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Examining the Trade-Employment Linkage in the Services Sector for India

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The services sector has emerged as the largest and fastest-growing segment of most economies, contributing a growing share to GDP, trade and employment, and becoming a major driving force of the world economy. The liberalization of trade and technological progress has led to fragmentation of the production processes (associated with increase in outsourcing and offshoring) and emergence of global value chains. Global trade is increasingly dominated by trade in intermediary goods which accounts for about one-third of worlds total trade. The share of services in intermediate goods and services trade has increased between 1995 and 2009 from 24 percent to 28 percent (Baldwin and Lopez-Gonzalez, 2013). This is popularly known as "servicification" of manufacturing.

In the current global scenario where 'jobless growth' is prevalent, the services sector can play an important role in creating employment through trade. A competitive services sector is an important determinant of growth and there is increasing evidence that liberalization of services can be a major potential source of gain for a country's economic performance, including productivity in manufacturing sector (Francois and Hoekman, 2010). According to Hoekman (2006) services content of goods has been increasing as the production chain of any product is using more and more of services activities (R&D, finance, design, marketing, distribution). Therefore, services can be an engine for export growth and source of competitiveness, not only for trade in services but also for trade in goods. The creation of employment, value-added and income is increasingly related to the good performance of the services sector in an economy.

Objective and Rationale of the Study

Given this, the objective of this study is to examine the link between employment and trade in services for India.

India's economic growth since the 1990s has largely been on account of expansion of the services sector. As India's Economic Survey 2013-14 notes, "India has the second fastest growing services sector with CAGR (compound annual growth rate) at 9 percent, just below China's 10.9 per cent, during the last 11-year period from 2001 to 2012." This trend has continued. Between 2011-12 and 2016-17, gross value added from services grew at 8.7 percent

per annum and accounted for 58% of the increase in total GVA. This growth in services sector has been accompanied by a significant increase in the exports of services. In fact, India's share of services in total exports (about 38 percent) is much higher than other developing countries such as China, Mexico and Brazil. The growth in services exports has raised the country's share in world services exports from 0.6 percent in 1990 to around 3.5 percent in 2017. Of course in today's globalized world, measuring the extent of trade in services is difficult and hence official trade figures may underestimate its true share in world trade.

In recent years, the services sector has proven to be a major economic activity and source of employment for the Indian economy. As per ILO estimates, in 2018 the services sector accounted for around 30 percent of the total employment in India. There are several factors that are contributing to the increasing share of services in employment in India- increase in final consumer demand for services resulting from a rise in per capita income; technological changes that increase demand for labour in services; outsourcing of services-related activities from manufacturing to specialised services firms; growing role of services as providers of intermediate inputs; demographic developments; and low productivity growth in services sector. To complement these factors is the prevalent phenomenon of 'jobless growth' in India. Given this background, it is important to examine the link between trade and employment in the services sector for India.

Methodology

First, the link between India's comparative advantage in services trade vis-à-vis their factor endowments as envisaged by the Heckscher- Ohlin theorem (according to which countries export products in which they have factor-endowment comparative advantage) would be examined. For this analysis, the factor endowments figures would be taken from UNCTAD Trade Analysis Branch database. Sector-wise comparative advantage would be calculated based on Balassa (1965). Since neither factor endowments nor RCA in services trade would reveal much about the factor intensity of the sector in capital and human capital, the results would be compared with a benchmark case (merchandise trade). This analysis would give us a basic understanding regarding the comparative advantage of services sub-sectors and their share in total trade and total employment.

Second, we conduct an empirical analysis to study the empirical link between trade in value-added (particularly trade in services) and employment. The fact that trade is increasingly being dominated by trade of intermediate goods and services is associated with a related measurement issue. Conventional official trade statistics which measure value of products crossing national borders often tend to overestimate the domestic contribution of national economies to world exports due to a double-counting problem. The double-counting arises when imported foreign intermediate inputs used in domestic production are recorded as domestic exports when products are exported abroad; conventional trade figures could not separate domestic value-added from foreign imported content of domestic exports. Therefore, gross values of exported goods and

services in the current state of world economy do not necessarily represent the value addition of that country as a significant amount of imported inputs from abroad may have been used. It is in this respect that we use trade in value-added statistics from the WTO-OECD database for the years 2009, 2011, 2013 and 2015. Employment statistics for corresponding years would be used from WIOD database. The correlation between employment and exports would be estimated using a robust estimation equation. The equations for both gross exports and value-added exports would be estimated.

Policy Relevance

The analysis would be undertaken separately for the manufacturing and services sector. The findings emanating from understanding the services trade-employment nexus would be useful in addressing the key trade, development and employment challenge that India is facing under the 21st century new trading environment.