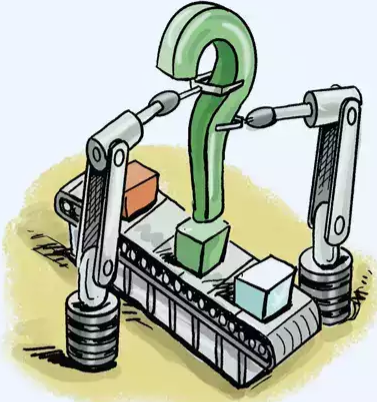


How services can create next wave of India's globalisation



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India's services exports continue to rise remarkably. The IT sector is leading the rally. We now need to tap a world of opportunities in finance, medicine, education, law...

Indian private consumption, that is what and how much households consume, has remained tepid. Aggregate exports have declined but their composition tells an interesting story: services exports are continuing to rise remarkably even as goods exports flail unremarkably.

Mirroring some of our earlier writings in these pages, JP Morgan India claims the services boom to be "a new growth driver for the foreseeable future". The optimism is backed by strong numbers:

pre-pandemic net services exports hovered around \$ 6bn per month. Since the return to normalcy, these had risen to \$ 9bn per month in the last financial year, 2021-2022. And now their steep rise this financial year has taken this number to \$16bn per month.

Trade is typically divided into two categories: goods (or merchandise) such as clothes, computers, fertilisers etc and services such as software, consulting, research and development etc. Net export refers to the difference between exports and imports of a country. India's net exports in goods are typically negative, oil and occasionally gold being a major drag, and our net exports in services have traditionally been positive. In the two years since the pandemic, this last number, India's net export in services, has boomed.

India's G20 presidency is an opportune moment to push for lower barriers to the globalisation of services

What is causing the rally? Compositionally, the IT sector, especially the big IT firms of India, have played a major role in services exports. This trajectory has continued since the global economy bounced back from the pandemic. What is worth noting though is the contribution of smaller IT firms, and the export of services such as management, consulting and especially data analytics.

HSBC India reports that the rapid rise in the number and productivity of the data analytics segment is through what are

called Global Capability Centres. These are offices set up by large multinational firms that provide IT, research, and analytical support to the parent companies. India currently hosts 40% of the world's GCCs and this number is expected to rise.

We think this is just the tip of the iceberg on India's capability in services exports. We have barely scratched the surface in other sectors such as finance, medicine, education and law. As we have written before, these could be the foundation of the next wave of India's globalisation.

These areas become particularly important given the inward turn by many countries in the manufacturing of goods. A slew of competitive advantages in the production of services at a distance will help us. Start with India's head start in IT exports and our expanding digital infrastructure. Add to that our comfort with the English language and our teeming numbers of college graduates (admittedly of varied capability). Complement that with the fact that we are a democracy; this helps, especially if we can enact strong privacy and data protection laws, because firms are more likely to trust democratic countries on data-related services. India can be at the centre of this new wave of globalisation.

This does not mean India should abandon manufacturing. We may have missed the bus on low-skilled manufacturing thus far, but we still have a strong presence in skilled manufacturing such as two-wheelers and pharmaceuticals. We do need as many manufacturing jobs as we can get, but the way forward is not to

pick winners through industrial policy – protecting some areas with tariffs and subsidising others with the production-linked incentive scheme. Our past and current record on such schemes is that they typically benefit large firms in capital-intensive industries, not exactly mass job creators – indeed, according to government data, while 15% of the proposed investment in PLI schemes has already come in, only 3% of the proposed jobs have been created.

India should work to persuade the world to open up to the possibilities of services exports in sectors that are traditionally regarded as non-tradable, such as health, education, and legal and accounting services

Yes, India needs to have more manufacturing jobs, but far better to do so by building out infrastructure (which the government is doing), by producing a better educated and healthier workforce, and by easing doing business. All of these will be helpful for service businesses also, so the government does not have to try and pick winners.

Well-paying jobs created through skilled service exports will create other associated low-skilled service jobs. [Recent research](#) by economists suggests that in India the growth in tradable services such as IT, advertising and research has a substantial upward impact on non-tradable services such as wholesale and retail trade and personnel services. The main channel is consumer demand: when a data analyst, daughter of a clerk in a government office, works for a GCC set up by Walmart in Bengaluru, she can afford to

employ a driver and a cook, and so on, allowing their children to get a further leg up.

India should work to persuade the world to open up to the possibilities of services exports in sectors that are traditionally regarded as non-tradable, such as health, education, and legal and accounting services. Can a doctor in India, for example, diagnose patients in the UK? Today, they cannot because their Indian qualifications are not recognised and NHS will not pay for their services even though it desperately needs more doctors.

India's G20 presidency is an opportune moment to push for lower barriers to the globalisation of services.

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This is the ninth article in an occasional series by the writers