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SNAPSHOT: India's Trade in Services

Snapshot: India's Trade in Services

Services play an increasingly central role in the Indian economy, contributing around 53% to GDP and 28% to employment. Services account for roughly one-fourth of India's total trade, 35% towards total exports and 20% to imports. Within this, the IT sector is a significant contributor to India's services exports. The sector itself is estimated to have grown 8.6% in 2016-17, as per NASSCOM.

According to India's central bank, service exports in FY 2016-17 grew at 4% to \$160bn from a contraction of 3% in the previous fiscal year. Service imports increased 11% to \$95bn from \$85.7bn in the respective period. While India has a trade surplus in services (roughly \$65.2bn in FY17), services exports to GDP percentage has been falling since 2013-14. Services exports as a percentage of GDP in 2016-17 (7.2%) was the lowest since 2009-10.

The Indian government has a long-term policy objective to increase the overall trade to \$900bn by FY2020 in order to boost the country's share of world exports from 2% to 3.5%.

Currently, India's total exports in 2016-17 stand at about \$435bn including merchandise exports worth \$275bn and \$160bn service exports. The Federation of Indian Export Organisations estimates that India has achieved 4.3% current growth and may require 28% compounded growth in total exports till 2020. The government is expected to release the mid-term review of Foreign Trade Policy (2015-2020) in September; where it is expected to also factor in implications of GST rollout on exporters.

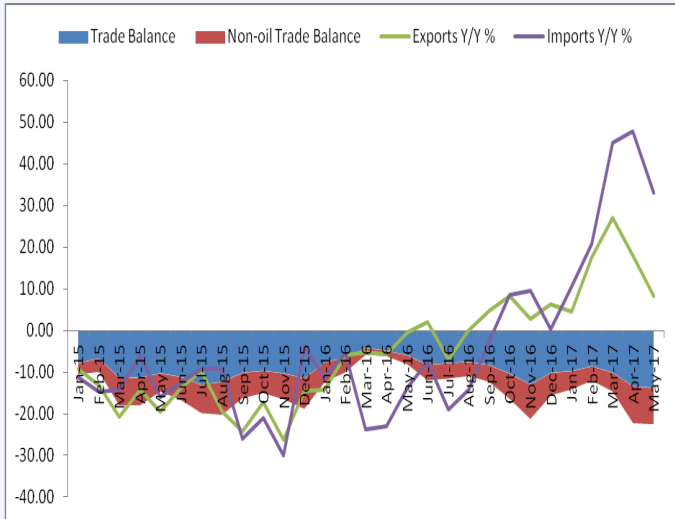
1. Regional Comprehensive Economic Partnership (RCEP) trade ministers met on 21-22 May to take stock of progress. RCEP is a proposed free trade agreement between ASEAN, Australia, China, India, Japan, South Korea and New Zealand. Members aim to conclude negotiations by end of 2017.

On goods, India has reportedly offered tariff elimination on 80% of traded goods. According to reports, It had previously suggested a staggered tariff reduction. During the meeting, India's Commerce Minister Nirmala Sitharaman reportedly pitched for an RCEP business card – a similar concept to the Asia Pacific Economic Cooperation (APEC) business travel card which facilitates business travellers with short term multiple entries. The 19th negotiating round is scheduled for 18-28 July in Hyderabad, India.

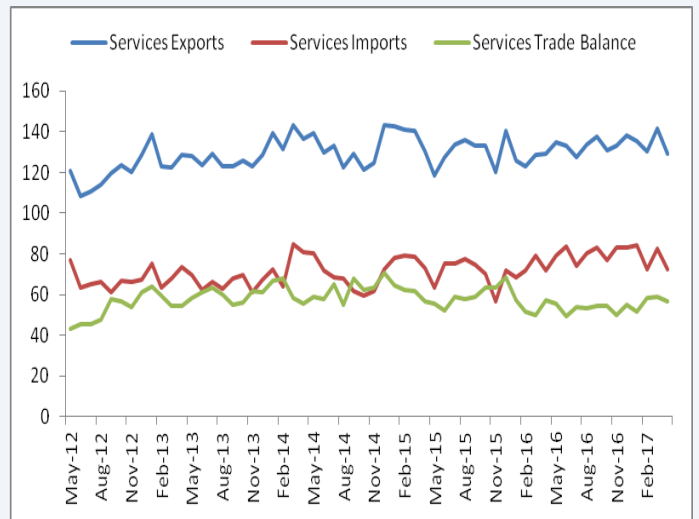
2. India-China trade grew by 6% to \$26bn from January to April this year, after two years of decline. This was buoyed by Indian exports to China, which rose by a sharp 20% to \$5.6bn during this period. This was mainly due to 43% increase in Indian iron ore exports. Iron and steel exports also registered a three-fold increase to \$215m in the same period. India's trade deficit with China in the first four months of this year amounted to \$14.8bn in favour of China. The trade deficit was around \$52bn out of total bilateral trade of \$70 billion in the FY 2016-17.

3. India's merchandise trade deficit hit a 30-month high, as the continued recovery in gold and oil imports offset the increase in exports. The trade deficit in May 2017 increased by 130% to \$13.8bn compared to \$6bn in May 2016. Imports in May rose 33% to \$38bn compared to \$28.3bn in the corresponding period in the previous year. This was largely on account of increased gold and crude oil imports. Gold imports in May 2017 doubled to nearly \$5bn from a year ago - continuing the uptick registered since January this year. In addition, the value of oil imports increased 30% to \$7.3 billion, mainly due to a 25.4% (y/y) increase in the global prices of Brent crude in May. Other sectors that recorded a strong growth in imports include electronic goods and gems & jewellery. Meanwhile, exports continue to rise growing by 8.3% to \$24bn in May. The increased oil prices ensured higher returns on oil exports which rose by 25%. Other sectors that showed export growth include chemicals, engineering goods and gems & jewellery – these sectors' exports have also been increasing since January 2017.

India's Trade Performance (Figures in \$ billion)



Merchandise trade



Services trade

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