

India's Service Sector: New Areas for Future Cooperation

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I. Introduction

Given the growing significance of the Indo-Pacific region, the strategic importance of India is on the rise. With its considerable population and economic potential, India offers many opportunities for cooperation in various sectors.

There are various reasons for Korea to cooperate with India. Overseas economy is an important source for Korean economy and national income. Considering the recent changes of global environment, however, it is necessary for Korea to secure more diversified mid and long-term partner country. India's nominal GDP in 2022 is more than 3 trillion USD, the world's 6th largest, and is approximately 1.8 times larger than Korea's nominal GDP of USD 1.6 trillion, which ranks 13th. India's economy is expected to grow even faster due to its large territory and young and affluent population. Therefore, cooperation with India in various sectors is essential to secure a market base for Korean products.

However, past cooperation between Korea and India has focused on the manufacturing sector. Korean global companies in some industries, such as electronics and automobiles, are making serious inroads into the Indian market. In order to consolidate economic ties between Korea and India and to access the growing Indian market, cooperation in various industries, including services, is necessary. In this article, we will explore key aspects of India's service industry.

II. India's Service Sector

The service sector plays a significant role in India's domestic production, and it is a crucial driver of the Indian economy despite the Modi government's emphasis on fostering manufacturing industry. While the IT sector has conventionally been important, recent trends show substantial growth in software, internet services, and e-commerce within India's service industry. Comprehensive quantitative and

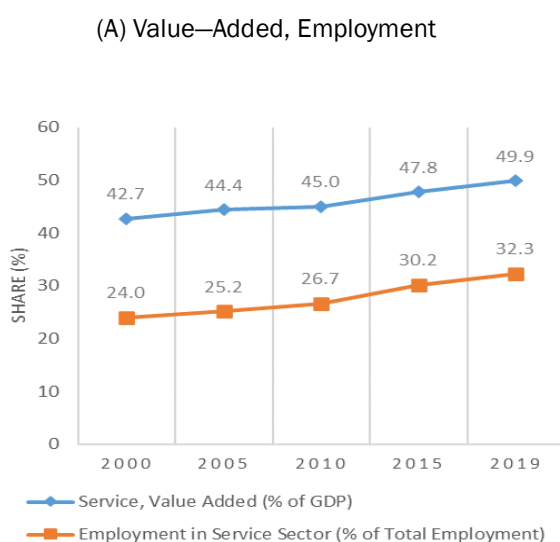
qualitative data on India's service industry reveals a diverse range of sectors experiencing growth beyond IT and software. The data also shows that India's service companies have higher productivity, accompanied by an increase in the proportion of skilled labor than in previous years. This underscores the ongoing structural shifts in India's service sector.

The growth of India's service industry can be attributed to several factors, primarily driven by the Indian government's strategic policies. These policies focus on cultivating technology-centric human resources and implementing economic reforms that promote private sector involvement and deregulation. Since gaining independence in 1947, the Indian government has consistently implemented supportive measures to foster a technically skilled

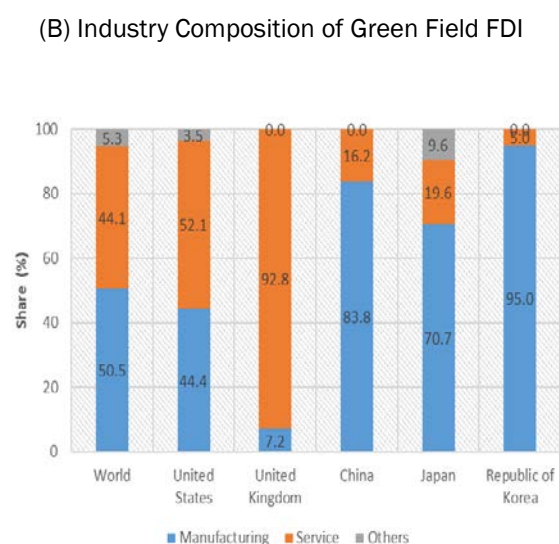
workforce. Notably, in 1991, India embarked on economic reforms, moving towards a market-oriented economy and liberalizing the service trade and investment sector. Subsequently, the government gradually widened the scope of permissible foreign direct investment, currently allowing 100% foreign direct investment in most industries.

These policy initiatives led to a surge in international demand in the early 1990s, as India's abundant and skilled IT workforce became increasingly attractive. Today, the Indian government actively promotes various sectors, including telecommunications, IT, software, finance, and education, contributing to the expansion of diverse service sectors in the country.

Figure 1. India's Service Sector (A) Value-Added, Employment, and (B) Industry Composition of Green Field FDI by Source



Source: World Bank WDI.



Source: FDI Markets

Overall, the India's service industry is considered to be a core industry of the Indian economy, and it is confirmed that the demand for services in India is growing, and the overall skill level of labor in the service industry is also improving.

However, the level of connectivity between the Korean service industry and the Indian market is perceived to be comparatively low compared to other major countries. The main hubs for external cooperation in the India's service sector are the United States, some European countries like the United Kingdom and Germany, as well as China and Japan. For instance, the United States has initiated collaborative efforts to streamline visa procedures for Indian workers, aiming to attract skilled Indian technical professionals to the country.

Japan is also engaged in cooperative endeavors to enhance the utilization of India's workforce and facilitate the entry of Japanese companies into the Indian market. Through a digital partnership with India, Japan is broadening its cooperation to facilitate digital transformation between the two countries and is actively promoting the employment of Indian IT professionals within Japan. Furthermore, Japan is intensifying its engagement in financial technology exchange and infrastructure cooperation through the Japan-India financial dialogue, while concurrently reinforcing industrial complexes in India. For instance, Japan's Neemrana Industrial Complex accommodates a diverse range of service companies including logistics, healthcare, telecommunications,

postal services, finance, insurance, and wholesale and retail operations, in addition to manufacturing enterprises.

III. Korea-India Cooperation in Service Sector

Amidst the ongoing structural shifts in India's service industry, it is evident that Korea's integration into India's service sector is lagging behind those of other countries.

This discrepancy is attributed to a lack of communication channel regarding India's current market conditions, potential, challenges, and firm-level experiences to Korean public and private enterprises. This lack of information channel contributes to the current perceptions between the two countries, resulting in limited levels of economic, diplomatic, and cultural engagement in both the public and private sectors.

KIEPS's recent firm-level surveys and interviews find that Korean firms faces problems with labor supply, complicated establishment procedures, and low awareness of Korean companies and brands in the local Indian market.

In the past, cooperation between Korea and India has mainly focused on the manufacturing sector, especially electronics and automobiles, to expand their presence in the Indian market. However, in order to enhance Korea-India relations, it is crucial to expand cooperation to various industries, including the service sector. Strengthening cooperation in these

areas will be pivotal to advancing the bilateral relationship to a more comprehensive level. Therefore, in order to expand Korea-India service industry cooperation, policy support is needed.

IV. Policy Implications

To foster cooperation in the Korea-India service industry, this article highlights several key points.

First, it is imperative to strengthen economic and diplomatic relations between Korea and India at the governmental level, along with bilateral agreements, trade negotiations, and initiatives to enhance mutual trust and cooperation. Recently, cooperation with India between major countries such as the United States, Germany, and Japan is taking place in the form of regular exchanges between the governments, which has led to active cooperation in the private sector. Therefore, in order to consolidate Korea's cooperation with India and restore India's perception that Korea is an important economic and diplomatic partner, efforts must be made not only at the private level but also at the government level. Establishing a regular dialogue between Korea and India can be a suitable action plan for this purpose.

Second, it is crucial to provide support to Korean private companies operating in India. Although policies and legal regulations in India related to investment and business in the ser-

vice industry are evolving, there are still problems that the private sector cannot solve. In particular, state government policies and regulations have a high influence on business and investment in India, but state government policies are volatile. So, in order to provide practical assistance on these issues, it is necessary to establish a governmental group for firm-level support at both countries.

Third, it is important to strengthen the network between Korean service companies and manufacturing companies in India. Many of the domestic companies operating in India make their business by providing services to Korean manufacturing companies. To encourage Korean service companies to enter the Indian market, strategic guidance and support is needed to strengthen the linkage between service companies and manufacturing companies. Promoting and establishing a manufacturing-service industrial complex for Korean companies in India can be a good policy direction.

Fourth, it is important to facilitate the exchange of human resources between Korea and India. Encouraging domestic companies to employ more Indian service workers can foster cultural understanding and help build stronger ties between the two nations.

By addressing these key policy issues, Korea and India can work together toward more robust and diversified cooperation in the service sector. **KIEP**