

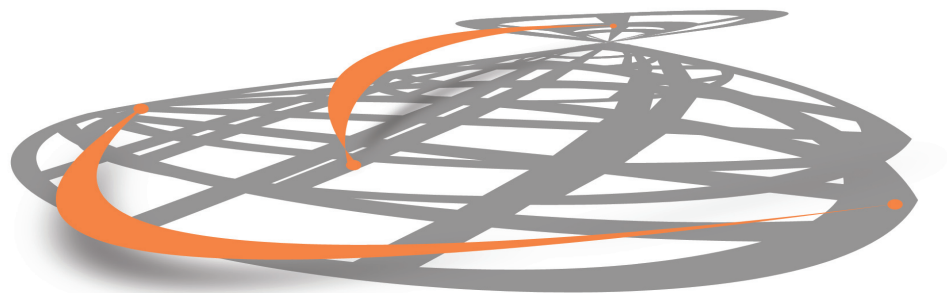
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**Services Trade and IT-enabled Services:
A Case Study of India**

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Service Trade and IT-enabled Services: A Case Study of India

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[Abstract] Services trade has assumed considerable significance for the Indian economy. The role of IT and IT-enabled services (ITES) is particularly worth mentioning in this context. The growth of this sector has not only helped to improve the current account balance of India, but also generated income and employment. This paper analyses data on services trade provided by IMF for different countries across the globe and examines India's position in relation to other countries. In particular, the paper compares India's exports of IT and ITES (clubbed together in IMF classification under other business and computer services categories) vis-à-vis some of its competitors in this field as far as international trade is concerned. The paper then looks at the trade in IT-enabled outsourcing services from India and examines the strengths and weaknesses of India as an outsourcing location.

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1. Introduction

Services sector has shown enormous potential as a growth driver for some developing countries. With the development of information technology (IT), trade in services was born again in an entirely new form. The traditional definition of services as something non-storable, non-tradable and intangible appears to be too limited today. With the development of IT enabled services (ITES), service goods, which were traditionally thought to be non-tradable, have increasingly been taking up a sizable share of the international trade. When one talks about trade in the ITES sector for the emerging economies, India assumes particular importance. As has been well recognized, India is becoming a popular destination for outsourcing (BPO) work for the developed nations and such works fall under the ITES segment of the economy. What is the trend for India in terms of exports and imports in this segment? What made India a desired destination? This paper considers some of these important questions by looking at the data on services trade across regions and shows the growing importance of trade in IT and ITES-BPO¹ services for the developing nations. It then compares India with few other similarly placed nations. The paper then goes into the strengths of India in this sector on the basis of the findings through a primary survey.

Such an exercise assumes importance as it has been well recognized in the literature that there is a dearth of hard data on the global outsourcing market. Though several estimates based on primary surveys done by some global market research agencies are available, they differ considerably from one another and from year to year. In this respect the Balance of Payments Statistics (BoP) yearbook published by the International Monetary Fund (IMF) can be considered an authentic source, which is also comparable across countries. Notwithstanding the problems of isolating the IT and off-shoring services from BoP data, we have made an attempt to bring out some of these statistics provided by IMF.

¹ Business process outsourcing.

Examining the volume of *total* services trade from developed nations the paper highlights that the developed nations are the net beneficiaries of trade in services. Concentrating on the world trade in the three main sub-sectors within the services sector, we observe that in the recent years the share of both exports and imports of *other services in total services* (a category within which outsourcing services are included) shows not only an increasing trend but also that it is the largest component in total trade in services. If we examine trade in *other business plus computer and information services* for the OECD countries, we observe that more than 80% of trade in other business services are confined within the OECD countries only (in the year 1990). India's export share of these services was only about 2% and China's share was around 1%. Subsequently, after 1990, the export share changes considerably for India as it raises its share to 6% in the global market in 2002. Further, comparing India with some of the competing countries in the BPO segment we observe that India's share has been consistently increasing since 1996 and now it is comparable with Singapore and the Netherlands (in other business services).

Business process outsourcing (BPO) activities, which are a part of IT-enabled services, fall under other business services as per IMF classifications. Before going for any further discussions on trade in this segment it is necessary to define the terms precisely. BPO generally refers to the operation of letting out the task of performing certain functions of an enterprise to another enterprise, often a third party and, in some cases, a subsidiary of its own. These functions are usually non-strategic and non-core in nature though they can be very critical for a business enterprise (see Williamson , 1967 for a discussion on problems of vertical integration).

Such cross-border IT-based services, are functions that are provided from one location to another over telecommunication or data networks (through wireline or wireless devices) and are either externally contracted (*third party outsourcing*) or provided by a remote subsidiary of the same company (*captive BPO*). In BPO literature three terminologies are used as below, depending upon the distance of outsourced location from the parent company.

On-shore BPO: When an enterprise outsources its activities to another company located in the same country.

Near-shore BPO: When activities are outsourced to a neighbouring country.

Off-shore BPO: When business processes are outsourced to a remote or far off country.

India has a number of positives to operate successfully as an off-shore location². India being one of the world's most populous countries naturally has a large pool of human resources. Government's continued investment in higher education since Independence in terms of establishment of educational institutes as well as subsidization of education have produced a pool of knowledge-workers capable of performing skilled and specialized tasks (see Rajeev and Vani(forthcoming)). Already having a strong IT sector helped further to develop India's IT-enabled services sector. In addition, due to the rupee dollar exchange rate, Indian labour turned out to be considerably less expensive for the US business enterprises. However, the Indian market is also not free from various shortcomings and there are other competitors in the sector as well. China is an upcoming competitor which, India considers as a threat in the near future³. In addition to looking at the trade in services in general and IT and ITES services in particular we devote attention to India's strengths and weaknesses for catering to the global outsourcing market to understand its trade prospects for future.

In this background the paper is organized as follows. The next section discusses the global scenario in trade in services wherein major sub-sectors within the services sector are considered. Within the service sector trade, trends in computer, information and other business services are taken up separately in Section 3. India's position as an ITES exporter, its strengths and weaknesses as well as future prospects have been analysed in the penultimate section. This part is based on a field survey conducted for the study of the ITES/BPO sector. Concluding section follows thereafter.

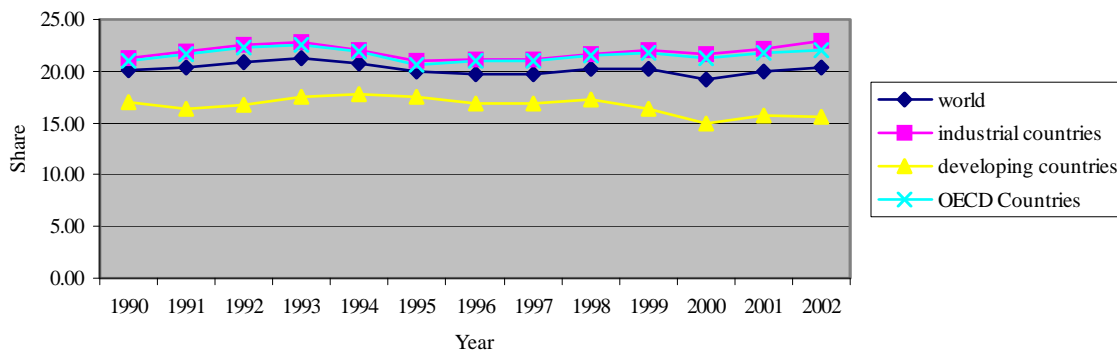
² For backlash issues see Bhagawati et al (2004) and Bradford et al (2004), Flemming (2004).

³ For Indian IT and ITES sector see also various NASSCOM reports and NASSCOM-Mckinsey report.

2. Trade in Services: The Aggregate Scenario⁴

Though service sector has been playing increasingly important role in some of the emerging economies, its overall share in the global economy wide trade has not changed much (see also Chanda 2002). Examining from IMF data the share of services exports as a percentage of total export of goods and services for the world as a whole, we observe more or less a stable share from 1990 till 2002 (Fig.1). On an average the share of services in world exports has remained at around 20%. While a marginal increase was observed till 1993, shares showed a decline up to 2000, only to rise again in the subsequent years. It is important to note that the share of the developing countries services in export of total services is much lower than the OECD countries as the former is on an average about 16% while the latter is around 21%.

Fig 1 Share of services export to total exports of goods and services

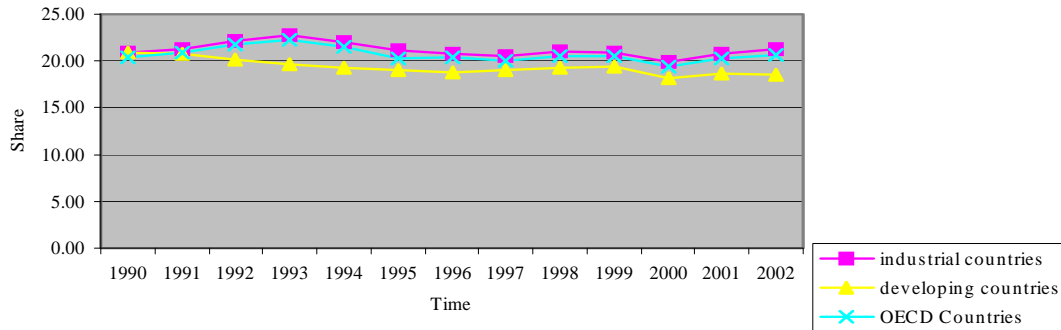


Source: Compiled from Balance of Payments Statistics Yearbook, IMF, Different Issues.

Focusing next on the imports (Fig. 2), we observe that the industrial countries appear to have a higher share of exports than imports. As expected the developing countries show an opposite trend. However, the import share of developing countries show a declining trend, whereas, the share of the industrial countries is more or less constant over the period under consideration.

⁴ See also Rajeev and Vani, forthcoming papers.

Fig. 2 Share of services imports to total imports of goods and services



Source: Compiled from Balance of Payments Statistics Yearbook, IMF, Different Issues.

Comparing the share of exports vs imports in the total trade in goods and services for the OECD countries as a group we observe that the share of services exports across different years exceeds the corresponding share of imports.

On the contrary, the developing countries as a group turn out to be net importers of services, thereby making the developed countries net beneficiaries of global trade in services (Table 1).

Table 1 Share of services in total trade (imports and exports separately): Developing countries

Year	Export	Import
1990	17.00	20.90
1991	16.30	20.74
1992	16.74	20.13
1993	17.58	19.70
1994	17.72	19.30
1995	17.58	18.98
1996	16.85	18.84
1997	16.86	19.01
1998	17.31	19.22
1999	16.38	19.36
2000	14.97	18.13
2001	15.66	18.64
2002	15.60	18.52

Source: Compiled from the Balance of Payments Statistics Year Book, Different Issues, IMF.

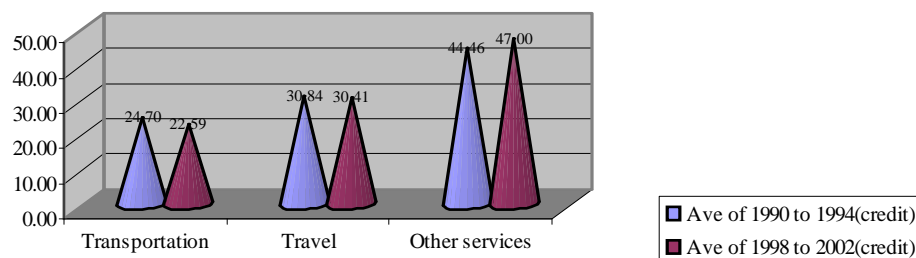
Services sector naturally is not one homogeneous entity ; there are important sub-sectors within it.

2.1 Sub-sectors within the Services Sector

IMF classification broadly divides services into three major categories viz., transport, travel and other services. Within each of these major heads there are several sub-heads.

Concentrating first on the world trade in these three main sub-sectors, we observe that in recent years, more precisely from 1990 to 2002, the share of both exports and imports of **other services in total services** (within which outsourcing services are clubbed) shows not only an increasing trend but also that it is the largest component in total trade in services (Fig. 3 and Table 2). While the share of trade in transportation services has been declining over the years, trades in travel related services show a slight increase.

Fig. 3 Share of exports under different sub-sector heads to total trade in services: world



Source: Compiled from the Balance of Payments Statistics Year Book, Different Issues and IMF.

For the industrialized countries too we observe a similar scenario. While their share of both imports and exports for transportation and travel services have decreased marginally the same has increased for the other services. It is also interesting to note that with re-

spect to even *other services*, industrialized or OECD countries as a group is a net exporter.

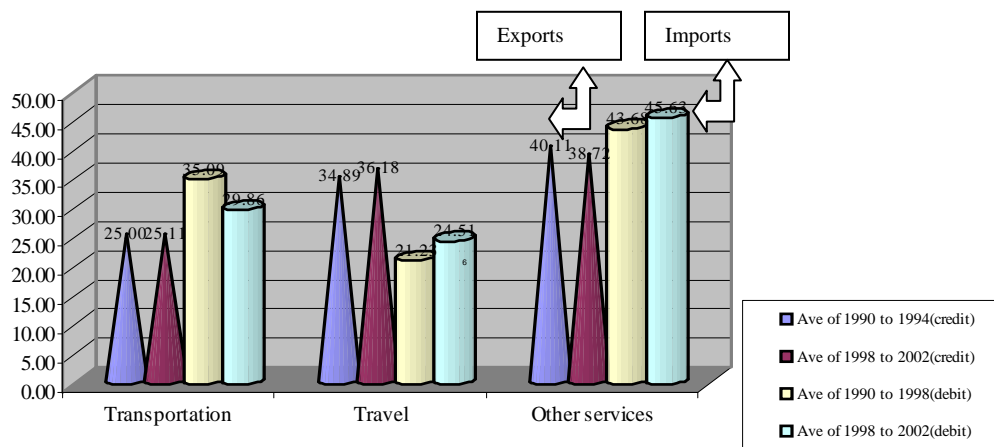
Table 2 Share of different sub-sectors in total services sector trade: OECD countries

Year	Export			Import		
	Transportation	Travel	Other services	Transportation	Travel	Other services
1990	24.74	31.28	43.97	28.02	31.91	40.06
1991	25.26	29.73	45.02	28.21	30.77	41.02
1992	24.00	30.33	45.67	27.20	31.92	40.88
1993	24.13	30.35	45.52	27.30	30.95	41.75
1994	24.15	30.05	45.80	27.67	30.99	41.34
1995	23.78	30.91	45.31	26.60	32.15	41.25
1996	22.85	30.75	46.40	25.32	31.80	42.88
1997	22.78	29.87	47.35	25.25	30.95	43.81
1998	22.05	29.59	48.35	24.47	30.23	45.30
1999	21.92	29.52	48.56	24.12	30.33	45.55
2000	22.07	29.12	48.81	25.18	29.60	45.22
2001	21.71	28.18	50.11	24.05	28.40	47.55
2002	21.36	27.71	50.93	23.57	28.46	47.97

Source: Compiled from the Balance of Payments Statistics Year Book, Different Issues, IMF.

Interestingly, the developing countries as a group is a net exporter of the travel related services and net importer of other services (Fig. 4). Here the cones represent exports and the cylinders represent imports. Further, the ‘other services’ sector occupies the most prominent place in terms of both exports and imports for all the three categories viz., world trade, trade of the OECD and developing countries.

Fig. 4 Share of imports and exports under different sub sector heads to total trade in services: developing countries



Source: Compiled from the Balance of Payments Statistics Year Book, Different Issues, and IMF.

After providing an overall scenario on services trade we move to the sector of our interest.

2.2.1 Trade Data on IT and IT- enabled Services

It is well recognized in the literature that there is a dearth of hard data on the global outsourcing market. Though several estimates based on primary surveys of the global players are available, they differ considerably from one another and from year to year (see box).

Global BPO Market Size

- Gartner/Data Quest estimate: \$ 544 bn in 2004
- IDC \$ 300 bn in 2004
- NASSCOM-McKinsey estimate of Indian BPO market in 2008 was \$17 bn which is revised now to 21-24 bn.
- Gartner estimates Indian market to be \$13.7 in 2007.

Source: Neo-IT, Knowledge base, www.bpoindia.org.

In this respect the Balance of Payments Statistics (BoP) yearbook published by the International Monetary Fund (IMF) can be considered an authentic source, which is also comparable across countries. There are problems of

isolating the off-shoring services from BoP data. However, we have made an attempt to bring out some of these statistics provided by IMF for estimation of trade in this sector. In order to get an estimate of the volume of outsourcing services we concentrate on the *other (private) services category (IMF)*. Within the other services category the sub-classes are:

- Communication
- Construction
- Insurance
- Financial
- Royalties and License fees
- Personal cultural and recreational
- Government, not included elsewhere
- Computer and information
- Other business services

According to the IMF manual⁵ the last category viz., ‘*other business services*’, includes management fees, professional, technical and consultancy services, legal services, market research agencies and R & D. Exports and Imports under this category and the ‘*computer and information services*’ category would together include a large part of off-shored services. According to Amiti and Wei (2004)⁶, “...in the balance of payments statistics, the IMF reports imports of services, which include categories that are most closely related to outsourcing –other business services and computing and information services. Other business services comprise accounting, management consulting, call centres and other back office operations; computing and information comprise hardware consultancy, software implementation and data processing”. Thus combined figures under these two categories give an indication of the size of the off-shore ITES market across the globe and reveal the comparative scenario across the BPO service supplier countries. Using this data we analyse India’s position vis-à-vis its competitors.

⁵ Balance of Payments Statistics, IMF, Part 2 and 3, Year Book 2003, pp 296,410,443

⁶ Amiti Mary and Shang Jin Wei (2004): Demystifying Outsourcing, Finance and Development, December, 2004.

3. Trends in Computer, Information and Other Business Services Trade

If we examine the *share of other business plus computer and information services* in the total imports of OECD countries under these two heads, we observe that more than 80% of trade in other business services are confined within the OECD countries only (in the year 1990). India's share was only about 2% and China's share was around 1%. The shares of some of the other competing country's shares are presented in the Table 3.

Table 3 Country-wise share of other business and computer and information services exports in OECD's imports of these services

Countries	1990	2002
Australia	1.22	0.76
Canada	6.09	3.41
China	0.73	3.40
India	1.57	5.73
Indonesia	0.21	0.00
Ireland	0.61	4.74
Malaysia	0.71	0.72
Mexico	0.32	0.08
Netherlands	7.25	6.62
Philippines	1.73	0.08
Singapore	4.59	4.01
Thailand	0.50	1.11

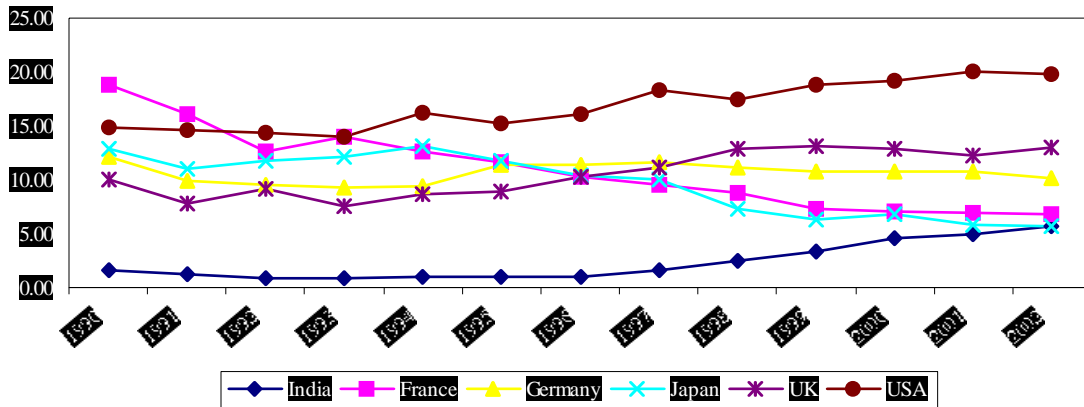
Source: Compiled from the Balance of Payments Statistics Year Book, IMF.

From Table 3 we observe that subsequently, after 1990, the export share changes considerably for India as it raises its share to 6% in the global market in 2002. Ireland and China's shares too increased to 5% and 3% respectively from about 1%. The share of the Philippines on the other hand has fallen and become almost negligible.

If we now compare India with the developed nations *over the years* we observe that though India began with a much lower share, of late India's share is comparable to Japan

and France. The United States in particular, has the highest share followed by UK (Fig. 5).

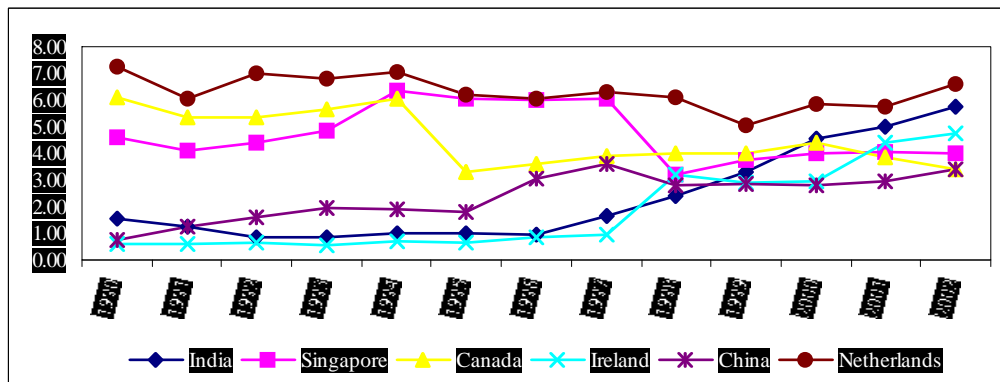
Fig 5 (Country-wise) Trends in share of other business plus computer and information services exports to the imports of OECD countries (of the same services)



Source: Compiled from Balance of Payments Statistics, IMF

Further, comparing India with some of the competing countries in the BPO segment we observe that India's share has been consistently increasing since 1996 and now it is comparable with Singapore and the Netherlands (Fig. 6).

Fig 6 (Country-wise) Trends in share of other business and computer and information services exports to the imports of the same services from the OECD countries



Source: Compiled from Balance of Payments Statistics, IMF

Relative Comparative Advantage (RCA): RCA indices reveal the comparative advantage of a nation in the export of a particular service or commodity. RCA for an economy is defined as: an economy's share in total world exports in a given sector divided by the economy's average export share in all sectors.

Computing RCA for India and few other prominent players in the BPO market viz., Ireland, China and Philippines for *computer , information and other business services*, i.e., the services that are directly relevant for the IT and BPO sector we observe that India's comparative advantage is higher than the corresponding figure for most other nations. Further RCA values for India shows an increasing trend over the last few years (Table 4). Few states like Mexico or Philippines show declining trends.

Table 4 RCA (of computer & information and other business services) of India vis-a-vis other selected nations

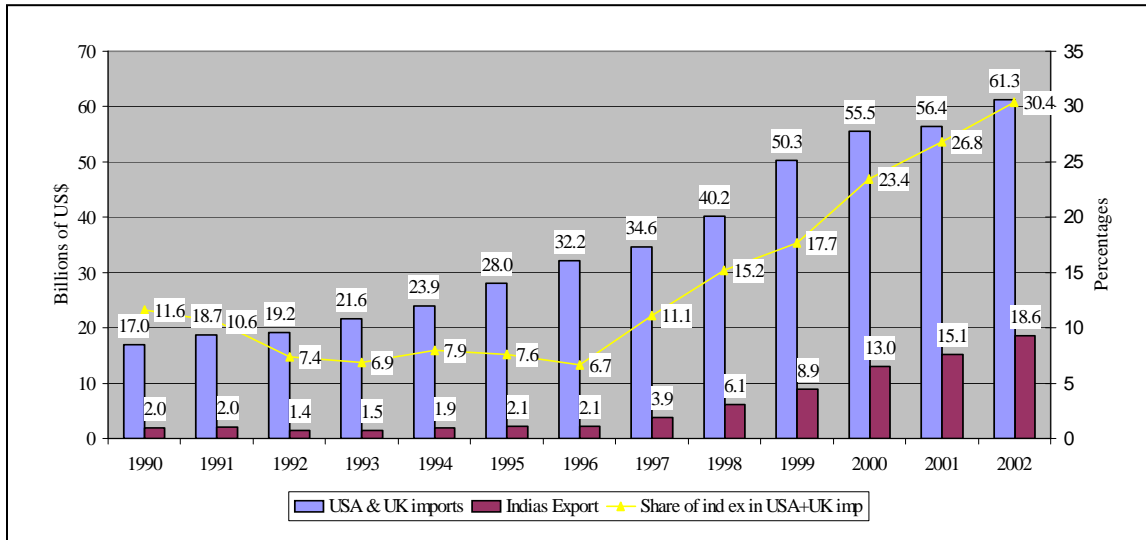
Year	India	Malaysia	Mexico	Philippines	Singapore	Thailand	Canada	Ireland	China	Australia	Nether lands
1990	3.1	1.7	0.4	4.8	3.3	0.7	2.9	1.6	1.1	1.1	2.1
1991	2.8	1.8	0.3	4.8	3.3	1.1	2.9	1.8	2.0	0.8	2.0
1992	2.0	1.7	0.4	4.8	3.2	1.9	3.0	1.8	2.0	0.6	2.1
1993	2.0	2.7	0.4	4.8	3.3	2.0	3.2	1.8	2.2	0.6	2.2
1994	2.2	2.9	0.4	5.6	3.5	2.0	3.2	2.0	1.5	0.6	2.1
1995	2.5	3.4	0.5	6.6	3.4	2.0	2.1	2.2	1.5	0.6	2.2
1996	2.2	3.7	0.4	6.2	3.2	2.0	2.0	2.4	2.4	0.6	2.1
1997	3.0	4.0	0.4	5.8	3.3	2.3	2.0	2.5	2.4	0.7	2.1
1998	3.7	4.1	0.4	5.3	2.6	2.1	2.1	3.4	2.1	0.8	2.2
1999	4.4	2.9	0.3	1.5	2.8	2.0	2.1	3.6	2.1	0.9	2.0
2000	4.6	2.5	0.3	0.7	2.7	1.3	2.2	3.4	1.8	0.8	2.3
2001	5.1	1.8	0.2	0.5	3.0	1.2	2.2	4.0	1.9	0.9	2.4
2002	5.5	1.2	0.1	0.6	3.2	1.7	2.2	4.0	2.0	1.1	2.8

Source: Computed using IMF BoP data

India's Share of IT and IT-enabled Services Exports in the Imports of Target Countries

USA and UK are the major service importing countries in the off-shore ITES market. We therefore look at the share of India's trade in other business services plus computer and information services in the imports of the (host) target countries viz., USA and UK for the same service heads (Fig. 7).

Fig. 7 Share of India’s export of other business and computer and information services in the imports of the target countries*



Source: Compiled from Balance of Payments Statistics, IMF

From Fig.7 an increasing trend of shares for India since 1996 is prominent. More precisely, starting from a meager 6.7%, India has improved its share to above 30% during the last 10 years. This shows the tremendous growth in the IT and ITES service exports of the country.

To understand the strengths of India in this sector which may have led this growth and made it an attractive destination we have carried out a survey of the BPO firms in the country.

4. ITES Sector in India: A Survey Based Analysis

4.1 Survey Methodology

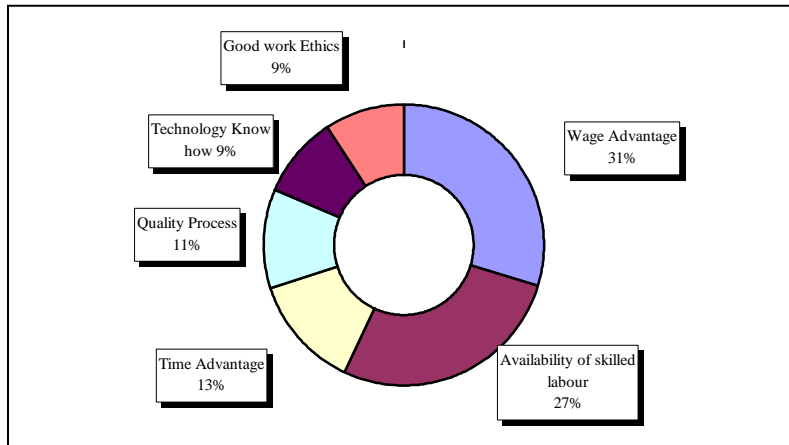
NASSCOM compiles a list of BPO companies registered with it, which was used for the selection of the sample. We concentrated mainly on the three major service lines viz., customer care, financial and health care BPOs. The survey covered all major locations in India viz., Bangalore, Mumbai-Pune and Delhi-Gurgaon regions, Hyderabad and Chennai. Thus a typical stratum under consideration is “location × sub-sector/process”. For

each stratum we selected a large number of firms and sent them requests to participate in the survey. The firms that responded positively were later interviewed. In order to get an idea of the problems and prospects of the BPOs operating in the second-tier cities, we have covered firms from Thiruvananthapuram in Kerala and Mangalore in Karnataka, using the list of firms obtained from the respective software technology park India (STPI) offices. We would like to mention here that difficulties were faced in obtaining appointments with the managements of the firms; given their busy schedules, one needs to wait quite a while for an appointment. Further, it has also been observed that companies are reluctant to disclose financial information. Notwithstanding these difficulties we have covered 70 firms from different locations and service lines.

4.2 Strengths

In order to effectively compete in the global market for export of services, India's major strength is its manpower and cost advantage. The maximum number of respondents has considered these two reasons as the most crucial ones. More precisely, 31% of the respondent firms consider wage advantage as the vital reason for India's success in the BPO segment and another 27% consider availability of skilled labour as the most important factor. The quality of processes followed by Indian BPO firms and their technical know-how (mainly IT knowledge) also play important roles. Though the time difference is a disadvantage as far as call-centres are concerned, in health care sector, especially in the medical transcription jobs, the time difference is to our advantage (see also Bhide, Rajeev and Vani, 2005). Good work ethics and timely delivery also play a very important role in the success of a firm (Fig. 8).

Fig 8 Reasons for success of Indian BPO firms (percentage of respondents considering as important reason)



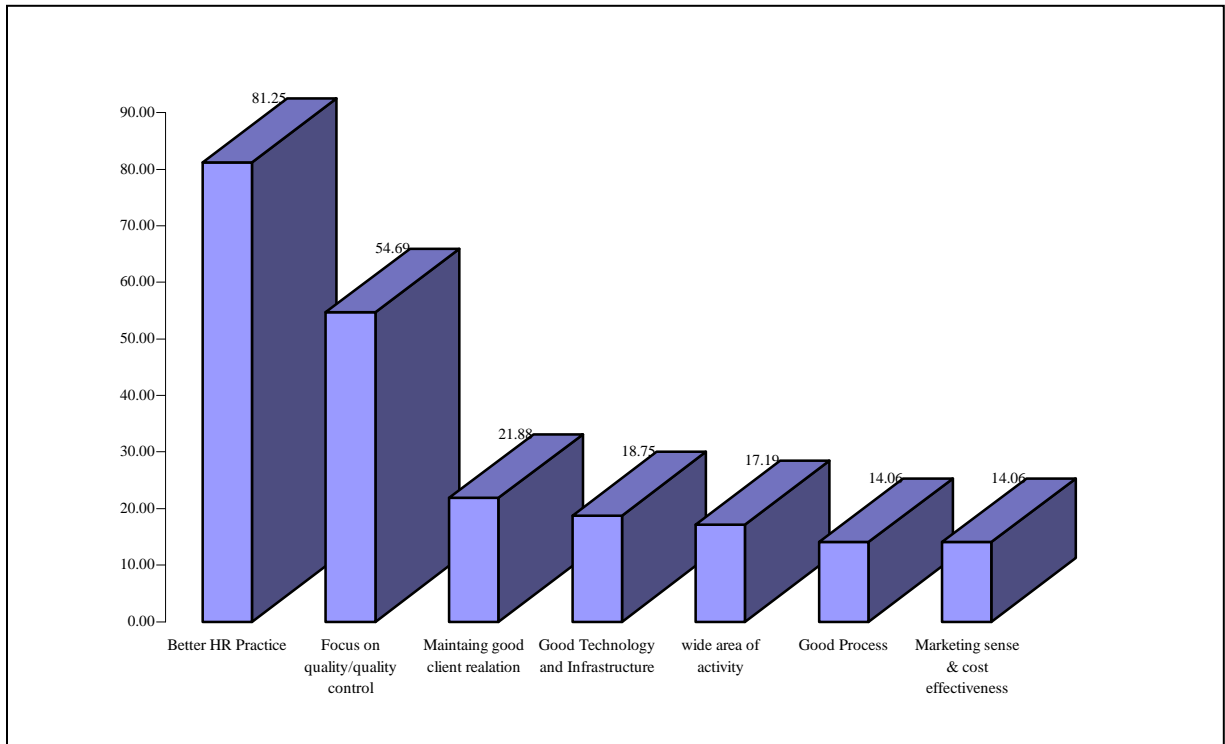
Source: Field Survey

4.3 Best Practices Followed by Successful Indian BPOs

The best practices that are fundamental for the success of BPO firms in India, as perceived by the respondents are, good HR practices and strict adherence to quality control norms. Given the strain involved in these jobs, the attrition rate is usually quite high (30%-40% per year and in some firms as high as 80%) and poaching is also common in this sector (faced by 87% of the firms). Therefore, retaining top-grade employees become crucial for survival. In fact, 77% of the firms considered the best HR practices to be the most critical component, followed by 58% that considered⁷ quality processes ensured through various quality control norms (Fig. 9).

⁷ Since there are multiple responses on best practices, these percentages do not add up to 100.

Fig. 9 Best practices followed by Indian firms



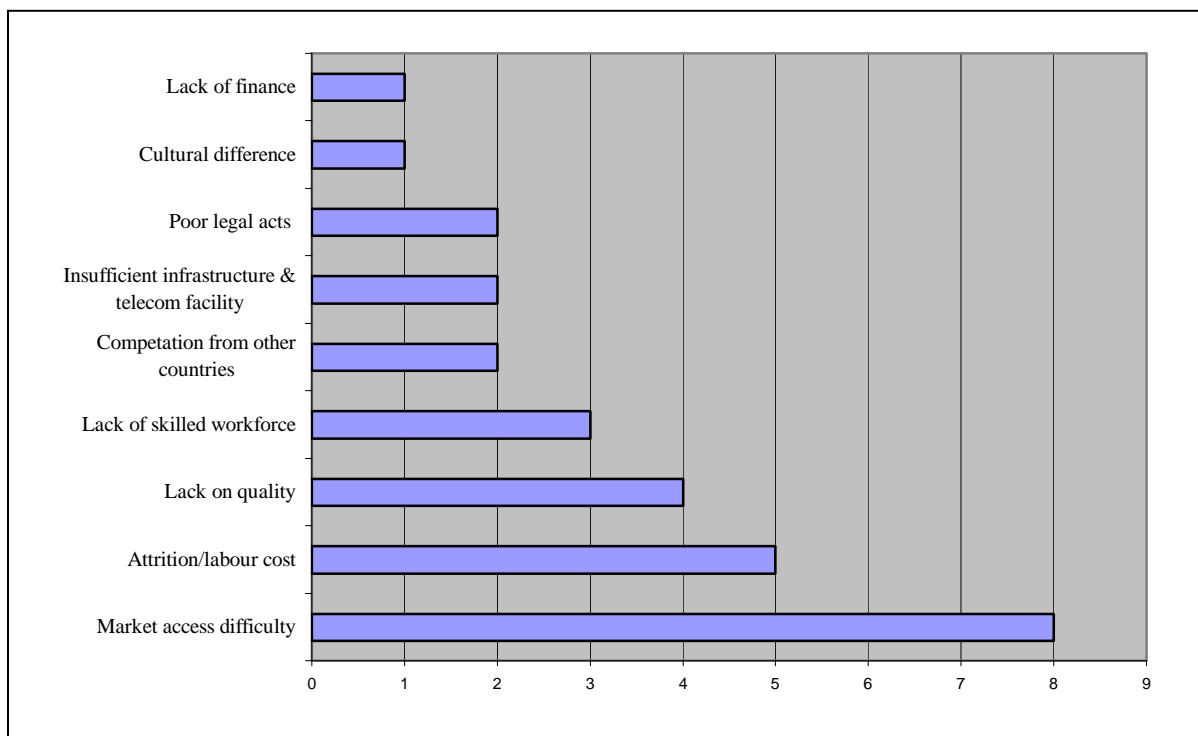
Source: Field Survey

Maintaining good client relations is also essential; however, if one sticks to quality norms and can retain the best employees, the rest is automatically assured. Diversifying to more than one activity and providing end-to-end solutions are also considered to be keys to success by about 18% of the firms.

4.4 Weaknesses/Problems of the Indian Companies

Our sample consists not only of large third party as well as captive BPOs but also of smaller sized BPOs (employment less than 300), both from the metros as well as from selected two-tier cities. This is done to get a more representative view of the sector.

Fig.10 Weaknesses of Indian BPO firms (arranged according to average rankings of the respondents)



Source: Field Survey

Due to inclusion of the smaller companies, the maximum number of companies has reported marketing as the major problem (Fig. 10) faced by this sector. Though it is well known that the global BPO market is huge, smaller sized firms suffer from lack of information. Transaction costs to explore market possibilities are also very high (ideally one needs to have an office in USA). Unlike in the manufacturing sector, subcontracting is not a practice prevalent in this industry. Our survey reveals that only 26% of the BPO firms outsource some part of their work. The reason for not outsourcing is mainly that the industry being an emerging one, most of the firms are in their own growth mode. Some

firms also have quality concerns for subcontracting their work to a smaller firm. Some of the higher end work that are currently subcontracted relate to software development necessary for efficient delivery of outsourcing services of a BPO firm.

The next important problem faced by this sector (as has been mentioned above) is the high attrition rate and poaching leading to increasing labour costs (for retaining and continuous training). It is feared by many that this may reduce India's competitiveness in the long run. In the large cities about 87% of the firms face poaching problem but for the smaller towns this percentage reduces to 33% (survey findings). Thus it has been observed during our survey that smaller cities face much less poaching problems. Due to lesser number of firms in places like Thiruvananthapuram there is non- poaching agreements between the firms leading to lower labour cost. Consequently attrition rates are also lower in the smaller cities.

Though India has a large pool of graduates and technical degree holders, when it comes to performing quality work there are only a few who can live up to the expectations of (foreign) client firms. This has led to high training costs for the firms. Thus, lack of skilled manpower (not mere degree holders) is another important cause of concern for the industry. While there are a number of areas India needs to strengthen its competence, these two are the crucial concerns of the Industry.

Competition from other countries, lack of cultural affinity, high telecom tariffs and infrastructure bottlenecks concerning roads and power supply are also considered to be few other problems by the BPO firms under survey. Legal compliances also create problem for outsourcing work to India as we still do not have a data security act in place. Some of these problems are discussed below.

4.5 Few Other Barriers

Data Protection Act: An important Mode 1 related barrier for Indian BPO companies is the absence of compatible data protection act . Our survey of the US customers also reveals that privacy with respect to personal data is a major concern of many. Further, during our field survey, over 50% of the firms reported this as a significant constraint. Service-wise percentage of firms reporting lack of data protection act posing a major constraint is presented in Table 5, where we observe that the health care sector is most vocal as far as the privacy regulations are concerned due to the fact that privacy requirement relating to the health related data is quite stringent in the US. Health care BPOs in India need to comply with the US Health Insurance Portability and Accountability Act (HIPPA).

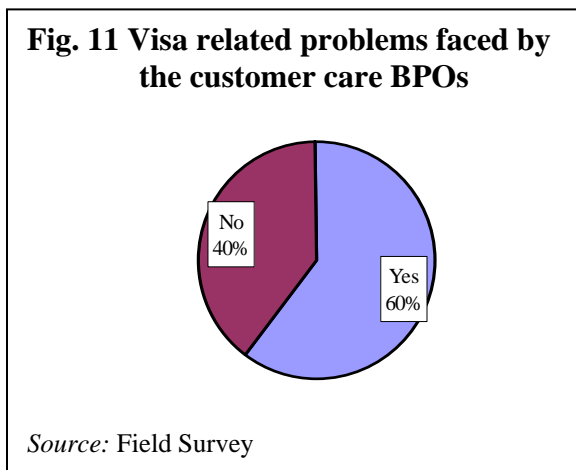
Table 5 Percentage of firms showing concerns about the lack of data protection act in India	
Services	Percentage of firms
Customer care	54%
Financial	40%
Health care	70%

Source: Field Survey

While most developed countries like Ireland, Canada or Australia have compatible privacy regulations, our neighboring countries Pakistan are also taking up concrete measures for enacting privacy and data protection act.

Recognition Barriers: Another restriction in the form of a non-tariff barrier faced by the BPO sector relates to recognition of Indian professional degrees and qualifications. For example, in the health-care segment, tele-radiology is one area, which involves reading and delivering expert comments on images of human body parts. Doctors who read the images of patients need to be certified by an institution abroad to be eligible to carry out the job. As the off-shoring country does not always recognize Indian degrees, this acts as a barrier to growth of the Indian BPOs in this field. Similar problems arise in case of higher-end financial and legal services (e.g. underwriting jobs in financial services) also. Currently, India is serving the lower-end BPO market where the jobs are mostly rule based. Recognition related constraints might not pose a significant barrier at this stage. However, as one moves to the higher end services, such barriers may act as significant constraints.

Movement of Natural Persons: As mentioned above, a BPO company usually needs to send personnel for training to the client country. Such on-site training is essential to gain better understanding of the process-- which in turn helps efficient service delivery. Visa restrictions are often faced even by captive BPOs having their parent offices in the visa-issuing nation. More than 80% of off-shoring business to India comes from the USA, which has strict visa regulations. On the other hand, for European countries, especially countries like the UK, the off-shoring company arranges for the visa. The figure below depicts the percentage of firms facing mode 4 related restrictions in the customer care BPO industry. (Fig. 11)



Thus from the point of view of international negotiations these are some areas to be concentrated by the Indian government.

5. Concluding Remarks

Trade in services has been assuming a prominent role in the global economy in recent times. A number of services that could previously be delivered only through commercial presence have now become deliverable by cross-border trade. There are a number of developments that have led to this growth, the most fundamental being the development of IT and communication technology networks. Further, opening up of the market by many

nations to allow the commercial presence of the other nations in the domestic economy have helped to bring foreign direct investment in to the services sector. Recognizing the significance and growing role of services in the world and national economy, the Uruguay Round broadened the scope of multilateral trade negotiations to include services for the first time in the history of trade negotiations.

In this background, this paper looks at the trade in services across nations and compared the developed nations with the developing ones. Concentrating in particular on the computer and other business services the paper looks at the Indian's position vis-à-vis some of the competing countries and shows how India has been able to establish itself in this segment (see also Bhide, Rajeev, Vani, forthcoming).

The paper evaluates the strengths and weaknesses of India as a player in this segment vis-à-vis its competitors. While the major strength of Indian BPO industry is the availability of cost-effective manpower, ironically, it has been observed that the major challenges faced by the industry in India are also mainly HR-related. If India wishes to develop this industry in our country, a focused educational curriculum that prepares our youth specifically for this industry, is a must. Mere degree holders cannot serve the industry and this in turn would mar the attractiveness of India. Side by side, a determined effort is necessary to reduce infrastructural bottlenecks like roads, uncertain power supply or high costs of telecommunication.

Today, off-shoring services provided by India are mostly rule-based low-end call centre and data processing work. If India has to exploit the full potential of the outsourcing opportunity, then the Indian companies have to move up the value chain. India has the necessary human resources and is capable of acquiring domain expertise in higher end areas. Outsourced work in Intellectual Property Rights (IPR)-intensive areas such as clinical research, engineering design and legal research is the way ahead for Indian BPO companies. However, moving up the value chain cannot happen without stringent laws.⁸

⁸ Captain Raghu Raman, CEO, Mahindra Special Services Group,
<http://www.expresscomputeronline.com/20040426/coverstory01.shtml>

Thus, India has all necessary ingredients to be a leader in this segment. However, given the potential competitors, in particular China and other developing nations, only with resolute determination can the country retain its position.

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