

## **INDIA'S FOREIGN TRADE: ECONOMY**

**NEWS:** 'Invisible hand' in India's foreign trade

### **WHAT'S IN THE NEWS?**

India's foreign trade is increasingly driven by services and remittances, with the service sector becoming the backbone of economic growth and global trade engagement.

#### **India's Foreign Trade Shift: From Goods to Invisibles**

- India's trade structure has shifted significantly in the last two decades.
- Invisibles—which include services exports and inward remittances—have outpaced merchandise exports in importance.
- The rise of services in India's external account has helped maintain a manageable current account deficit despite trade imbalances in goods.

#### **India's Service Sector Overview**

- Covers diverse domains like trade, hospitality, transport, storage, communication, finance, insurance, real estate, business services, social services, and construction-linked services.
- Dubbed the “Old War Horse” by the Economic Survey 2024–25 for its consistent contribution to India's economic growth.

#### **Present Status and Growth**

- Contributes approximately 55% to India's Gross Value Added (GVA) in FY25, up from 50.6% in FY14.
- Maintained average annual growth above 6% in the past decade (excluding the pandemic years).
- Grew at 8.3% post-COVID, underlining its resilience.

#### **Employment and Productivity**

- Employs nearly 30% of India's workforce.
- Drives manufacturing through “servicification”—embedding services like IT, design, and customer care into industrial processes.

#### **Exports and Global Standing**

- India ranks 7th globally in services exports with a 4.3% share.
- Exports of services rose by 12.8% during April–November FY25 (up from 5.7% in FY24).
- Computer services and business services account for 70% of total services exports.

- Top five global growth performers in services exports during FY25.

### **Unique Global Position and Potential**

- India is globally competitive in knowledge-based services like IT, software, finance, and legal services.
- Government initiatives like Smart Cities, Digital India, and Clean India boost domestic service demand.
- India's services strength presents a multi-trillion-dollar global opportunity.

### **Challenges Facing the Sector**

- **Infrastructure Gaps:** Poor digital and physical infrastructure in rural/semi-urban areas limits expansion.
- **Skill Mismatches:** A shortage of specialised service-oriented professionals affects service quality and innovation.
- **Regulatory Barriers:** Complex regulations reduce operational flexibility and global competitiveness.
- **Global Vulnerability:** Services exports are sensitive to global demand fluctuations, especially in developed markets.

### **Government Initiatives**

- **Champion Services Sector Action Plan:** Identifies and supports 12 high-potential sectors like tourism, IT, education, and finance.
- **Mahatma Gandhi National Fellowship:** Promotes skill development via 1000+ universities across India.
- **Financial Inclusion:** PM Jan Dhan Yojana opened 47 crore+ accounts, improving access to formal banking.
- **Healthcare Support:** Missions like Ayushman Bharat and proposed credit incentives for health infra expansion.
- **PLI Schemes for Manufacturing:** Helps services indirectly by enhancing logistics, IT integration, and design sectors.
- **FDI Reforms:** Insurance sector opened up to higher foreign direct investment, attracting capital and global expertise.

### **Conclusion and Forward Strategy**

- Services will remain the core of India's growth and export competitiveness.
- Invisibles will help balance India's current account in the face of merchandise trade deficits.
- India is transitioning into the "office of the world," with services being its leading export identity.

- Focus areas: Invest in service infrastructure, skill development, digital transformation, market access liberalisation, and regulatory simplification.

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