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Newsletter on **SERVICES ECONOMY**

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8th Global Economic Summit **Services: Enabler of Growth for Trade and Industry** March 6 – 8, 2019 | MVIRDC World Trade Centre Mumbai Conference | Exhibition | B2B Meetings | Field Visit

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SERVICES: IMPERATIVE TO WORLD ECONOMIC GROWTH

Service sector is the largest contributor to the world economy with nearly 70% share of global GDP, 60% of world employment and 46% of global exports in value-added terms with further scope for enhancement. The industrial revolutions over last two centuries, from the advent of steam power to electrical power to electronics to the fourth industrial revolution powered by robotics, IoT and digitisation have empowered business landscape.

Technology has deeply impacted the world of business. In this era of digital economy, advances in artificial intelligence, 3D printing, data analytics and digitisation have shrunk the markets. The impact of technology on international trade is extensive since buyers and sellers can connect on digital platforms from various locations.

The 8th Global Economic Summit focuses on various aspects of transformation driven by service technology and the growth of emerging MSMEs to promote trade infrastructure, irrespective of the fact whether they are buyers, suppliers, traders, technocrats, manufacturers, service providers and farmers.

GES: An opportunity for MSMEs to explore, connect and expand

With more than 30 speakers, 300 delegates, over 100 exhibitors and 30 participating countries, the 8th Global Economic Summit will bring together policymakers, academicians and large businesses to showcase opportunities for small, medium and large organisations to integrate services in enhancing manufacturing and agriculture sectors. Participants can look forward to:

- Critical inputs for business development strategy
- Interactions with subject experts in domains such as international trade, smart cities, intellectual property, digital commerce, data analytics etc.
- Networking opportunities with participants from over 30 countries that could translate into high-value business leads
- A deeper grasp of emerging and disruptive technology

New Speaker Announcements



Mr. Hardeep Singh Puri
 Hon'ble Minister of State (Independent Charge)
 Ministry of Housing and Urban Affairs,
 Government of India



Ms. Xiaolin Chai
 Director
 Trade in Services and Investment Division,
 World Trade Organization

NEWS HIGHLIGHTS

Indian tax authority's move could hurt 70% of India's ICT exports

The recent ruling by India's Authority of Advanced Ruling (AAR) has classified India's export of back office support services as 'intermediary' functions and thus brought such services under the 18% Goods and Services Tax (GST) bracket. In 2017, exports by the ICT industry were valued at USD 97 billion, 69 percent of which was business process outsourcing revenue. Cost-competitiveness is a crucial determinant of India's competitive strength in the BPO market. This ruling of the tax authority could hurt the competitiveness of India's BPO industry.



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Digital disruption leading to golden age of pop culture, says University of Minnesota Professor

University of Minnesota business professor Joel Waldfogel's new book, 'Digital Renaissance: What Data and Economics Tell Us about the Future of Popular Culture' delves into the impact of the internet on the music industry. Calling it a 'renaissance', he argues that the rise of the music streaming industry with service providers such as Spotify and Apple Music has re-imagined the quality and quantity of 'pop culture' that consumers are exposed to.

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ANALYSIS

An Emerging Domestic Market for India's Export Oriented IT Sector

The fact that India has a competitive edge in the export of IT and IT-enabled services is hardly a point of contentious debate. 69.2% of all service exports in 2017 came from the 'computer services' segment and total IT exports were valued at 97 billion USD. In economics jargon, India possesses a 'Revealed Comparative Advantage' (RCA) owing in part to its high skill, low wage labour market model. In the past and certainly in the future, external demand is expected to significantly impact the growth of the IT industry.



However, recent data suggests that there is a new seat at the demand table. Domestic demand for 'software as a service' is reportedly on the rise. By some estimates, expenditure by Indian companies to upgrade or digitalise their business processes will rise by 6.7% in 2019. The research firm Gartner places the value of this market at an estimated 90 billion USD. For sellers as well as consumers of these services, this means a possible marginal realignment of business development strategy.

What's Driving Demand?

While there are a number of variables that could affect the demand for IT services such as BPO or consulting, one variable stands out; competition. As competitive markets involve a plethora of buyers and sellers, points of differentiation can dominate business development strategy. As a result, changes in efficiency and output from one market actor can rapidly transform into a market trend.

One such trend is the digitisation of business processes. It is unclear whether digitisation is a producer-driven or consumer-driven trend. Alas, as a report from McKinsey states 'customers have been spoiled'. The argument here is that changing customer expectations have exponentially increased the propensity for firms to digitise their interactions with their customers. Businesses across sectors ranging from banks, manufacturing firms and service delivery firms are now looking at infusing 'software as a service' to overhaul their business models.

The argument on the other side of the coin is credible as well; from a producer's perspective McKinsey's report finds that digitising functions leads to better operational costs and in the medium to long term yields gains in efficiency that could seem lucrative to companies. So the demand for software services by businesses is perhaps a function of both changing customer expectation and producer incentives.

The Decade Ahead: India's Digital Transformation

The decade ahead is as fascinating as it is challenging for IT companies. Grey clouds are cast over the recovery of global demand, protectionist political agendas threaten the smooth movement of skilled labour across borders and the rate of disruption across industries is accelerating with advancements in technology. Could India's digitization create hitherto unexplored opportunities for growth?

Of late, the number of active internet users was estimated at 500 million. This figure includes more than half of the urban population. Annual growth rate of expected revenue from India's E-commerce market is 51 percent, the highest rate in the world. B2B E-commerce has been opened up to 100 percent FDI under the automatic route. These trends point to a potential to fundamentally transform the cash-dependent economy and move it into the digital realm. Yet if this potential is to be realized lessons need to be taken from successful cases.

One such case is China where the past decade has infused digital technology into the economy at an unprecedented rate. China's tale offers a key takeaway; market competition, favourable demographics/ adaptability to technological change and market friendly state action collectively produce the digitization of an economy.

Hence, while recent research suggests the existence of a lucrative domestic market for IT services, the capability of this market to leave a digital footprint over the Indian economy, lies in the balance.



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