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Services Trade in China and India

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Abstract

This paper discusses international trade in commercial services in China and India, and is in two parts. The first part discusses in detail the data on services trade in both countries, while the second part considers the wider implications of the expansion of services trade. The future development of both countries depends heavily on services trade, hence a better understanding of the situation in both countries will help ensure that appropriate government policies are implemented.

Keywords: *international trade in commercial services, China and India, economic growth*

JEL classification: *L80, O14, F14*

1. Introduction[1]

The main objective of this paper is to present evidence regarding the trends in international trade in services in China and India, and to comment on some of the key issues surrounding such trade. Whilst it is a commonplace that China exports manufactured merchandise (henceforth, merchandise) and India exports commercial services (henceforth, services), it will be shown that this is a gross oversimplification; that, whilst it is true that overall, China has a revealed comparative advantage in merchandise and India in services, when one looks into the details of the trade patterns in services, it becomes clear that each of these countries has a comparative advantage in various, different, sub-sectors of services trade. A related paper is Wu (2007) who offers a comparison of service sector growth in the two countries, which also highlights the differences between them. The present paper differs from Wu (2007) by focusing on international trade rather than economic growth. Banga (2005a) provides a more general overview of services trade which is not limited to the case of China and India.

China and India are two of the most dynamic economies in the world. According to the World Bank, in 2009 China was the second-largest economy in the world, and India the 11th largest, at official exchange rates (in Purchasing Power Parity (PPP) terms, China was the second largest, after only the US, whilst India was the fourth largest, after Japan). This has been achieved on the basis of rapid economic growth over the past two decades, with China averaging over 10 per cent growth between 1991 and 2009, and India averaging over 6 per cent over the same time period. In the aftermath of the 2008 global financial crisis, analysts at Goldman Sachs predicted that China and India, along with Russia and Brazil (the so-called "BRIC" countries), will contribute twice as much to world economic growth between 2011 and 2020 as the US, Europe and Japan combined (Wilson, Kelston and Ahmed, 2010). Despite this, both countries remain poor in absolute terms, with per capita GDP at official exchange rates of $4,300 in China and $1,100 in India, in 2010. Even these figures disguise large regional inequalities within each country: three of the provincial-level cities in China (Shanghai, Beijing, Tianjin) have per capita GDP in excess of $10,000, whilst Tibet, Gansu, Yunnan and Guizhou provinces have per capita GDP of less than $2,500, in 2010. Similarly, in India in 2010, the richest cities such as Mumbai and Bangalore have per capita GDP of over $2,500, whereas poor states such as Uttar Pradesh and Bihar have per capita GDP of less than $500. Bosworth and Collins (2008) provide a recent overview of the determinants of China and India's growth.

Much of the rapid growth in these two economies may be attributed to market liberalisation policies implemented by the two countries' governments, with China's liberalisation beginning in 1978 and India's in 1991. Part of the liberalisation package in both countries included opening up the economy to international trade, by reducing import restrictions and encouraging exports. As a result of the liberalisation, trade as a percentage of India's GDP increased from 15 per cent in 1990 to over 40 per cent in 2005 (comparable figures for China are 10 per cent in 1977 on the eve of reform, and over 65 per cent in 2005). At the same time, as both economies have developed, they have switched from primarily agriculture-based economies to manufacturing- and services-based economies. Over the past 20 years economic growth in both countries has been primarily driven by the services sector; in India the share of this sector in GDP has increased from 44 per cent in 1989 to 55 per cent in 2009, whilst in China it has increased from 32 per cent to 43 per cent of GDP over the same time period. Table 1 provides a summary of some key economic indicators for both countries over a 20-year period from 1989 to 2009.

In terms of international trade, China became in 2009 the world's largest exporter of merchandise (and second-largest importer), whilst India was the 21st largest exporter and 14th largest importer. Both countries are also

Table 1 Key Economic Indicators, China and India

	1989	1994	1999	2004	2009
China					
GDP (current US$ million)	343,974	559,225	1,083,278	1,931,644	4,985,461
GDP per capita (current US$)	307.49	469.21	864.73	1,490.38	3,744.36
GDP growth (5-year average)	9.86	10.86	9.12	9.18	11.38
Trade share of GDP (%)	29.24	41.22	37.69	65.35	49.07
Agriculture share (%)	25.10	19.86	16.47	13.39	10.35
Manufactures share (%)	42.83	46.57	45.76	46.23	46.30
Services share (%)	32.06	33.57	37.77	40.38	43.36
India					
GDP (current US$ million)	292,917	323,506	450,476	720,909	1,310,171
GDP per capita (current US$)	351.84	353.29	450.92	667.68	1,134.01
GDP growth (5-year average)	5.90	4.70	6.55	5.93	8.23
Trade share of GDP (%)	15.34	20.31	25.28	36.89	45.84
Agriculture share (%)	29.23	28.52	24.99	18.88	17.12
Manufactures share (%)	26.94	26.80	25.31	27.97	28.25
Services share (%)	43.84	44.68	49.69	53.15	54.63

important players in services trade: in 2009 China was the 5th largest exporter and 4th largest importer of services, whilst India was the 12th largest exporter and importer. Hence China trades more in services than does India, although comparing the rankings in merchandise and services shows that China's revealed comparative advantage is in merchandise whilst India's is in services. Figure 1 shows the share of services in total exports and imports of the two countries, compared to the world average, from 1999 to 2009. For the world as a whole, services trade has accounted for about 20 per cent of total trade for the past decade, with little evidence of an increasing (or decreasing) trend. India has a higher share of both services exports and imports than the world average, with the services share of exports increasing over time and the share in imports decreasing. On the other hand, China has a lower share of both services exports and imports than the world average. The share of services in China's trade actually decreased from 1999 to 2005, although it has increased since then.

2. Services Trade in China and India

The data for the analysis has been obtained from the World Trade Organisation (WTO). Trade in commercial services is defined as total trade in services, minus government services, not included elsewhere (WTO, 2010). Commercial services are sub-divided into three categories: transportation services, travel, and other commercial services. Transportation services cover

Figure 1 Exports and Imports of Commercial Services as a Percentage of Total Exports and Imports

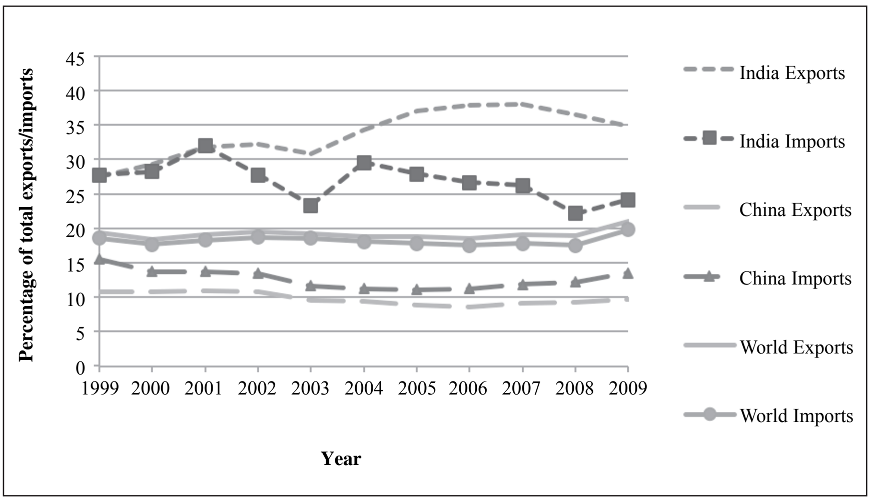
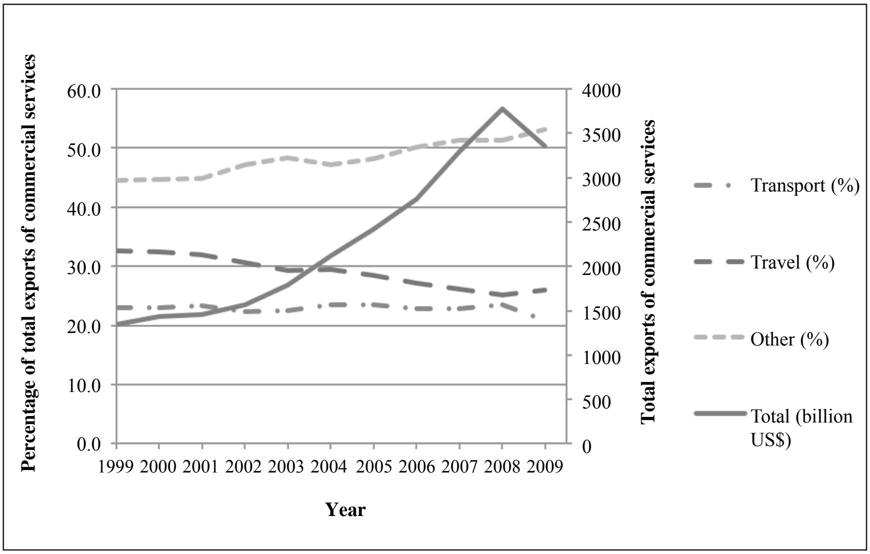


Figure 2 World Exports of Commercial Services



all types of transportation of passengers and freight. Travel includes goods and services acquired by personal travellers including business travellers. This includes lodging, food and beverages, entertainment and internal transport, gifts and souvenirs. Other commercial services are further sub-divided into: (1) communications, including telecommunications, postal and courier services; (2) construction; (3) insurance services; (4) financial services; (5) computer and information services; (6) royalties and licence fees; (7) other business services; and (8) personal, cultural and recreational services.

Figure 2 shows world exports of commercial services from 1999 to 2009, and the percentages of transportation, travel, and other commercial services. Total exports of commercial services increased rapidly over the decade, until the recession of 2009 reduced exports by over 11 per cent. Over this period, trade in transport services as a share of total services trade remained fairly constant, whilst the share of trade in travel services decreased, and the share of trade in other commercial services increased, so that, by 2009, the latter made up over half of total trade in commercial services.

Table 2 shows the relative prominence of China and India in each of the three sub-sectors of commercial services. In this table and Table 3, Rank refers to the country's rank in the world in exports or imports in each sub-sector. India is overall a net exporter of commercial services, whereas China is a net importer. However, looking into the sub-sectors of commercial services, India is a big net importer of transportation services, a small net exporter of travel

Table 2 Trade in Sub-Sectors of Commercial Services, China and India

Total Commercial Services

	India					China				
Year	Exports	Rank	Imports	Rank	Net Exports	Exports	Rank	Imports	Rank	Net Exports
2006	73.8	10	63.7	13	10.1	91.4	8	100.3	6	-8.9
2007	89.7	9	77.2	13	12.5	121.7	7	129.3	5	-7.6
2008	102.6	9	83.6	13	19.0	146.4	5	158.0	5	-11.6
2009	87.4	12	79.8	12	7.6	128.6	5	158.2	4	-29.6

Transport Services

	India					China				
Year	Exports	Rank	Imports	Rank	Net Exports	Exports	Rank	Imports	Rank	Net Exports
2006	7.8	11	25.1	5	-17.3	21.0	6	34.4	4	-13.4
2007	8.8	11	31.1	5	-22.3	31.3	5	43.3	4	-12.0
2008	11.1	11	41.4	5	-30.3	38.4	5	50.3	4	-11.9
2009	10.8	10	34.7	5	-23.9	23.6	7	46.6	3	-23.0

Table 2 (continued)

Travel Services

	India					China				
Year	Exports	Rank	Imports	Rank	Net Exports	Exports	Rank	Imports	Rank	Net Exports
2006	7.7	–	7.2	15	0.5	33.9	3	24.3	4	9.6
2007	11.1	13	8.8	15	2.3	37.2	3	29.8	3	7.4
2008	11.8	14	9.6	15	2.2	40.8	3	36.2	3	4.6
2009	10.6	14	9.2	–	1.4	39.7	3	43.7	3	-4.0

Other Commercial Services

	India					China				
Year	Exports	Rank	Imports	Rank	Net Exports	Exports	Rank	Imports	Rank	Net Exports
2006	58.3	4	31.4	6	26.9	36.5	6	41.6	4	-5.1
2007	69.8	4	37.3	5	32.5	53.1	5	56.2	4	-3.1
2008	79.7	4	32.6	9	47.1	67.2	5	71.5	4	-4.3
2009	66.1	4	35.9	8	30.2	65.3	5	67.9	4	-2.6

Notes: Exports, imports and net exports are in billion US$. Ranking data is available only for the 15 largest exporters and importers in each sub-sector.

services, and a big net exporter of other commercial services. China on the other hand is a net importer in all three sub-sectors, although it is only a small net importer in travel and other services, and, like India, a big net importer of transportation services. However, where China has lost its initial net exports in travel services (in 2006 net exports in this sub-sector was almost US$10 billion), its exports of other commercial services have been growing rapidly. It may be argued that other commercial services are the main driver of export growth in services in both countries; in India its share of total commercial services exports has been between 70 and 80 per cent since 2006, whereas in China it has increased from 40 per cent in 2006 to 50 per cent in 2009.

3. Drilling Deeper: Sub-sectors of "Other Commercial Services"

As noted in Section 2 above, other commercial services is the major driver of the growth of services exports in both China and India, and this sector may be further divided into several sub-sectors. In this section we explore the patterns in the trade of these sub-sectors, to gain further insight into the trade in services of both these countries.

Table 3 presents trade in other commercial services of China and India, divided into the eight sub-sectors delineated as shown. The figures in this table re-emphasise the diversity of experiences between the two countries. In communications services, India has much larger net exports than does China, although the growth in both exports and imports in China has been much faster in this sub-sector. On the other hand, China is the world's third largest exporter of construction services, with exports amounting to over US$10 billion in 2008, whereas India has so far only had a small presence in this sub-sector. Both countries are big net importers in insurance services, although China's imports have been about three times that of India.

India has a big lead over China in both finance and computing and information systems. India is the world's second largest exporter of computing and information systems services, whilst in China, exports in this sub-sector, although growing rapidly, remain less than a fifth of India's exports. China is not even among the 15 largest exporters or importers of financial services, whereas India has been moving up the rankings in this sub-sector. India's lead in these two sectors may be partly explained by the advantage that India has over China in the use of the English language, and the greater openness of the financial sector in India compared to China. On the other hand, China is a much bigger player in royalty payments than India. China is a big net importer of intangible non-financial assets and proprietary rights (which require royalty payments), whereas India is not among the 15 largest payers or payees of royalties. This may reflect the bigger role of China in manufacturing, as imports of proprietary components may incur a royalty charge. However, it may

Table 3 Trade in Other Commercial Services by Sub-Sector, China and India

Communications Services

	India				China			
	Exports	Rank	Imports	Rank	Exports	Rank	Imports	Rank
2005	1,999	4	715	9	485	15	603	13
2006	2,191	5	899	8	738	10	764	10
2007	2,288	4	714	13	1,175	8	1,082	6
2008	2,423	4	1,004	11	1,570	7	1,510	5

Construction

	India				China			
	Exports	Rank	Imports	Rank	Exports	Rank	Imports	Rank
2005	828	7	774	10	2,593	4	1,619	5
2006	403	12	906	10	2,753	5	2,050	5
2007	845	9	691	11	5,377	3	2,910	6
2008	722	12	755	13	10,329	3	4,363	6

Insurance

	India				China			
	Exports	Rank	Imports	Rank	Exports	Rank	Imports	Rank
2005	919	7	2,391	6	549	9	7,200	4
2006	1,116	8	2,664	8	548	9	8,831	4
2007	1,504	7	3,203	7	904	9	10,664	4
2008	1,548	7	4,252	7	1,383	8	12,743	3

Finance

	India				China (see notes to table)			
	Exports	Rank	Imports	Rank	Exports	Rank	Imports	Rank
2005	1,468	10	1,227	8	–	–	–	–
2006	2,071	8	1,316	7	–	–	–	–
2007	3,886	8	3,262	5	–	–	–	–
2008	4,059	7	3,552	5	–	–	–	–

Table 3 (continued)

Computing and Information Systems

	India				China			
	Exports	Rank	Imports	Rank	Exports	Rank	Imports	Rank
2005	16,091	2	1,498	7	1,840	6	1,623	6
2006	21,461	2	2,199	4	2,958	6	1,739	7
2007	27,668	2	3,509	4	4,345	6	2,208	7
2008	36,041	2	3,419	4	6,252	5	3,165	5

Royalties

	India (see notes to table)				China			
	Exports	Rank	Imports	Rank	Exports	Rank	Imports	Rank
2005	–	–	–	–	157	14	5,321	6
2006	–	–	–	–	205	15	6,634	7
2007	–	–	–	–	343	13	8,192	7
2008	–	–	–	–	571	11	10,320	6

Personal, Cultural and Recreational Services

	India (see notes to table)				China (see notes to table)			
	Exports	Rank	Imports	Rank	Exports	Rank	Imports	Rank
2005	146	15	–	–	134	16	–	–
2006	218	13	–	–	137	–	–	–
2007	622	6	169	–	316	10	154	–
2008	707	5	296	12	418	10	255	15

Other Business Services

	India				China			
	Exports	Rank	Imports	Rank	Exports	Rank	Imports	Rank
2005	20,523	6	16,020	5	23,283	5	16,287	4
2006	30,923	3	21,453	4	28,973	5	20,605	5
2007	30,783	5	19,062	6	40,408	3	30,431	4
2008	33,764	6	21,062	6	46,349	3	38,597	4

Notes: Exports and imports are in million US$. Ranking data is available only for the 15 largest exporters and importers in each sub-sector. Missing values (denoted with a –) indicate that the country was not in the top 15 exporters or importers in that sub-sector, in that year.

also suggest that, despite complaints especially in the US about Chinese non-compliance with WTO regulations on proprietary rights (United States Trade Representative, 2010), there have at least been some moves to rectify this.

There are of course some similarities between the two countries. Both countries are becoming major net exporters in personal, cultural and recreational services, ranking within the top ten in the world, but both remain relatively small players; the US exports over ten times as much as China and India combined in this sub-sector.[2] Where they are big players is in other business services; this sub-sector constitutes over half of the total of other commercial services trade in both countries (and over a quarter of total services trade). Both countries are net exporters in this sub-sector.

Table 4 provides more detail on the "other business services" sub-sector. It can be seen that the majority of China's trade in this sub-sector is in merchanting and other trade-related services (although the export share has fallen over time), whereas it only plays a small role in India. On the other hand, the export share in China of legal, accounting, management and public relations has increased over time. This sector is also important in India, but there are also large shares of exports and imports in architecture and engineering services, and in other business services.

4. Liberalisation of Services Trade

The growth of services exports of both China and India can be attributed to the liberalisation of both economies in this sector, with India's liberalisation beginning earlier as part of the liberalisation of the early 1990s, and China's liberalisation forming a part of its WTO accession agreement in 2001. Nevertheless, many debates and controversies remain on the issue of service sector liberalisation; this section will discuss some of these controversies. Banga (2005b) provides more extensive coverage of the issues from the Indian perspective, while Zhang and Evenett (2010) do the same for China.

To begin with the main controversy, is the liberalisation of services trade necessarily beneficial to a country? Standard economic analysis seems to suggest that it should be, although the general public is more sceptical; recall the controversy surrounding the Economic Report of the President of the United States in 2004 (Council of Economic Advisors, 2004) (this was the Report in which, with Greg Mankiw as the Chairman of the Council, noted that outsourcing of professional services was likely to lead to gains from trade). Yet it is not clear that liberalisation of services trade necessarily leads to gains. As John Whalley has argued (Whalley, 2003), there are features of services and service sector liberalisation that distinguish it from goods sector liberalisation. First, in typical analyses, "services" are often inappropriately combined in a single sector, despite the great heterogeneity in the nature of

Table 4 Sub-Sectors of "Other Business Services" in China and India

	Value	Share								
				Miscellaneous Business, Professional and Technical Services						
	Total Other Business Services	Merchanting and Other Trade-related Services	Operational Leasing Services	Total	Legal, Accounting, Management and Public Relations	Advertising, Market Research and Public Opinion Polling	Research and Development	Architecture, Engineering and Other Technical Services	Agriculture, Mining and Other On-site Processing Services	Other
Exports										
India										
2005	20,523	6.2	0.6	93.2	18.7	1.9	2.3	20.7	0.2	49.3
2006	30,923	4.8	0.5	94.7	25.0	2.3	2.8	23.8	0.3	40.6
2007	30,783	9.5	1.7	88.8	19.3	2.6	4.8	11.3	0.8	49.9
2008	33,764	9.5	1.7	88.8	17.4	1.7	4.7	6.0	0.8	58.2
China										
2005	23,283	72.5		27.5	22.9	4.6				
2006	28,973	68.0		32.0	27.0	5.0				
2007	40,408	66.6		33.4	28.7	4.7				
2008	46,349	56.1		43.9	39.1	4.8				

Table 4 (continued)

	Value	Share								
				Miscellaneous Business, Professional and Technical Services						
	Total Other Business Services	Merchanting and Other Trade-related Services	Opera-tional Leasing Services	Total	Legal, Accounting, Management and Public Relations	Advertising, Market Research and Public Opinion Polling	Research and Develop-ment	Architecture, Engineering and Other Technical Services	Agriculture, Mining and Other On-site Processing Services	Other
Imports										
India										
2005	16,020	10.4	2.8	86.8	12.7	3.5	0.8	9.3	0.2	60.3
2006	21,453	10.0	4.2	86.1	19.3	4.4	0.9	12.8	0.3	48.4
2007	19,062	14.4	5.5	80.1	19.7	6.2	1.9	15.2	0.3	36.7
2008	21,062	11.7	5.6	82.7	17.9	5.6	2.4	16.4	0.8	39.6
China										
2005	16,287	57.6		42.4	38.0	4.4				
2006	20,605	55.0		45.3	40.7	4.6				
2007	30,431	59.9		40.1	35.7	4.4				
2008	38,597	59.9		40.1	35.1	5.0				

Note: The value of exports and imports is in million US$.

services, from finance, telecoms, retailing, tourism, to consulting services. Second, it may be inappropriate to model barriers to services trade in the same form as barriers to goods trade (as some form of tariff-equivalent); service sectors may face greater regulatory barriers because of the need to operate within the host market.

Chia and Whalley (1997) develop a model in which the opening up of international trade in financial services may lead to a welfare loss for all countries. In this model, the financial sector consumes resources to provide intermediary services of transferring goods across time periods hence facilitating intertemporal trade, but these financial services do not yield direct utility to consumers. The opening up of trade in financial services results in one country providing all the financial services to both countries, lowering costs of intermediary services to the service-importing country. However, suppose that the lowered cost of intermediation leads to a large expansion of intertemporal trade. Then this may lead to an increase in the real resources used in intermediation, which may be large enough to offset the gains from cheaper intermediation. Chia and Whalley (1997) show numerical simulations in which net losses or net gains are possible outcomes, depending on the parameter values chosen.

A second source of controversy lies in the contribution of services sector growth to the country's total economic growth. Verma (2006) explores this issue in the Indian case; she finds that the Indian transition from a primarily agriculture-based economy to a primarily service-based economy is consistent with a model in which this structural change is mainly driven by total factor productivity growth (especially but not exclusively) in the services sector, as opposed to the liberalisation of trade in services. Similarly, Goldar and Mitra (2008), whilst obtaining similar results regarding high productivity growth in the Indian services sector, argue, due to the inter-sectoral linkages between manufacturing and services, that the manufacturing sector is the lead sector in promoting long run economic growth. On the other hand, Banga and Kumar (2010) show that services has been the main contributor to Indian economic growth since the early 1990s, contributing over half of total economic growth in the past two decades. They also show that productivity growth in the Indian services sector has been very high since 2000.

Focusing more on the Indian case, another related controversy is whether the service-led growth in India is as sustainable in the long run as the manufacturing-led growth in China. This is a cause for some concern if the services sector employs mainly high-skilled workers, and has few linkages with the rest of the local economy, being primarily focused on exports, and has not generated much by way of increased employment. This fear is well-expressed in Konana, Doggett and Balasubramanian (2005). A related concern is that the Indian service sector expansion has been primarily private-sector led, as compared to the primarily state-led manufacturing expansion in China, and that this difference may result in superior Chinese performance in the long run resulting from greater coordination amongst the various agents in the sector.

However, once again the evidence calls time on these generalisations. First, Eichengreen and Gupta (2010) present evidence that the skilled-unskilled mix of workers in manufacturing and services in India are converging over time, suggesting that services employment is not restricted to skilled workers. They also document strong linkages between the services and manufacturing sectors in India; approximately one-third of the value added in services is accounted for by intermediate demand from manufacturing. Eichengreen and Gupta conclude that long run growth in India depends on switching labour out of agriculture into both manufacturing and services, not just one of the two. Ghani and Kharas (2010) suggest that developing countries can gain much from service-led growth, through the process of catch-up and convergence.

Similarly, Kumar and Joseph (2005) discuss the important role of the Indian government in the rise of service exports in India. They note for example that there have been a series of government policies supporting the software sector, including the development of a national IT plan in 1998. This has been matched by other policies including the supply of trained manpower especially engineers, the establishment of software technology parks, reforms in the telecom sector to support the IT infrastructure, R&D capability-building, and regional development to maximise the agglomeration effects of the IT sector. They argue that, whilst it has been the private sector that has taken the lead in the development of the software sector, the combination of these government policies has created ideal conditions for the sector to flourish.

In the case of China, the main issue is the liberalisation of the services sector following its WTO accession in 2001. China made what has been called the "most radical services reform program negotiated in the WTO" (Mattoo, 2003: 299). The agreement was that China would be given a five-year grace period in order to meet its accession commitments. However, to date (2011) service sector liberalisation has only been partial and incomplete. Yanko (2009) documents some of the restrictions imposed on foreign banks in China which prevent them from competing on equal terms with domestic banks; similar concerns have been raised in PricewaterhouseCoopers (2010), and can also be seen in the relative lack of Chinese involvement in trade in financial services in Table 3. The United States Trade Representative (2010) has also raised concerns over increasing government intervention in the Chinese economy, not only in banking, but also in insurance, telecommunications, construction and legal services. This intervention includes industrial policies that rely on government intervention to promote or protect China's domestic industries and state-owned enterprises. The report also suggests that this increased government intervention indicates that the Chinese government has "not yet fully embraced the key WTO principles of market access, non-discrimination and transparency, or the carefully negotiated conditions for China's WTO accession designed to lead to significantly reduced levels of trade-distorting government policies" (United States Trade Representative, 2010: 2).

The grace period given to China on meeting its WTO accession commitments and the delays in implementing these commitments reflect the difficulties of China's unfinished transition from a centrally-planned economy to a free-market economy governed by rule of law. Temporary protection may be necessary to enable incumbent firms (which are often inefficient public monopolies or state-owned enterprises) to adjust to market forces and greater competition from foreign firms. Mattoo (2003) argues that improving the regulatory framework will be an essential, complementary reform to the liberalisation of services trade. Regulation is necessary to eliminate market failure arising from natural monopolies, to remedy inadequate consumer information about the quality of the service they are buying, and to ensure universal service to protect the poor. Such regulatory improvements take time to implement.

Eichengreen (2010) highlights another key issue in the further development of China's services sector. As Wu (2007) has pointed out, the share of services in China's GDP is below the average for a country with its level of per capita GDP. As China grows further, services will become a more important part of the economy. Yet as Eichengreen notes, every high growth, manufacturing-intensive Asian economy that has attempted the transition from manufacturing to services (Korea and Japan) has suffered a big slowdown in productivity growth, because services in these countries tend to be dominated by small, inefficient firms. Services productivity in Korea and Japan have grown only half as quickly as in the US; the Chinese government will have to learn from the Korean and Japanese experiences if China is to avoid the slowdown that has hit Korea and Japan in the transition to a services-led economy.

5. Conclusions

By 2050 analysts at Goldman Sachs (Wilson and Purushothaman (2003)) predict that China and India will be the largest and third largest economies in the world, respectively. By this time both countries' per capita GDP is expected to be over ten times as high as it is in 2010. The services sector is likely to be a major part of this expansion, for India because it is already a big part of the economy, and for China because the service sector will expand as a share of the economy. We have argued in this paper that the governments of both countries have important roles to play in this development, and that in order to do so, they need both good data and a sound theoretical framework in which to operate. This will enable the debate to move forward from broad generalisations and focus on the true drivers of the service economy.

Notes

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2. Personal, cultural and recreational services include audiovisual services (services and fees related to the production of motion pictures, radio and television programmes, and musical recordings), and other personal, cultural and recreational services including those associated with museums, libraries, archives, and other cultural, sporting and recreational activities. See WTO (2010) for definitions of each sub-sector.

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