Ministry of Commerce & Industry
New scheme in the works to boost Service Exports

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Context

Services Exports from India Scheme (SEIS) has now been suspended. The Services Export Promotion Council (SEPC) is working on a new arrangement that may be adopted as an alternative. Incentives worth Rs 4,262 crore were disbursed to services exporters in 2018-19 as part of SEIS. It provides duty credit scrips to exporters at the rate of 5 percent or 7 percent of the net foreign exchange earned.

Many Indian companies into service sector has raised the need for a production-linked incentive (PLI) scheme for the services sector, focusing on asset-heavy services such as hotels and education, among others, and having specific programmes for each. One of the conditions of the PLI schemes is that you have to make a capex-based investment.

Recently, the Ministry of Commerce and Industry announced that it is working on a plan to reach a services export target of USD 1 trillion by 2030. This target is nearly five times of what India exported last fiscal (FY 2020).

Services Sector in India

- India is the world's seventh-largest services exporter
- Share of the services sector accounted for 54% of the total Gross Value Added (GVA) in FY21.

- The services sector is a key driver of India's economic growth, providing employment to nearly 26 million and contributing about 40% to India's total global exports.
- The services sector has also been the largest recipient of foreign direct investment, making up for 53% of the total inflows between 2000 and 2021.

Current Policy Constraints

- The Directorate General of Foreign Trade has imposed a cap on the total entitlement under the Services Exports from India Scheme (SEIS) at Rs 5 crore per exporter for shipments done in 2019-20 (FY20).

- Exporters have voiced concern about the Rs 5-crore cap on entitlements. This was done after the SEPC suggested to the government that the benefits can be capped further to ensure that most reach small businesses and not large companies and that the scheme is not shut down entirely.

- The tourism sector has been granted a 5 percent benefit on net foreign exchange earnings as opposed to 7 percent earlier, while some sectors like management consulting and cargo handling have been excluded altogether.

Plan to Boost Services Exports

- **Diversifying Services Sector:** There is a need to boost opportunities in high-growth segments beyond the dominant information technology and IT-enabled services (ITeS). For example:

    - ✓ The opening up of the domestic legal services sector will benefit Indian lawyers as they would get huge opportunities in countries such as Europe, Australia and America.

- ✓ Further, the need is to focus on promising areas like higher education, hospitality and medical tourism.

- **FTAs in Services:** To support the services sector, the government has been actively pursuing market access opportunities via Free-Trade Agreements (FTAs) with key economies (including the UK, the EU, Australia and the UAE).

- *Fine Tuning SEIS Scheme:* ***The government is working on a programme that could replace the Service Exports from India Scheme (SEIS) in its current form.***

  - ✓ ***According to the government, the services industry needs to shun the crutches of government subsidies.***
  - ✓ ***This will encourage firms to raise competitiveness.***
  - ✓ ***Also, the subsidy amount can be utilised for those who need it more.***

Way Forward

- **Production-linked Incentive Like Scheme in Services:** The government should consider something for the services sector, in line with the production-linked incentive scheme.
- **Becoming Part of Global Value Chains:** India should be striving to embed itself in global value chains.
- If India wants to become a major exporter, it should specialize more in the areas of its comparative advantage and achieve significant quantity expansion.
- **B2B Model:** Developing a dynamic Business 2 Business (B2B) portal, which can be used by service providers to reach out to the markets abroad.

- **Foreign Trade Policy (FTP):** Unless the government focuses on the sector in the forthcoming Foreign Trade Policy (FTP) by announcing scheme-based export incentives and provides interim relief by continuing with the existing schemes in the short run, the sector will lose the momentum it has gained in the first five months of 2021-22.