

Notification No: 569/2024

Date of Award: 25/10/2024

Name of the Scholar: Anam

Name of the Supervisor: Dr. Pankaj Kumar Gupta (Professor)

Name of the Dept/Centre: Department of Management Studies

Topic of Research: A Comprehensive Analysis of India's External Trade: With Reference to Service Sector

Findings

The findings of the thesis demonstrate that the services sector has emerged as the cornerstone of India's external trade and a key driver of its economic transformation. Over the past three decades, India has successfully positioned itself as a major global exporter of services, with exports rising sharply from USD 6.7 billion in 1995 to USD 310 billion in 2022. This remarkable growth elevated India's share in global services exports from a marginal 0.58 per cent to 4.34 per cent, establishing the country among the world's top ten services exporters. Domestically, the sector now contributes more than half of national GDP, employs nearly one-third of the workforce, and consistently attracts the largest share of foreign direct investment inflows. The analysis confirms that the structural composition of India's services trade has shifted significantly, with modern, technology- and knowledge-intensive services such as software, IT-enabled services, business consulting, and financial services surpassing traditional categories like travel and transport. By 2003, "Other Commercial Services" had overtaken travel and transport as the dominant export segment, and by 2022, they accounted for over 70 per cent of India's services exports. The evidence further highlights the ascendancy of digitally deliverable services, particularly telecommunications, computer, and information services, which represent one of India's strongest areas of comparative advantage. Within this segment, computer services account for more than 90 per cent of exports, while other business services such as IT consulting, engineering, legal process outsourcing, and telemedicine represent the largest individual category overall. India has also emerged as the global leader in business process management, commanding a 55 per cent market share in 2022. These patterns confirm India's comparative advantage in human capital-intensive and digitally enabled services, supported by a large pool of skilled, English-speaking professionals, competitive cost structures, and favourable time-zone differentials.

Although modern services dominate the export basket, traditional categories have also expanded in absolute terms. Travel services remain the third-largest contributor to exports, with India's share of global tourism receipts increasing from 0.73 per cent in 2000 to 2.08 per cent in 2021, elevating its global rank from 36th to 14th position. Smaller categories such as insurance, financial, cultural, and intellectual property services have also registered notable growth, contributing to the gradual diversification of India's services portfolio. At the same time, India's export destinations have diversified beyond its two largest markets, the United States and the United Kingdom, to include Europe, East Asia, and Australia, while emerging economies such as the United Arab Emirates, Saudi Arabia, China, Brazil, and Malaysia are assuming greater importance. The comparative advantage analysis, measured through the Revealed Symmetric Comparative Advantage (RSCA) index, confirms India's strengths in telecommunications, computer, and information services, as well as in other business services. However, these advantages have been narrowing since 2014, raising concerns regarding the sustainability of India's position. In contrast, competitors such as China, Singapore, the United States, and the United Kingdom maintain broader comparative advantages across multiple categories, reflecting more diversified and resilient services export structures. Bilateral analysis further suggests that India holds untapped potential in financial and government services with France, in

construction with Singapore and Japan, and in transport services with China, signalling opportunities for expansion beyond its current areas of concentration.

The study reveals distinctive patterns in the modal composition of India's services trade. Unlike most economies, which rely heavily on commercial presence abroad (Mode 3), India's exports are primarily driven by cross-border supply (Mode 1) and the movement of natural persons (Mode 4). This reflects the country's comparative strengths in digitally deliverable services and skilled labour mobility. However, Mode 3 exports have been gaining significance as Indian firms expand their international presence, indicating deeper global integration. Modern services, including IT and business consulting, are predominantly delivered through Modes 1 and 3, while traditional services such as travel and healthcare are largely associated with consumption abroad (Mode 2).

Econometric analysis using the ARDL framework identifies several key determinants of services exports. Global demand for services imports emerges as the most significant driver, underscoring India's high sensitivity to international market conditions. Manufacturing exports also exert a strong positive effect, reflecting the growing interdependence between goods and services in global value chains. Outward FDI is shown to enhance services exports by facilitating commercial presence abroad, while services value-added as a share of GDP highlights the importance of productivity and innovation. Human capital, proxied by tertiary enrolment rates, also plays a vital role, particularly in sustaining growth in modern services exports. Conversely, an appreciation of the rupee reduces competitiveness, while inward FDI does not exhibit a significant positive effect on exports, likely because such investments are oriented more toward domestic markets than external trade. The research also draws attention to the regulatory environment governing India's digital trade. India's score on the OECD Digital Services Trade Restrictiveness Index (DSTRI) rose from 0.1989 in 2014 to 0.28527 in 2023, indicating increasing barriers. Data localization requirements, restrictions on cross-border data flows, high compliance costs, and uncertainty regarding data protection frameworks are identified as critical obstacles. Such restrictions may erode India's competitive edge in digital services exports if not addressed through appropriate reforms.

The policy implications of these findings are clear. To ensure the sustainability of services-led trade growth, India must diversify its export portfolio beyond IT and business services into sectors such as financial, insurance, transportation, travel, and cultural services. Greater investment in skill development, research, and innovation is required to maintain competitiveness in modern services. Facilitating outward FDI, promoting manufacturing-services integration within global value chains, and implementing comprehensive digital trade reforms including data protection legislation, rationalized localization requirements, and alignment with international standards will be essential. In addition, strengthening bilateral partnerships and entering targeted services trade agreements will enable India to deepen its integration with both advanced and emerging markets.