

Analysing India's Trade Competitiveness in Commercial Services with Developed Economies

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ABSTRACT

India's economy depends heavily on global trade in services, which boosts GDP, creates jobs, and generates foreign exchange revenues. India is now a significant exporter of a wide range of services, including information technology (IT), business process outsourcing (BPO), software development, tourism, finance, and engineering, thanks to globalization and technological advancements. Since the economic reforms of the 1990s, the services sector has been a major driver of India's economic expansion. This study investigates the growth, composition, and direction of India's services trade, as well as its revealed comparative advantage (RCA) and trade intensity index. The findings indicate that India's service exports experienced strong growth from 2005 to 2022, particularly in travel and computer services.

The results show that, notwithstanding a minor decrease in transportation and other business activities, India's service exports grew significantly between 2005 and 2022, especially in travel and computer services. India has significant commercial benefits with wealthy nations like the United States and the United Kingdom. As a result of improved worldwide connectedness, service imports have also expanded, namely in the areas of computer, travel, and transportation services. The study suggests that India should continue to diversify its service exports while also strengthening trade links with wealthy economies. It advocates boosting industries in which India has a distinct edge, upgrading weaker ones, and adopting new technology and ideas..

1. INTRODUCTION

India's international services trade plays a crucial role in the country's economy, significantly contributing to its GDP and employment. With the globalisation of economies and advancements in technology, India has emerged as a major player in the global services market, offering a wide range of services, including IT services, business process outsourcing (BPO), software development, engineering services, financial services, healthcare services, tourism, and more. In recent years, India's Information Technology (IT) industry, comprising IT services and business process outsourcing (BPO), has become a pivotal sector, contributing significantly to the nation's GDP. As of the fiscal year 2022, the IT-BPM sector accounted for 7.4% of India's GDP. Moreover, in the fiscal year 2023, the combined revenue of the IT and BPM industries reached an estimated US\$245 billion (IBEF, 2023).

Furthermore, there has been a remarkable rise in the share of services in India's total exports. Notably, India has emerged as a significant exporter of services such as IT, BPO, and tourism. This increasing share of services in India's export portfolio has become a substantial contributor to the country's foreign exchange earnings. The importance of trade with Asia has also surged in recent times, with Asia assuming a crucial role as a trading partner for India. Noteworthy destinations for Indian exports now include the U.K., U.S.A., China, Japan, and

ASEAN countries (ADB, 2022). Simultaneously, India has also augmented its imports from these Asian nations. This trend is propelled by the rapid economic growth of Asian economies and the deepening integration within the region. The growth of India's service sector became particularly pronounced during the 1990s, a period marked by significant economic reforms. While the services sector had shown signs of expansion since the mid-1980s, it experienced a substantial surge in the 1990s, coinciding with India's initiation of sweeping economic reforms (IMF 2024).

India's services sector holds a pivotal position in the nation's economy, not only constituting the dominant segment of GDP but also drawing substantial foreign investment, driving significant export contributions, and offering extensive employment opportunities (GOI, 2023). Encompassing diverse activities such as trade, hospitality, transportation, communication, finance, insurance, real estate, business services, social services, and construction-related services, India's services sector plays a multifaceted role in sustaining economic growth and facilitating societal development.

2. REVIEW OF LITERATURE

The reviewed studies together explain how international trade and services liberalisation have supported India's economic growth, especially after the reforms of the 1990s. Raghuramapatrani and Chaitanya (2020) used the ARDL model and Trade Openness Index for 1991–2017 and found that exports and domestic investment have a positive effect on GDP growth, showing that trade plays an important role in India's economy. Breinlich and Crisculo (2010) studied UK firms from 2000–2005 and found that trade in services differs widely among firms, and that liberalisation can shift resources between firms—an observation also useful for understanding India's service trade. Chadda et al. (2010) studied India's services trade from 1980–2007 and found strong growth after reforms, especially in transport, travel, and business services. Terzi (2010) explained that trade liberalisation in services can enhance welfare, strengthen comparative advantage, and enhance growth in developing economies. Chanda and Gupta (2011) studied reforms in telecom, banking, higher education, and retail sectors and showed that liberalisation involved both regulatory and non-regulatory changes, with cooperation between the government and private sector. Mukherjee and Goswami (2011) used the RCA method and found that although India's service sector faces barriers, it contributes most to GDP, trade, and FDI, and they suggested policy actions for inclusive growth. De (2013) used the gravity model and found that India's services exports are affected by complex trade barriers and called for easier regulations. Subhash (2006) pointed out that India's software industry grew due to government support and strong private initiative. Chakravarti and Dutta (2002) showed that although the software industry has grown rapidly, weak regulation and a small domestic market limit its progress. Arora and Bagde (2010) found that human capital, especially skilled engineers, gives India an advantage in software exports. Pazhayathodi (2010) showed that India has a comparative advantage in ITES/BPO services but faces new challenges from global competition. Kumar (2005) noted that services make up nearly half of South Asia's GDP, similar to global trends. Fernandes (2007) found that services also became more important in Eastern European and Central Asian countries. Overall, these studies show that India's service sector has become the main driver of growth due to liberalization, FDI, and skilled workers. But barriers, competition, and uneven reforms remain challenges. The studies suggest that India should continue trade reforms, improve infrastructure, and invest in skills to strengthen its position in global value chains. Thus, it is clear that the trade in Indian services is growing. But due to non-availability of data, the vast literature is not available. So, the present study would make an attempt to fill this gap.

3. OBJECTIVES OF THE STUDY

To examine the growth of India's Trade in Services.

To analysis the Composition and direction of India's Trade in Services.

To analysis the Revealed Comparative Advantage and Trade Intensity Index of Services.

4. METHODOLOGY

The study mainly covers the period of the second decade of globalization, i.e., 2005 to 2022.

Trade Intensity Index (TII)

The trade intensity index (TII) is used to measure whether the value of commerce between two countries exceeds or falls short of expectations based on their prominence in global trade. It is defined as the share of one country's exports going to a partner divided by the share of world exports going to the partner. It is calculated as,

$$T_{ij} = (X_{ij} / X_{it}) / (X_{wj} / X_{wt})$$

Where x_{ij} and x_{wj} are the values of country i 's exports and of world exports to country j and where X_{it} and X_{wt} are country i 's total exports and total world exports respectively. An index of more (less) than one indicates a bilateral trade flow that is larger (smaller) than expected, given the partner country's importance in world trade.

Revealed Comparative Advantage Index

Revealed Comparative Advantage is one of the most applied tools to measure the export competitiveness. It is defined as, "the share of particular services in a country's total exports of the share of services in the world's total exports". If the RCA is greater than 1, the country is said to have a comparative advantage in a particular service compared with rest of the world (Balassa, 1965).

$$RCA_{ij} = (X_{ij}/X_{wj}) / (X_i/X_w)$$

Where, RCA_{ij} = Revealed comparative advantage of the i th country's, j th service.

X_{ij} = Exports of the j th service by the i th country.

X_i = Total service exports of the i th country.

X_{wj} = World exports of the j th service.

X_w = Total world exports of services.

Composition of India's Trade in Commercial Services with World

The composition of India's trade in commercial services with the world reflects its diverse export and import activities across various service sectors. India's export of services with the world has experienced significant growth over the period from 2005 to 2022. Specifically, the total export value in transportation has surged from US\$ 33,008.880 million to US\$ 108,944.233 million during this timeframe. However, there have been notable shifts in the composition of these exports. While the share of transportation exports has decreased from 63.3% to 35.2%, exports in the travel sector have seen a substantial increase from US\$ 6,186.630 million to US\$ 25,881.428 million, marking nearly a threefold growth. Similarly, exports in computer services have risen significantly from US\$ 1,048.870 million to US\$ 14,908.275 million, with its percentage share increasing from 2.01% to 4.82% over the same period. Information services have also witnessed growth, albeit on a smaller scale, increasing from US\$ 216.985 million to US\$ 831.757 million. However, there has been a decline in the export value of other business services, falling from US\$ 13,573.600 million to US\$ 57,258.563 million, representing a 9% decrease. These trends reflect the evolving landscape of India's service exports, with certain sectors experiencing remarkable expansion while others undergo shifts in their contribution to overall exports.

Table. 1 : India's Export of Services Trade with World (US\$ Million)

Year	Transport	Travel	Computer Services	Information Services	Other Business Services	All Services
2005	33008.880 (63.3)	6186.630 (11.86)	1048.870 (2.01)	216.985 (0.42)	13573.600 (26.01)	52179
2010	46704.729 (39.9)	10489.600 (8.96)	2175.900 (1.86)	356.021 (0.30)	25495.883 (21.78)	117068
2015	52256.879 (33.4)	14837.562 (9.49)	2575.512 (1.65)	380.665 (0.24)	29809.568 (19.07)	156278.174
2020	53812.971 (26.5)	12574.225 (6.19)	9089.115 (4.47)	528.572 (0.26)	48603.731 (23.93)	203145.152
2022	108944.233 (35.2)	25881.428 (8.37)	14908.275 (4.82)	831.757 (0.27)	57258.563 (18.51)	309374.073
CAGR	7.26	6.78	13.15	4.59	7.93	

Sources: IMF, UNSD, Eurostat, UNCTAD and WTO statistics, 2024.

Table 2 represent the India's import of services from the world has shown significant growth from US\$ 6,537.040 million in 2005 to US\$ 37,535.685 million in 2022. During this period, the share of transportation imports has risen from 10.8% to 15%, indicating an increasing reliance on transportation services from international sources. Similarly, imports in the travel sector have seen substantial growth from US\$ 7,492.850 million to US\$ 21,360.307 million, representing nearly a threefold increase. Meanwhile, imports in computer services have skyrocketed from US\$ 15,915.194 million to US\$ 95,522.898 million, with its percentage share increasing from 26.2% to 38.3% over the same period, underscoring the growing importance of computer services in India's import landscape. Information services have also experienced growth, albeit on a smaller scale, increasing from US\$ 164.016 million to US\$ 340.383 million. Notably, imports in other business services have surged from US\$ 18,211.857 million to US\$ 120,490.751 million, but its percentage share has increased from 30% to 48.3% during the same period, highlighting a significant shift in the composition of India's service imports towards other business services. These trends reflect the evolving dynamics of India's service imports, with certain sectors experiencing exponential growth while others witness changes in their contribution to overall imports.

Table .2: India's Import of Services Trade with World (US\$ Million)

Year	Transport	Travel	Computer Services	Information Services	Other Business Services	All Services
2005	6537.040 (10.8)	7492.850 (12.4)	15915.194 (26.2)	164.016 (0.27)	18211.857 (30.0)	60635.600
2010	13275.100 (11.6)	14489.700 (12.6)	38403.878 (33.4)	592.348 (0.52)	34528.808 (30.0)	114927.577
2015	14319.030 (11.6)	21012.655 (17.0)	52761.452 (42.7)	196.420 (0.16)	50097.026 (40.5)	123566.794
2020	20790.997 (13.5)	13036.076 (8.48)	65321.142 (42.5)	255.293 (0.17)	78469.190 (51.0)	153736.992
2022	37535.685 (15.0)	21360.307 (8.56)	95522.898 (38.3)	340.383 (0.14)	120490.751 (48.3)	249522.027
CAGR	4.50	4.81	8.16	-0.64	9.23	

Sources: IMF, UNSD, Eurostat, UNCTAD and WTO statistics, 2024.

Direction of India's Total Trade in Services with Major Partners

The direction of India's total trade in services with major partners such as the USA and the UK signifies the flow of services between these countries. India's trade in services with the USA and the UK predominantly involves exports of services from India to these countries, as well as imports of services from these countries to India. Specifically, India exports various services, including IT services, business process outsourcing, travel, transportation, and other professional services, to the U.S.A. and the UK.

India's Services Trade with U.S.A

India's services trade with the U.S.A. contributes substantially to economic growth in both nations. The services trade between India and the U.S.A. creates employment opportunities in both countries. India's export of services to the USA has witnessed notable changes from 2005 to 2022. While the total export value has increased marginally from US\$ 474 million to US\$ 424 million during this period, there have been significant shifts in the composition and share of different service categories. The share of transportation exports has declined from 10.46% to 1.28%, indicating a reduced contribution of transportation services to India's total service exports to the USA. Conversely, exports in the travel sector have seen substantial growth, rising from US\$ 981 million to US\$ 2,217 million, marking nearly a threefold increase. Meanwhile, exports in computer services have increased from US\$ 7,499 million to US\$ 12,072 million, although its percentage share has decreased from 49.15% to 36.31% over the same period, reflecting a relative decline in the contribution of computer services to India's total service exports to the USA. Information services have also experienced growth, increasing from US\$ 272 million to US\$ 524 million.

Table.3: India's Export Services Trade with U.S.A (US\$ Million)

Year	Transport	Travel	Computer Services	Information Services	Other Business Services	All Services
2005	474 (10.46)	981 (21.66)	NA	NA	NA	4530
2010	617 (4.04)	2270 (14.88)	7499 (49.15)	272 (1.78)	3659 (23.98)	15257

2015	464 (1.87)	2553 (10.27)	13742 (55.26)	502 (2.02)	6086 (24.47)	24869
2020	190 (0.73)	722 (2.76)	11350 (43.33)	463 (1.77)	11247 (42.94)	26193
2022	424 (1.28)	2217 (6.67)	12072 (36.31)	524 (1.58)	14256 (42.88)	33247
CAGR	-4.31	0.40	9.40	14.05	12.50	

Sources: IMF, UNSD, Eurostat, UNCTAD and WTO statistics, 2024.

Notably, exports in other business services have surged from US\$ 3,659 million to US\$ 14,256 million, with its percentage share rising from 23.98% to 42.88% during the same period, indicating a significant increase in its contribution to India's total service exports to the USA. These trends highlight the evolving landscape of India's service exports to the USA, with certain sectors experiencing growth while others undergo changes in their contribution to overall exports.

India's import of services from the U.S.A. has shown a notable increase from US\$ 559 million in 2005 to US\$ 1,337 million in 2022(table 6.2). However, there have been significant changes in the composition and share of different service categories during this period. The share of transportation imports has declined from 10.59% to 5.17%, indicating a reduced reliance on transportation services from the U.S.A. Meanwhile, imports in the travel sector have surged from US\$ 3,318 million to US\$ 12,368 million, although its percentage share has also decreased from 62.84% to 47.79%. Conversely, imports in computer services have increased from US\$ 412 million in 2010 to US\$ 733 million in 2022, but its percentage share has decreased from 4.16% to 2.83% over the same period, indicating a relative decline in the contribution of computer services to India's total service imports from the U.S.A. Information services have also witnessed growth, increasing from US\$ 127 million to US\$ 218 million.

Table 4: India's Import Services Trade with USA (US\$ Million)

Year	Transport	Travel	Computer Services	Information Services	Other Business Services	All Services
2005	559 (10.59)	3318 (62.84)	NA	NA	NA	5280
2010	909 (9.18)	5703 (57.62)	412 (4.16)	127 (1.28)	848 (8.57)	9898
2015	908 (5.24)	9931 (57.33)	964 (5.56)	164 (0.95)	1497 (8.64)	17323
2020	669 (4.10)	7495 (45.93)	696 (4.27)	850 (0.52)	1580 (9.68)	16317
2022	1337 (5.17)	12368 (47.79)	733 (2.83)	218 (0.84)	2699 (10.43)	25881
CAGR	1.79	7.27	12.96	8.70	8.09	

Sources: IMF, UNSD, Eurostat, UNCTAD and WTO statistics, 2024.

Notably, imports in other business services have surged from US\$ 848 million to US\$ 2,699 million, with its percentage share increasing from 8.57% to 10.43% during the same period, indicating a significant increase in its contribution to India's total service imports from the U.S.A. These trends underscore the evolving nature of India's service imports from the U.S.A., with shifts in the importance of different service sectors over time.

India's Services Trade with U.K

India's services trade with the U.K. fosters economic cooperation, innovation, and bilateral relations between the two nations.

Table 6.3 illustrates India's export services trade with the UK from 2005 to 2022, showcasing notable changes in various sectors. While the export value of transportation has increased from US\$ 346.738 million to US\$ 250.215 million during this period, its percentage share has drastically declined from 12.1% to 2.06%. In contrast, exports in travel have risen from US\$ 1,216.702 million to US\$ 1,437.197 million, although its percentage share has also decreased from 42.4% to 11.8%. Moreover, exports in computer services have experienced significant growth from US\$ 423.961 million to US\$ 1,244.913 million, with its percentage share increasing from 8.72% to 10.2%. Information services have also seen an increase from US\$ 56.708 million to US\$ 92.44 million. Notably, exports in other business services have surged from US\$ 704.856 million to US\$ 8,324.893 million, with its percentage share rising from 24.5% to 68.5% during the same period. These trends underscore the evolving nature of India's service exports to the UK, reflecting changes in the importance of different service sectors over time.

Table.5: India's Export Services Trade with U.K (US\$ Million)

Year	Transport	Travel	Computer Services	Information Services	Other Business Services	All Services
2005	346.738 (12.1)	1216.702 (42.4)	0.00	0.00	704.856 (24.5)	2872.298
2010	404.021 (8.29)	1280.268 (26.3)	0.00	0.00	2303.018 (47.2)	4876.027
2015	229.533 (4.72)	1400.151 (28.8)	423.961 (8.72)	56.708 (1.17)	2239.971 (46.1)	4859.347
2020	151.282 (2.09)	416.667 (5.76)	770.513 (10.6)	47.436 (0.66)	5289.746 (73.1)	7238.465
2022	250.215 (2.06)	1437.197 (11.8)	1244.913 (10.2)	92.444 (0.76)	8324.893 (68.5)	12149.611
CAGR	-7.01	-6.41	17.73	15.82	26.05	

Sources: IMF, UNSD, Eurostat, UNCTAD and WTO statistics, 2024

Table 6 illustrates India's import services trade with the UK from 2005 to 2022, showing significant changes across various sectors. While the import value of transportation has risen from US\$ 288.862 million to US\$ 774.065 million during this period, its percentage share has decreased from 11.5% to 9.37%. Conversely, imports in travel have surged from US\$ 482.161 million to US\$ 5,003.071 million, with its percentage share witnessing the highest increase from 19.1% to 60.6%. Moreover, imports in computer services have increased from US\$ 83.712 million to US\$ 154.073 million, with its percentage share rising from 2.25% in 2015 to 4.09% in 2020, but then declining again to 1.86% in 2022. Imports in information services have also seen growth from US\$ 56.708 million to US\$ 93.677 million. Notably, imports in other business services have surged from US\$ 656.289 million to US\$ 1,021.815 million, with its percentage share rising from 26% in 2005 to 39.3% in 2020, before sharply declining to 12.4% in 2022. These changes reflect the dynamic nature of India's service imports from the UK, highlighting shifts in the importance of different service sectors over time.

Table .6 : India's Import Services Trade with U.K (US\$ Million)

Year	Transport	Travel	Computer Services	Information Services	Other Business Services	All Services
2005	288.862 (11.5)	482.161 (19.1)	0.00	0.00	656.289 (26.0)	2522.192
2010	278.878 (11.5)	709.305 (29.4)	0.00	0.00	637.939 (26.4)	2415.497
2015	456.365 (12.3)	1392.050 (37.4)	83.712 (2.25)	56.708 (1.52)	544.128 (14.6)	3722.484
2020	496.154	2047.437	253.846	84.615	2438.463	6202.567

	(8.00)	(33.0)	(4.09)	(1.36)	(39.3)	
2022	774.065 (9.37)	5003.071 (60.6)	154.073 (1.86)	93.677 (1.13)	1021.815 (12.4)	8262.031
CAGR	6.65	20.32	3.07	10.36	6.54	

Sources: *IMF, UNSD, Eurostat, UNCTAD and WTO statistics, 2024.*

India's RCA and Trade Intensity Index with Selected partners

Table 7 illustrates India's average revealed comparative advantage across various export services to its major trading partners from 2005 to 2022. Notably, India demonstrates a significant advantage in exporting services to the United States, particularly in transportation, travel, computer, and information services, as well as other business services. The data reveals that India's highest comparative advantage lies in computer services, reaching 5.34% in 2015, although it subsequently declined to 0.81% by 2022 due to a deficit. Similarly, India exhibits a notable revealed comparative advantage with the United Kingdom, particularly in transportation, computer, and information services. For instance, transportation services showcased a comparative advantage of 1.05% in 2005, followed by computer services at 0.16% and information services at 0.15% in 2015. These findings highlight India's strengths and areas of specialization in exporting services to key international partners over the analyzed period.

Table.7: India's Revealed Comparative Advantage with Selected Countries

India's with U.S.A					
Year	Transport	Travel	Computer Services	Information Services	Other Business Services
2005	1.44	0.16	0.00	0.00	0.00
2010	1.32	0.22	3.45	0.76	0.14
2015	0.89	0.17	5.34	1.32	0.20
2020	0.35	0.06	1.25	0.88	0.23
2022	0.39	0.09	0.81	0.63	0.25
India's with U.K					
Year	Transport	Travel	Computer Services	Information Services	Other Business Services
2005	1.05	0.20	0.00	0.00	0.05
2010	0.87	0.12	0.00	0.00	0.09
2015	0.44	0.09	0.16	0.15	0.08
2020	0.28	0.03	0.08	0.09	0.11
2022	0.23	0.06	0.08	0.11	0.15

Sources: *IMF, UNSD, Eurostat, UNCTAD and WTO statistics, 2024.*

Table 8 presents the trade intensity of India with its major partners, the United States (U.S.A) and the United Kingdom (U.K), across various service categories from 2005 to 2022. Trade intensity indicates the proportion of each service category in India's total trade with the respective partner. Over the years, there were fluctuations in trade intensity across different service categories. Notably, computer services saw a remarkable increase in trade intensity, from 0.00 in 2005 to 18.20 in 2010, before gradually declining to 16.47 in 2022. Similarly, other business services also experienced notable fluctuations in trade intensity. Similarly, other business services also saw notable increases in trade intensity over the years. In contrast, trade with the U.K reveals different patterns, with varying intensities across services and years.

Table .8: Trade Intensity of India with Partners

India's with U.S.A					
Year	Transport	Travel	Computer Services	Information Services	Other Business Services
2005	0.85	0.30	0.00	0.00	0.00
2010	0.68	0.40	18.20	2.14	4.31
2015	0.51	0.26	14.26	3.06	4.07
2020	0.28	0.10	16.31	5.45	7.12
2022	0.32	0.18	16.47	2.40	5.28
India's with U.K					
Year	Transport	Travel	Computer Services	Information Services	Other Business Services
2005	1.20	2.52	0.00	0.00	1.07
2010	1.45	1.80	0.00	0.00	3.61
2015	0.50	1.01	5.06	1.00	4.12
2020	0.30	0.20	3.04	0.56	2.17
2022	0.32	0.29	8.08	0.99	8.15

Sources: IMF, UNSD, Eurostat, UNCTAD and WTO statistics, 2024.

Trade intensity measures the proportion of each service category in India's total trade with the U.K. In 2005, for instance, transportation services had a trade intensity of 1.20, indicating that they constituted a significant portion of India's trade with the U.K. in that year. Similarly, travel services had a trade intensity of 2.52, reflecting their substantial contribution to the overall trade. However, in the same year, computer services and information services showed no trade intensity, indicating minimal or no trade activity in these categories. Over the years, there were fluctuations in trade intensity across various service categories. For example, in 2015, computer services saw a notable increase in trade intensity, reaching 5.06, while other business services also experienced fluctuations. Overall, the table provides an overview of how different service categories contribute to India's trade with the United Kingdom over time.

5. CONCLUSION

India's trade in commercial services with the world has shown significant growth, with notable increases in exports of transportation, travel, and computer services from 2005 to 2022. While transportation exports declined in share, travel and computer services witnessed substantial growth. However, other business services saw a decrease in export value. Overall, these trends underscore the dynamic nature of India's service exports and the evolving importance of various sectors in its trade portfolio. In conclusion, the study highlights India's substantial growth in the import of services from the world, particularly in transportation, travel, and computer services. India's services trade with the USA has seen notable changes, with substantial growth in sectors like travel and other business services, suggesting a need for continued diversification and focus on emerging service sectors for enhanced trade relations. India has a significant comparative advantage in exporting services to key trading partners such as the United States and the United Kingdom. Despite a decline in sectors like computer services, India's strengths in transportation, travel, and information services continue to be notable. These observations underscore the importance of strategic planning and investment to maintain and bolster India's competitiveness in the global services market. Specifically, there is a need for continued efforts to enhance trade relations, particularly with key partners like the United States and the United Kingdom. This could involve strategic initiatives aimed at promoting exports in sectors showing strong comparative advantages, while also addressing the decline in sectors experiencing challenges. Additionally, fostering innovation and technology adoption in service delivery could further enhance India's competitiveness in the global market.

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