Eating For Goals Dr. Bappasaheb Maske	14
6.	Women's Social Problems Asst-Prof.Dr. Bijaysing K. Bhabardede	19
7.	Physical Education and Sports for Society- "Impressing Social Values among Youth" Rahul M Chavan	22
8.	Impact of Digital Technology on library and Information Professionals Darade Gajanan S.	24
9.	Environment Affects the Sport Performance: A Study Dinesh Pralhad Gadade	26
10.	Library and Digital Media Dr. Bhagyashri Y. Keskar	28
11.	Women's Education and Distanced College: A Study of Barriers in Rural Area of Ambajogai Tehsil Dr. Nazir J. Sheikh	31
12.	Role Of Services Trade In India's Economic Development Dr. D. P. Takale & Mr. Shivaji Kakade	35
13.	Analytical Study of Human Development in India:- 1990-2017 Dr. Amruta Suryawanshi	40
14.	Socio-economic status and physical education and sports Dr. Bharat Haribhau Chapke	46
15.	Study of Effectiveness of Trataka, Yoga on Performance of Junior College Archery Players in Beed District Dr. Chatrapati Baburao Pangarkar	48

Role Of Services Trade In India's Economic Development

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Abstract:

The service sector is the largest and fastest growing sector in India. As per RBI data (2013) since liberalisation, India's services sector acted as a major driver of economic growth by contributing more than 67.41 per cent of GDP in 2012-13. This study has analyzed the performance and trends of services trade, trends of services exports, trends of services imports and share in world exports and imports of services of India during 2010 to 2015 period. The study has selected descriptive and analytical research methods for data analysis. The study revealed that India is now among the top ten exporters and importers of services in the WTO members. The present study also found that India's services exports increased from US \$ 117 billion in 2010 to US \$ 156 billion in 2015 whereas India's services imports increased from US \$ 78.91 billion to US \$ 82.64 billion during 2010 to 2015.

Index Terms: services trade, world exports, Liberalisation, Gross Domestic Product, imports of services

1.0 Introduction

The service sector is the largest and fastest growing sector in India. As per RBI data (2013) since liberalisation, India's services sector acted as a major driver of economic growth by contributing more than 67.41 per cent of GDP in 2012-13. Liberalisation in services sector boosted production and in turn services trade. In the last decade, India emerged as a major service provider to the international market. Among WTO Members India is now among the top 10 exporters and importers of services. India has both export and import interests in services. According to Jones and Kierzkowski (1990), "It has to be realized that liberalization of services and a subsequent fragmentation of production could result in finer international division of labour in which developing countries could actively share". The structure of Indian economy has been changed over the past decades, with services playing an increasingly central role. Kothe and Kouthe (2009) have pointed out that India have never experienced any deficit in services trade balance since 1994-95 and in addition to this the net surplus in services trade has been increasing since 1995. Indian exports basket largely concentrated on computer and information services followed by travel and transport contributing more than 70 per cent of export of services. The developed countries like US, European Union including UK are the destination of services exports. Near about 80 per cent of total exports of services is exported in these economies. It is constant increase in the share of services exports to GDP. It shows that India has growing comparative advantage in the outsourcing market. In 2014, India's rank in trade in services among SAARC countries is 4th and among G-20 countries is 5th. Service sector trade has an important role in the development of Indian economy.

2.0 Objectives of the study

1. To study the performance and trends of services trade of India
2. To analyse trends of services exports of India
3. To analyse trends of services imports of India
4. To overview share in world exports and imports of services of India

3.0 Research Methodology of the study:

For this study secondary data has been collected from various reference books, research articles, Journals and websites. The present study has used descriptive and analytical research methods for data analysis. Trends, average, correlation among variables etc. statistical tools was used for the analysis of data.

4.0 Review of related literature:

L.G. Burange, Sheetal J.Chaddha & Poonam Kapoor (2009) In their study titled 'India's Trade in Services' attempts to assess the growth, composition and comparative advantage of India's services trade for 27 year period from 1980 to 2007. They illustrates that the major growth in the exports as well as imports of services have occurred chiefly in the post liberalization period i.e. from the year 1991 to the year 2007. Ajitava

Raychaudhuri and Prabir De (2012) in their book titled, "International Trade in Services in India implications for Growth and Inequality in a Globalizing World" discussed about the services sector has gained substantial share in all the major economies, services trade has not displaced goods trade in terms of volume. Arpita Mukherjee (2013) in her study, 'The Service Sector in India', explains the services growth, employment in services sector in Indian economy. In the post-reform period (1991-2008), India's trade in services recorded substantial growth as the country became globally competitive in ICT services which increased exports many fold and led to an increase in India's trade surplus (Alejandro et al., 2010). Dr. Satyanarayan K. Kothe (2015), L. G. Burange and et.al (2015) Kaleswaran R. and Dr. P. G. Arul (2015) have also studied trade of services and its competitive advantages in the Indian economy.

5.0 Performance and trends of services trade of India:

India's trade in services recorded substantial growth. Our country became globally competitive in ICT services. ICT services increased many fold and led to an increase in India's trade surplus. According to Kothe (2014) the growth in the service sector in India has been led by IT-ITES sector, contributing substantially to increase in GDP, employment and exports. Table 1 shows India's position in trade in services among various countries and group of countries. In 2014, India's position in SAARC countries is 4th, 5th in G-20 countries, 14th in Commonwealth countries and 62nd in the world.

Table: 1 India Position in Trade in Services in 2014

Rank	Countries	Trade in Services (% of GDP)
14	Commonwealth countries	14.84
05	G-20	
04	SAARC	
62	World	

Source: World Bank

Services exports of India has grown faster than its services output. India's services exports basket largely concentrated on computer and information services followed by travel and transport services. Nearly 50 per cent of total export of services contributed by computer and information services. As per RBI(2016) data travel, insurance, G.n.i.e., miscellaneous, software services, business services and communication services exports increased as US \$ 5475, 57, 44, 24341, 21053, 4944 and 609 million respectively during 2010-11 to 2015-16. Whereas travel, transportation, G.n.i.e., miscellaneous, software services and business services imports increased as US \$ 3766, 1200, 49, 688,505 and 3401 million respectively during 2010-11 to 2015-16.

Table: 2 India's Trade in Services during 2010-11 to 2015-16
(US \$ million)

Year	Export	Import	Net
2010-11	124636	80555	44081
2011-12	142325	78227	64098
2012-13	145678	80763	64915
2013-14	151813	78747	73066
2014-15	158107	81578	76529
2015-16	154311	84635	69676

Source: Handbook of Statistics on the Indian Economy, RBI

Table 2 shows services trade of India during 2010-11 to 2015-16. During 2010-11 to 2014-15 India's services export increased from US \$ 124636 million to US \$ 158107 million. Services imports increased from US \$ 80555 million in 2010-11 to US \$ 84635 million in 2015-16. India's trade in services net increase is US \$ 44081 to US \$ 76529 during 2010-11 to 2014-15.

Chart: 1 India's Trade in Services during 2010-11 to 2015-16

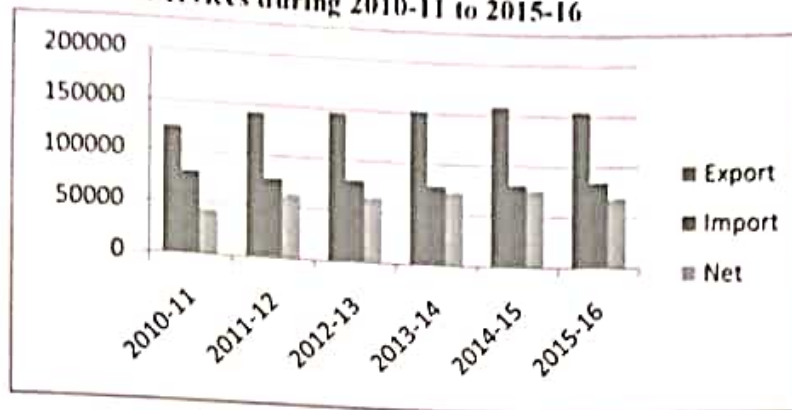


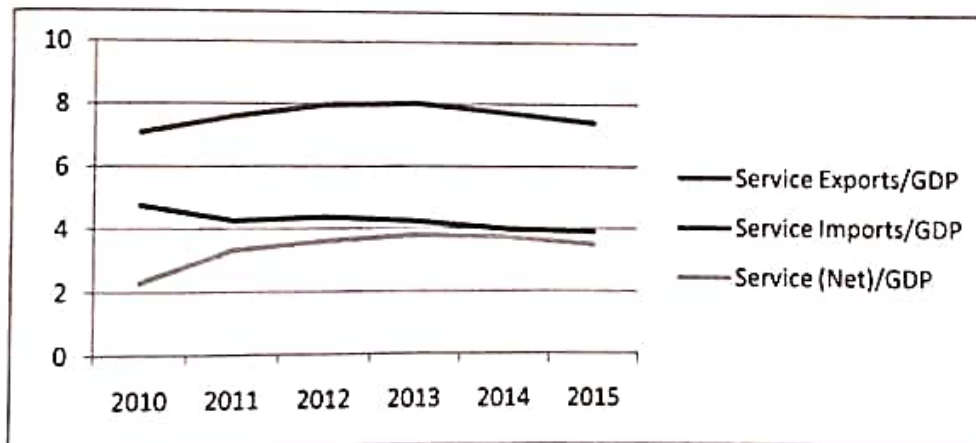
Table 3: Performance of India's Services Trade

Year	(In Percentage)		
	Service Exports/GDP	Service Imports/GDP	Service (Net)/GDP
2010	7.08	4.76	2.30
2011	7.60	4.27	3.33
2012	7.96	4.37	3.60
2013	8.03	4.25	3.79
2014	7.72	4.00	3.74
2015	7.40	3.91	3.50

Source: Author compiled from WITS

India's services trade performance is shown in Table 3. Services exports of India were 7.08 per cent of GDP in 2010. It increases to 7.40 per cent of GDP in 2015. Services imports of India were 4.76 per cent of GDP in 2010. It decreases to 3.91 per cent of GDP in 2015. Net service trade of India increased from 2.30 per cent of GDP to 3.50 per cent of GDP during 2010 to 2015.

Chart 2: Performance of India's Services Trade



6.0 Trends of Services exports and imports of India:

Table 4: Service Exports (BoP, Current US \$ Billion)

Year	2010	2011	2012	2013	2014	2015
India	117.07	138.53	145.53	149.16	157.20	156.08
South Asia	133.20	154.99	163.25	166.70	177.53	176.76
World (in US \$ Trillion)	3.92	4.48	4.59	4.89	5.25	4.98
India's share in world exports of services (%)	3.0	3.1	3.3	3.2	3.1	3.2

Source: Compiled from World Trade Indicators Database, World Bank, 2015

Table 4 shows that, India's services exports as per Balance of Payments data increased from US \$ 117 billion in 2010 to US \$ 156 billion in 2015. There is increase of US \$ 39 billion during 2010 to 2015. South Asian countries services exports increased from US \$ 133.20 billion in 2010 to US \$ 176.76 billion in 2015. There is increase of US \$ 43.56 billion in South Asian countries services exports during 2010 to 2015.

Table 5: Service Imports (BoP, Current US \$ Billion)

Year	2010	2011	2012	2013	2014	2015
India	78.91	77.76	79.92	78.12	81.12	82.64
South Asia	96.43	98.75	100.53	100.68	105.10	106.48
World (in US \$ Trillion)	3.73	4.22	4.36	4.63	5.01	4.71
India's share in world imports of services (%)	2.3	1.9	1.9	1.8	1.8	1.9

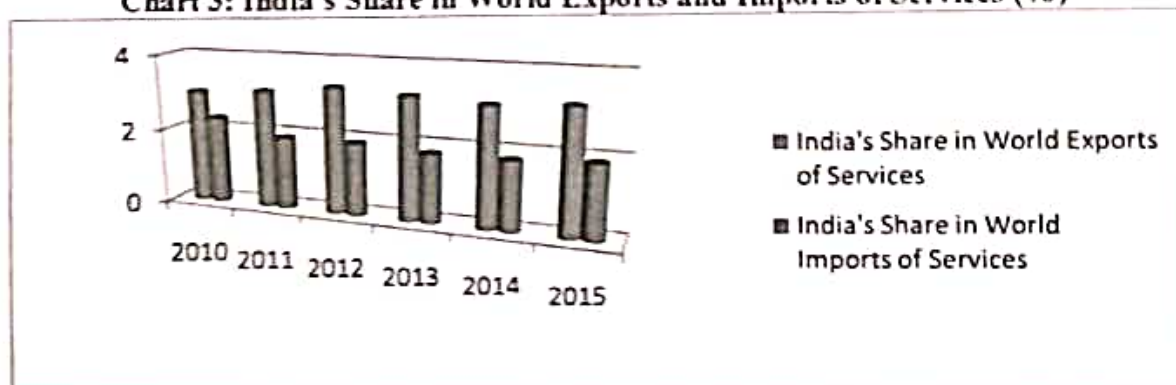
Source: Compiled from World Trade Indicators Database, World Bank, 2015

Table 5 shows that, India's services imports as per Balance of Payments data increased from US \$ 78.91 billion in 2010 to US \$ 82.64 billion in 2015. There is increase of US \$ 3.73 billion during 2010 to 2015. South Asian countries services imports increased from US \$ 96.43 billion in 2010 to US \$ 106.48 billion in 2015. There is increase of US \$ 10.05 billion in South Asian countries services imports during 2010 to 2015. There is increase of US \$ 0.98trillion in world services imports during 2010 to 2015.

7.0 India's share in world exports and imports of services:

Table 5 and chart 3, shows India's share in world exports and imports of services. India's share in world exports of services rise from 3.0 per cent to 3.2 per cent during study period. India's share in world imports of services decrease from 2.3 per cent to 1.9 per cent during study period. India's increasing exports of services helps to correct its overall balance of payments.

Chart 3: India's Share in World Exports and Imports of Services (%)



8.0 Conclusions:

India has export and import interests in services. India has great opportunity to take benefits of comparative advantage in services trade. There is huge English-speaking, skilled human resources available at competitive prices. The country has favourable environment for exporting knowledge-based services. India needs foreign investment and best management practices in infrastructure services as well as it needs private investments in key infrastructure services such as transport, energy, and telecommunications. There should be favourable environment to attract FDI and private investment only with a stable, transparent, non-discriminatory, competitive policy environment.

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