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## **Service Trade Dependence on India and Asian:**

### **Nature and Trends**

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#### **Abstract**

*Service sector growth is one of the indicators of economic development of any nation. Especially in the developing countries, as the economy gradually shifts from traditional agricultural activities to non agricultural activities, the importance and contribution of service sector in economic growth increases. In terms of sectoral contribution to GDP, service sector in India is contributing the most. India's trade relationship with East Asian countries drew the attention in the 1990s, with the introduction of look east policy and after this India became a sectoral dialogue partner with the Association of Southeast Asian Nations (ASEAN) in 1992 and 1995 it became a full dialogue partner with ASEAN. The basic objective of the paper is to examine the economic dependence of India and ASEAN members with respect to different types of services. Further the relative importance each service trade as percent of total service trade and in these countries including India is also examined. The data sources employed for this study are World Trade Organization (WTO) and World Bank. Results show that India's service trade with ASEAN members is showing an increasing trend and out of the Eight ASEAN members the share of Singapore in total service trade of India is highest and given this the categories of service traded between India and Singapore is examined where out of all the categories of service the category "other business services" is having the highest share in total export to Singapore followed by "transportation services" and the category showing the maximum share to total import of services from Singapore is "transportation services" followed by other "business services".*

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**1. Introduction:** Economic development of any country is characterized by a gradual transformation in the form of a declining importance of primitive agrarian sector. This transformation results in an increasing importance of industrial sector and service sector. India is one of the developing countries of the world which is experiencing immense growth of service sector gradually over the last few decades. Moreover if we look at its foreign trade composition then also we can see that the importance of service trade is gradually picking up. In terms of sectorial contribution to GDP, service sector is contributing the most. In fact, being one of the fastest growing economy in the world, India is now attracting

the foreign countries to have trade with it and ASEAN is no exception in this regard (Anand,2009).

India's trade is further enhanced by introducing LOOK East Policy in 1991 where India's trade with the East Asian countries was emphasized. In this policy the North Eastern Region was put on the centre behind India's trade with the East Asian Countries. The main reason behind this is that NER occupies an important place in the map of India because of its strategic geo-political position. It shares international border with many East Asian countries like Bangladesh, Bhutan, Myanmar and China. After this India became a sectorial dialogue partner with the Association of Southeast Asian Nations (ASEAN) in 1992 and in 1995 it became a full dialogue partner with ASEAN. ASEAN's objectives are to accelerate economic growth, social progress and cultural development among its members, protect the peace and stability of the region, and provide opportunities for the member countries to discuss their differences peacefully. Later on August 13, 2009, the India-ASEAN free trade agreement was signed in Bangkok to lift the bilateral trade between India and ASEAN.

There are quite a number of studies on India's service trade. Some studies have emphasized on service trade among the emerging market economies and particularly in relation to India (Mandal and Nath, 2016; Liu and Nath, 2013). Some others have focused on India's service trade performance with China (Liu and Trofner, 2008; Song 2007). On the other hand, the studies on trade between India and ASEAN are found to be concentrating on goods trade only. They have mainly focus on the nature and pattern of India's trade with ASEAN and its potentialities to have trade in future (Anand, 2009; Muni and Mun' 2012; Sikdar and Nag, 2011). Sikdar and Nag, 2011 mainly focus on India's free trade agreement on trade with ASEAN. While Muni and Mun(2012) talk about its future direction of trade. But to the best of our knowledge no researches have been done yet regarding the nature and pattern of Indo-ASEAN service trade. This study is undertaken to fill the gap to some extent. Given this background the main objective of the paper is to examine the major trend and pattern of service trade between India and ASEAN.

The paper comprises six sections. Section 2 discusses data and its sources, and methods. section 3 discusses the importance of service trade in India vis-à-vis its merchandize trade. The Indo-ASEAN service trade and its nature and trends are discussed in section 4. And finally the paper ends with concluding remarks in section 5.

**2. Data and methods:** The study is completely based on secondary data for a period of 1988 to 2011. Data used in present study relate to service trade, merchandize trade and gross domestic product (GDP) which have been collected from World Bank, WTO, and World Development Indicators, World Bank respectively. To fulfill our objective, simple descriptive statistics is used. Then tables and figures are also used to see the trend and pattern of indo ASEAN service trade for a better and clear understanding of the results.

**3. India's service trade versus merchandise trade:** In this section the relative importance of service trade in comparison with merchandise trade is discussed. For this I have used

tables and figures for detailed analysis. The study is restricted for the time period 1988 to 2011 because of unavailability of data on service trade for India before 1988. The basic reason behind data limitation is that service trade got some importance only after 1980s.

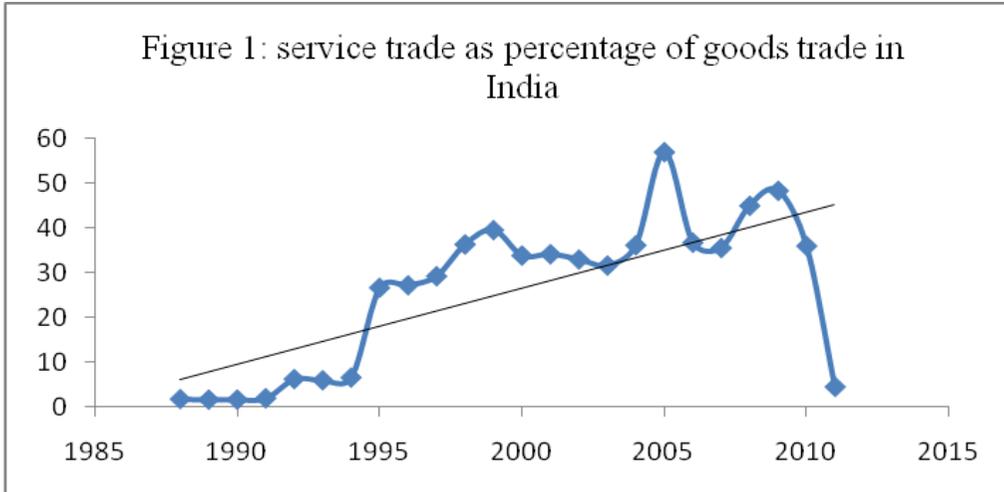
**Table-: India's trade in goods and services and GDP, (1988 – 2013)**

	year	Trade in commercial services	trade in goods
value in millions of current US\$	1988	511.046	32335.2
	1993	2570.909	44360
	1998	27711.38	76416.9
	2003	41460.82	131520.6
	2008	231715.9	515859.8
	2011	33141.43	767367.4
As Percentage of GDP	1988	0.169337748	10.71444
	1993	0.904632597	15.60907
	1998	6.463430615	17.82356
	2003	6.705002241	21.26938
	2008	18.92953882	42.14207
	2011	1.805271225	41.79983
Average annual growth rate	1988-2011	42.17354	15.06913002

Source: calculation based on data published by World Bank and World Trade Organisation (WTO)

Table-1 shows a positive trend in the total volume of service trade and commercial trade. A comparison of service as percentage of India's GDP with that of Merchandise shows that merchandise trade shares larger percentage of GDP while for service trade it is comparatively lower. Also comparing average annual growth rate of both kind of trade reveals that service trade the growth rate is much higher than that of trade in goods. Thus it can be said that although service trade is contributing a negligible share in total GDP however its contribution is gradually increasing and also at a very fast rate.

Further to see the service trade as percent of goods trade, the ratio between service trade and goods trade and it is represented graphically as figure 1 given below. This gives us information about the relative importance of service trade compared to goods trade.



Source: World Bank and World Trade Organisation (WTO)

From figure 1 we can see that the ratio of service trade to goods trade although is not increasing monotonically but showing a positive and increasing trend. Thus it can be said that the relative importance of service trade compared to goods trade is gradually increasing. Or in other words the relative importance of goods trade compared to service trade is falling over the time period.

**Service versus goods trade in terms of balance of trade:**

To have a deeper look, some more comparison in these two types of trade by examining balance of trade over the same time period have been done Balance of trade is calculated by deducting import from export and we have calculated it separately for service and goods traded from 1988 to 2011 again. This is represented by figure 2 and 3 given below.



Source: World Trade Organisation(WTO)



Source: World Bank

Figure 2 and figure 3 explains balance of trade for goods and services respectively. From figure 2 we can see that there is continuous deficit in goods trade which means that import of goods is higher than export in India. In contrast to this, the story of service trade is completely opposite. In figure 3 it is observed that service trade shows both surplus as well as deficit. The surplus balance of trade is observed since the year 2000. Before that there was continuous deficit in the service trade. And the volume of surplus balance of trade is seen to be very high which means that export of service is higher than import except 2005, 2009, and 2011 where comparatively a smaller deficit is observed.

From the above analysis we can state that the importance of service trade in India is gradually increasing. The total volume of goods trade is although very high however such higher volume is fueled by continuous increase in imports while for service trade, a positive sign can be seen where export is seen to be high after 2000.

**4. Indo-ASEAN trade in services:** There are ten ASEAN member countries out of which I have excluded two ASEAN countries, namely Laos and Myanmar. The reason behind the exclusion of these countries is non-availability of service trade data with India. . Moreover in order to study service trade between India and ASEAN as a whole in details, I have taken the time period from 2005 to 2009. This is because of the fact that bilateral data on service trade of India with almost all the ASEAN countries except Singapore is not available prior to that. One of the probable reason may be that India-ASEAN relations stepped up a notch towards the end of 1990s and the beginning of 2000. As found from our analysis (discussed later) Singapore is the largest service trade partner of India among the ASEAN countries. Hence, an in-depth analysis is carried out subsequently about the bilateral service trade between India and Singapore for a period of 2000 to 2009. Thus with available data, I have calculated the volume of export and import and also the total volume of service traded by

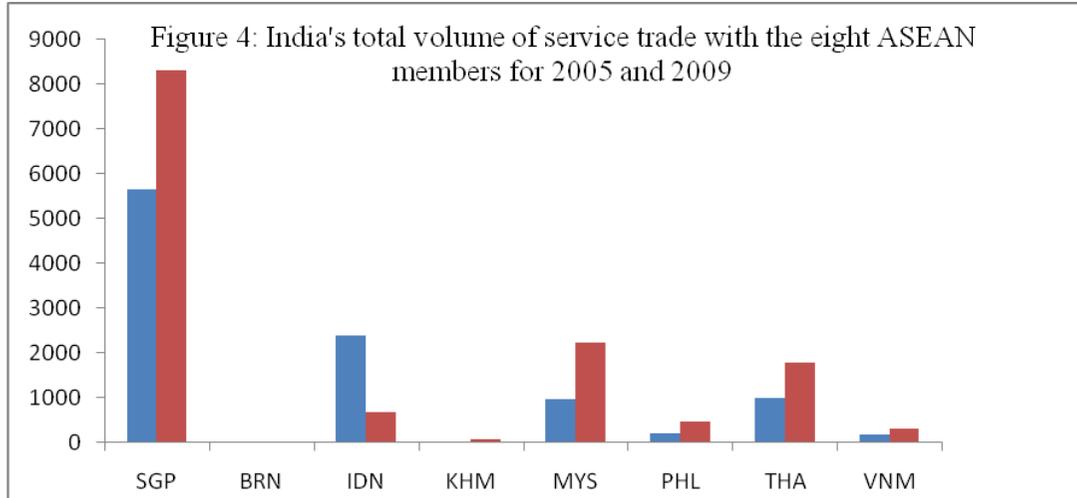
India with the ASEAN members over the time period of 2005 to 2009 and expressed it with table 2 given below.

**Table-2: India's exports and imports of services to and from ASEAN members, 2005-2009**

ASEAN members	Export(x) in millions of US\$		Import(m)in millions of US\$		Total trade in millions of US\$	
	2005	2009	2005	2009	2005	2009
Brunei	2.5	16.4	2	-	4.5	16.4
Darussalem	(0.05738)	(0.36016)	(0.03359)	-	(0.04364)	(0.11861)
Combodia	2.6	2.9	3.6	72.1	6.2	75
	(0.05968)	(0.06369)	(0.06045)	(0.77754)	(0.06013)	(0.54245)
Indonesia	1145.9	235.5	1232.8	438.4	2378.7	673.9
	(26.3011)	(5.17186)	(20.7022)	(4.72781)	(23.0678)	(4.87405)
Malaysia	651.4	1053.3	305.2	1169.1	956.6	2222.4
	(14.9512)	(23.1317)	(5.12517)	(12.6079)	(9.27678)	(16.0737)
Phillippines	31.8	42.8	159.1	417	190.9	459.8
	(0.72989)	(0.93994)	(2.67174)	(4.49703)	(1.85128)	(3.32555)
Singapore	1998.94	2621.19	3634.22	5670.89	5633.16	8292.08
	(45.8806)	(57.5644)	(61.0289)	(61.1562)	(54.6285)	(59.9733)
Thailand	475.4	518.3	501.5	1270.2	976.9	1788.5
	(10.9116)	(11.3825)	(8.42161)	(13.6981)	(9.47365)	(12.9355)
Vietnam	48.3	63.1	116.5	235.1	164.8	298.2
	(1.1086)	(1.38575)	(1.95637)	(2.53537)	(1.59817)	(2.15676)
Total ASEAN	4356.84	4553.49	5954.92	9272.79	10311.8	13826.3

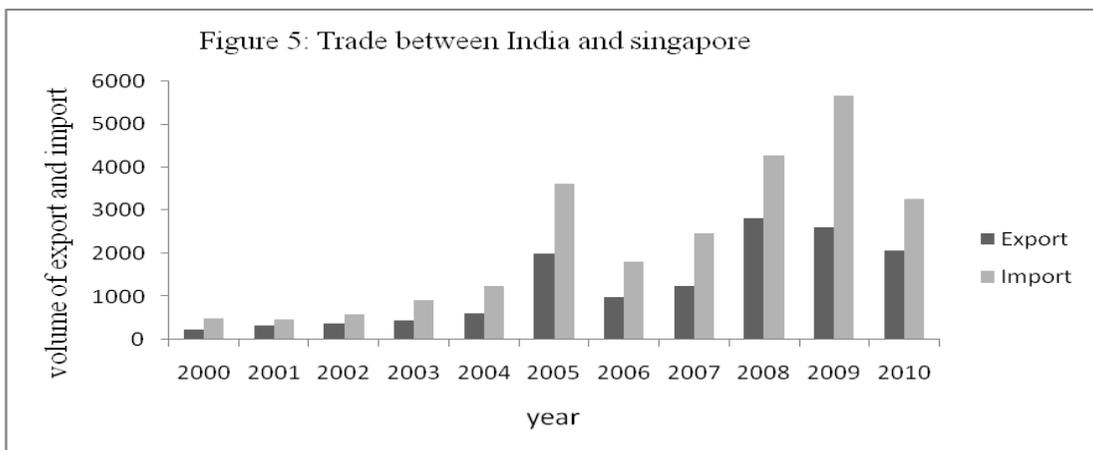
Source: calculation based on data published by World Bank

Table 2 shows India's services export to and import from the eight ASEAN members. Values off the brackets show the volume of exports, imports and the total of these two and the values given in brackets show its share to the volume of export, import and the total of both for all the ASEAN members mentioned in the table. From this table, it is clear that Singapore is the largest trade partner in terms of both export and imports from India and as such its share in the total volume of export, import and also the total volume of trade is highest among the ASEAN trade partners of India. Table 2 is better explained with the bar diagram given below as figure 4 where we have shown the total volume of services trade between India and the ASEAN members.



Source: World Bank

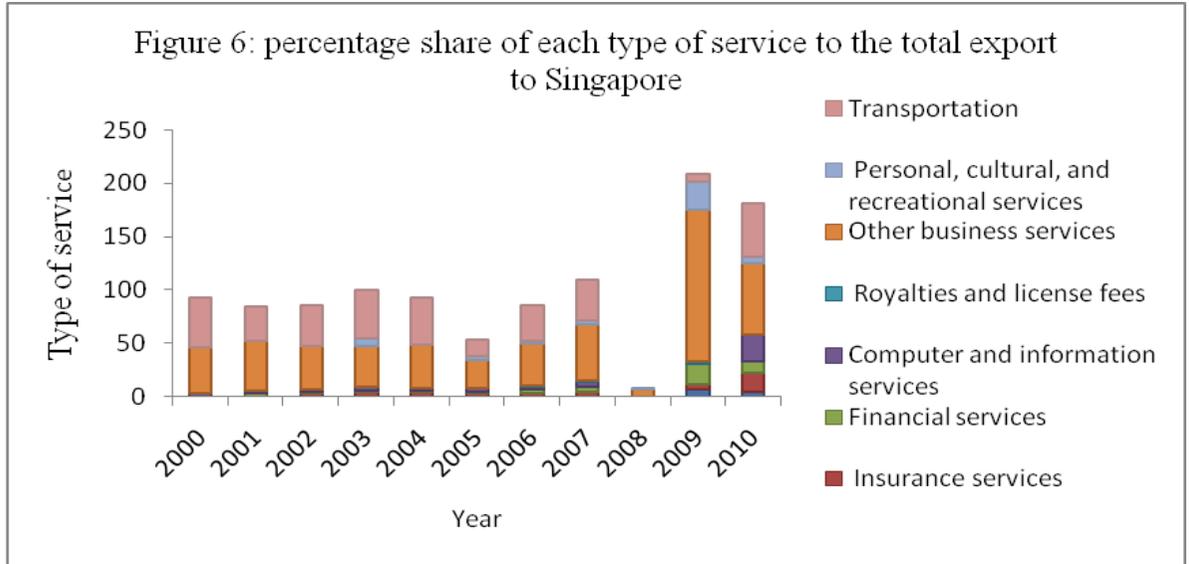
And thus figure 4 is also explaining the same fact that Singapore is the largest trade partner of India in terms of services. The blue and red bars represent the total volume of service trade in 2005 and 2009 respectively. The rest of the ASEAN member countries are also showing an increasing trend in terms of total volume of service trade except Indonesia. Thus from table 2 and figure 4 it can be concluded that out of the Eight ASEAN members the share of Singapore in total service trade of India is highest. The huge volume of service traded between India and Singapore creates further interested to see the nature and trend of service trade between these two countries. For this first I have calculated the volume of export and import of service trade between India and Singapore from 2000 to 2010. This is shown in the figure given below.



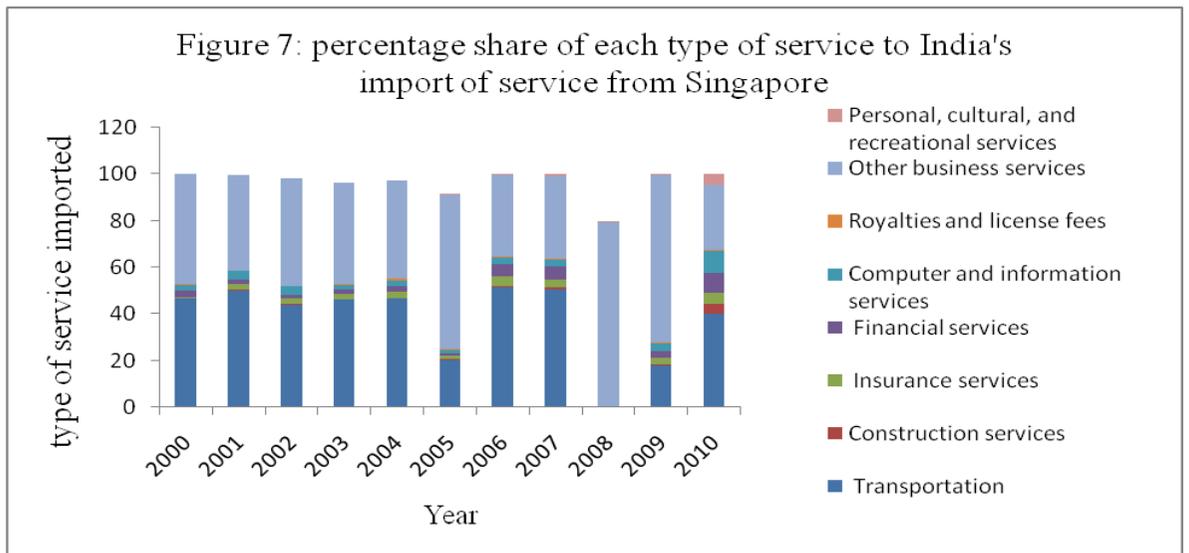
Source: World Bank

Figure 5 shows that the service trade between India and Singapore is increasing very rapidly. However such increase is fueled by import than export, although the volume of

Export is also showing an increasing trend. Now the question is which type of service is mostly imported or exported compared to other. In other words, the relative importance of each type of service in India’s trade with Singapore is calculated and shown figure 6 and figure 7 given below.



Source: World Bank



Source: World Bank

Figure 6 and figure 7 present the scenario of export and import shares of eight major categories of services between India and Singapore during 2000 to 2010. These categories are transportation<sup>i</sup>, Personal, cultural and recreational services, royalties and license fees, computer and information services, financial services, insurance services, construction

services and other business services<sup>ii</sup>. From figure 6, out of all the categories of service traded, the category which is having the highest share in total export to Singapore is “other business services” followed by “transportation services”. Rest categories are showing a very minimum share. Import from Singapore is explained in figure 7. And here the category showing the maximum share to total import of services from Singapore is “transportation services” followed by other business services. And here also other categories of services are having a very low share in total imports. Thus in short we can say that transportation and other business services are having the largest share in total trade in services between India and Singapore.

**5. Concluding remarks:** This paper examines recent trends and nature of service trade of India and India’s trade in service with the ASEAN member countries. On the basis of the results, it is seen that the importance of India’s service trade is increasing over last three decades as compared to goods trade. In service trade, the country is having surplus trade. But its contribution to India’s GDP is still very low. So far as India’s service trade with ASEAN members is concerned it is also showing an increasing trend.

India has lots of potentiality in service sector and if it is utilized properly for trade then it will definitely help economic growth. Service trade with ASEAN can be enhanced further if the North Eastern Region is given more facilities in terms of infrastructural development and other developmental support. Thus proper policies are required for better utilization of the services in which India is efficient for promotion of service trade like trade in goods. This will in turn contribute to the increase in GDP.

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<sup>i</sup> Transportation services: covering sea transport, Air transport, other transport, rail transport, road transport, Inland waterway transport, pipeline transport and electricity transmission and other supporting and auxiliary transport services

<sup>ii</sup> Other business services: comprising of trade-related services, operational leasing (rentals), and miscellaneous business, professional and technical services such as legal, accounting, management consulting, public relations services, advertising, market research and public opinion polling, research and development services, architectural, engineering, and other technical services, agricultural, mining and on-site processing

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