Restructuring the Indian Economy

What is the issue?

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While the IT sector aided the phenomenal growth of the past decade, cultivating new segments is needed currently to generate more jobs and returns.

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What is the significance of IT sector?

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- India's services sector has proven to be more resilient than the goods sector both on export earnings and contribution to the Gross Value Added.
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- Of this, IT alone contributes for about 75% of India's exports earnings in services, and employs nearly 12 million.
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- With the IT sector reaching maturity, and increasing protectionism in major markets like US, even retaining the current market share is a challenge.
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- Handling this challenge demands economic restructuring and two parameters developed by "Organization of Economic Cooperation and Development" (OECD) to identify new potential sectors could aid this process.
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What is the first tool?

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- The first tool rates significant services sectors on 3 vital parameters namely –\n\n
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  1. Share of domestic employment embodied in foreign demand
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  2. Percentage of value added per person employed.

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3. The nature of employment.

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- Consequently, based on their ratings, two significant categories were identified in India. These are:

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- **R&D and allied businesses -** These have the highest component of domestic employment embodied in the final foreign demand.

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- Hence jobs in this sector would expand jobs for the top skill labour force and impact the expansion of the production frontier.

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- **Local Services -** Services such as real estate, renting, transport and storage, posts and telecommunication, wholesale and retail trade, and repairs.

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- These have a good domestic employment component and the potential to employ an expanding workforce of semi-skilled or unskilled labourers.

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What is the second tool?

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- This is an evidence-based "Services Trade Restrictiveness Indices" (STRI), which identifies services trade restrictions across significant services sectors in five areas namely:\n\n

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1. Restrictions on foreign entry

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2. Restrictions on movement of people

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3. Barriers to competition

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4. Regulatory transparency

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5. Other discriminatory measures

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- While a high STRI score indicates more restrictions, in India's case, scores are high for legal, commercial banking and insurance services.

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- STRI is also high for professional services where the requirements for obtaining a license and practice are challenging.
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- It is hence nearly impossible for a foreign supplier to satisfy the conditions for services such as legal and auditing services.
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What is the way forward?

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- Simplifying domestic regulation across sectors is necessary to reduce STRI.
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- Additionally, reforms in the communications and distribution sectors are needed to drive manufacturing and subsequent exports.
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- India is pushing for greater market access in services through its FTA engagements which would help in expanding the market for its services.
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- Also, India’s push for the establishment of the global standards on services trade at the WTO is a significant one.
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- If adopted, this will make the visa regimes of developed countries more transparent and open for skilled professionals.
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Sources: Business Line

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