Services Exports exceeding Merchandise Exports

What is the issue?

India may perhaps soon cross a unique turning point when its export of services becomes bigger than its export of merchandise (other than oil and gems & jewellery).

What is the current exports scenario?

- Globally, services trade accounts for less than 20% of total trade.
- In India's case, if all of exports (including oil and gems & jewellery) is taken, then the share of services is 40%.
- Over the first 4 months of this financial year (2019-20), services exports fetched $74.05 billion.
- This is not far short of what was fetched by merchandise exports, excluding oil and gems & jewellery ($79.81 billion).
- Since the former is growing at over 8%, and the latter at less than 2%, the turning point may be no more than a year or two away.

How did official services trade evolve?

- The export of gems & jewellery is classified as merchandise trade.
- However, in reality what is being exported is the value created by the work of those who cut and polish imported diamond roughs and work on precious metals (also imported).
- Leaving aside the official classification, this is export of services.
- There is supreme irony in this services-manufacturing conclusion.
- In this context, the US first proposed, in the 1980s, that a new round of global trade talks should be expanded to include not just merchandise trade but also trade in services.
- At that time, India was a strong critic of the idea of opening up markets for trade in services.

How did it benefit India eventually?

- India, for sure, had a competitive advantage in this area (services trade).
- This is because India has cheaper technologists, doctors, accountants, space scientists, etc, than almost all other countries.
- It has offered India an advantage in trade negotiations as well.

- E.g. in the negotiations for Regional Cooperation for Economic Partnership, India has been offering a two-sector deal to the leading economies of the Asia-Pacific
- India demands that if RCEP countries open up on services trade, it will open up further on merchandise trade.

- Among the things that India is pushing for is liberalisation of something classified as "Mode 4" in the multilateral trade services agreement.
- This covers the movement of "natural persons".
- The argument is that other countries must allow more work migrants from India. E.g. the controversy over the H1B visa
- The counter-argument is that the movement of "natural persons" is a citizenship issue, not one of trade.
- Ironically, this is precisely the argument that India uses to try and stop the flow of migrants from Bangladesh.

What are the challenges ahead?

- Export of services becoming bigger than export of merchandise is not necessarily something to celebrate.
- The structural flaw at the heart of the Indian economy, which finds reflection in the export pattern are –
    i. the failure of domestic manufacturing, specifically the Make in India programme
    ii. the consequentially outsized share of GDP and trade accounted for by services
- The other limitations to manufacturing growth includes -
    i. the relatively high cost of power, land, transport, port charges and shipping rates
    ii. inefficiencies in the labour market
    iii. unrealistic exchange rate for the rupee
- Indeed, as services exports continue to succeed, the rupee will become stronger.
- Consequently, a large part of the manufacturing sector, with their smaller profit margins, will find it steadily harder to compete internationally.
- This will almost certainly result in a shortage of domestic job opportunities for millions of rural youngsters.
- It is to be noted here that high-value services exports create fewer jobs than manufacturing.
- Yet the likely prospect is that the manufacturing-services imbalance will grow.

Source: Business Standard

