



Needed: A fresh look at the services sector

A post Covid-19 foreign trade policy must be cognisant of the evolving opportunities and challenges in services trade and must prepare domestic policies and capacity accordingly

Rupa Chanda & Pralok Gupta June 18, 2020 Last Updated at 22:52 IST



India's key economic indicators have seen sharp decline recently, reflecting a much larger than anticipated slowdown in the Indian economy last year. Projections for 2020-21 indicate between 5 and 10 per cent plus a contraction in GDP. The predominant focus, however, is on industry. Even the discussion on the pandemic's impact on trade has largely been around India's merchandise trade, which recorded around 60 per cent decline in April.

While this focus on industry is understandable given the latter's large multiplier effect on income, employment, and demand, the outlook for services too warrants attention. The services PMI for April and May stood at 5.4 and 12.6 respectively, the lowest in the world. The sharp drop reflects the immediate brunt

borne by many services such as aviation, tourism, and hospitality due to Covid-19.

Other services, such as logistics, distribution, and construction have been severely hit by the lockdown. With further contraction at home and abroad, other services — including IT, BPO, business support, and marketing — will be hit hard.

As services have been a growth driver and shock absorber for the Indian economy, these trends have serious implications for India's growth and macroeconomic stability. So, the lack of attention to services is disconcerting. A fresh look at the service sector is needed given its growing importance in the economy and India's recognised strengths in certain services.

One needs to ask, are there opportunities emerging from this pandemic where India can leverage its existing strengths in services? Are there modalities and segments where India can position itself, given the changes in market conditions, behaviour, and shifts in geopolitical equations? Is there scope under the Atmanirbhar Bharat scheme to give a fillip to the service sector?

A close look at India's services strengths suggests that there are indeed opportunities which India is well positioned to realise, though not without associated challenges.

India can leverage the very structure of its services exports which are dominated by mode 1 (online supply of services). With increased demand for online delivery of services and online facilities, India can diversify and enhance its services exports through mode 1, building upon its global standing in IT-BPO services. Post-Covid, there will be more appetite for digital delivery of services following increased travel restrictions and reduced demand for proximity in services delivery. The reduced need for overseas commercial presence or cross-border

movement of service providers in turn could benefit the micro, small and medium enterprises or MSMEs and startups, by lowering costs and regulatory compliance burden.

There will, however, be challenges. On the technology front, artificial intelligence and machine learning could reduce the need for outsourcing. To confront this challenge successfully, Indian firms would need to provide specialised and customised services and also leverage these technologies to tap opportunities in new areas such as space research and analytics.

Another challenge will be data protection regulation. India's data privacy laws are not considered adequate by many countries. To capitalise on growing mode 1 opportunities, India may need to align its data privacy laws with the EU's GDPR which is considered a benchmark by many countries. The existing Personal Data Protection Bill will need to be made into an Act at the earliest, incorporating required changes.

A second area where India is well placed to tap post-Covid opportunities in services is healthcare, particularly in clinical trials research and testing, diagnostics, and health related data analytics. Covid-19 has highlighted the importance of collaborative research and cross-border engagement in R&D and clinical trials. India can leverage its existing strengths in the pharmaceutical industry and its scientific and technical manpower.

Health services will also witness increased overseas demand for doctors, nurses and paramedical staff, as countries focus their attention on health sector preparedness and capacity. The US and the UK have already announced the easing of visa norms for overseas doctors. This will increase opportunities for mode 4 (temporary movement of service providers)-based services exports from India.

India could benefit from these opportunities, provided it can also address its domestic needs by augmenting health resource quality and capacity. This will require bilateral government-to-government and institutional arrangements to facilitate the mobility of such workers without undermining domestic capacity.

There are also potential opportunities for India to attract more investments (mode 3 imports) in services, given the changing geopolitical climate and possible relocation of companies from China. If India can improve its business climate and ensure regulatory transparency and predictability, it could attract FDI across a wide range of infrastructural and business services, with associated gains in standards, technology and growth. Indian companies may also benefit from growing opportunities for mode 3 exports of IT, BPO, health and other services, as other countries seek to attract services FDI amidst a global recession.

These are but a few examples where India is well positioned to seize emerging opportunities in services. A detailed examination of individual services in light of the fast-changing global environment and domestic initiatives such as the Champion Services and Start-up India schemes, along with increased attention to issues of quality and standards, can help in realising these opportunities. Trade negotiations can be focused on niche services such as health care solutions, R&D and business services where such opportunities exist.

It is worth noting that the Atmanirbhar package does not offer much for the services sector.

Innovative and forward-looking thinking is needed to align this package and other such government programmes with the needs of the service sector. For instance, particular attention can be paid to start-ups that provide services and technical solutions and are facing a survival threat due to financing constraints. The financing mechanisms proposed under the Atmanirbhar scheme can be used to strengthen such startups and services MSMEs.

In sum, a post Covid-19 foreign trade policy must be cognisant of these evolving opportunities and challenges in services trade and must prepare domestic policies and capacity accordingly.

Chanda is RBI chair professor of Economics, IIM Bangalore; Gupta is associate professor, Centre for WTO Studies, IIFT, New Delhi

Views are personal