



RIS Discussion Paper # 348

Enhancing India's Services Trade Competitiveness for Viksit Bharat 2047

Prabir De, Arpita Mukherjee, Latika Khatwani



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Enhancing India's Services Trade Competitiveness for Viksit Bharat 2047

Prabir De*, Arpita Mukherjee**, Latika Khatwani***

Abstract: Global trade, both goods and services, have been badly hit by the uncertainties and headwinds. The global economy is undergoing a profound transformation driven by geopolitical tensions, supply chain disruptions, and shifting trade patterns. In this changing scenario, services trade offers some hope and positivity. Services trade play a key role in the world economy. India, a leading voice of Global South, is one of the world's top 10 largest exporters of commercial services. Services exports have been a resilient driver of the Indian economy. Trade and trade agreements provide a better synthesis of India's services trade. This paper aims at analysing India's services trade profile and how India's services trade interests are taken into consideration by partner countries through the agreements. It also discusses the opportunities and challenges in services trade in the backdrop of current global uncertainties.

Keywords: Services Trade, India, WTO, Trade Agreements, Integration, Trade barriers

JEL Classifications: F13, F18, F20, L80, O14

1. Introduction

The global economy is undergoing a structural shift, driven by heightened geopolitical tensions, supply chain disruptions, subdued industrial activity and shifting trade patterns. Amid these headwinds, the services sector has emerged as the principal engine of economic growth, resilience and cross-border integration, both globally and in India. As the country

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moves towards Viksit Bharat 2047, the services sector continues to be the key driver of this growth. The sector has grown at faster pace (9.3 per cent) than the overall Gross Domestic Product (GDP, 7.7 per cent) in Financial Year (FY) 2025-26, contributing to over 53.6 per cent of the country's total GDP.¹ During the same period, the sector's share in Gross Value Added (GVA) reached a historic high of 54.3 per cent², higher than the combined share of agriculture (19.9 per cent) and manufacturing sector (25.8 per cent).³ The sector is the second-largest employer after agriculture and accounts for around 30 per cent of the total employment in the country. It is the largest recipient of Foreign Direct Investment (FDI), attracting approximately 60 per cent of the total FDI equity inflow. Beyond its contribution to domestic output and employment, the services sector is a major contributor to India's international trade, driven by the proactive measures of the government. In 2025-26, trade in services contributed to over 33 per cent⁴ of India's total trade and trade in services as a percentage of GDP stood at 15.5 per cent.⁵ India is now the seventh-largest exporter of services, with its share doubling from 2.96 per cent in 2014 to 4.23 per cent in 2024, growing at a CAGR of 3.63 per cent.⁶ Throughout the decade, India has maintained a positive trade balance in services, rising from US\$ 28.84 billion in 2014 to US\$ 105.59 billion in 2024, helping to offset the deficit in merchandise trade. Owing to this significant contribution, India is often referred to as a services-led economy.

However, in recent years, India's services exports are facing many challenges, primarily due to protectionism in key export markets. Protectionist measures, such as the H-1B visa restrictions in the United States of America (USA) and the USA's Halting International Relocation of Employment Act (HIRE Act), which seeks to impose a 25 per cent discriminatory tax on offshore services, and rising digital protectionism through data localisation and privacy regulations, pose significant risks. These challenges are compounded by the high concentration of India's services exports in a few markets and sectors.

India's traditional export markets are largely English-speaking economies, with the USA accounting for a large share, followed by the United Kingdom (UK). Indian exporters have not been able to diversify into non-English speaking markets. Moreover, India's services exports have remained concentrated in two key segments namely, IT/ITeS and professional/business services, resulting in limited diversification across sectors and markets. This concentration heightens vulnerability to external risks and policy shifts in major markets like the USA. Recognising these challenges, the Government of India is actively pursuing market diversification through trade negotiations and enhanced international engagement. At the same time, there is an urgent need to improve competitiveness and productivity of services sector to diversify the export basket.

1.1 Objectives

Given this background, this paper provides an overview of India's services sector and its position in global services trade. It explores how services are addressed under India's trade agreements. It identifies barriers faced by the services sector that limit the sector's competitiveness, export potential, and ability to attract FDI and makes recommendations to enhance productivity, efficiency, and competitiveness, with a focus on diversifying India's exports and markets and leveraging trade negotiations to strengthen India's position as a leading global services exporter.

1.2 Methodology and Data Sources

The paper is based on literature review and secondary data and information. For trade flows, secondary data from the World Trade Organisation (WTO), United Nations Conference on Trade and Development (UNCTAD), Organisation for Economic Co-operation and Development (OECD) have been used. For bilateral trade flows, the Balanced Trade in Services (BaTiS) dataset, developed jointly by the OECD and WTO has been used. The Trade in Services by Mode of Supply (TISMOS) dataset has been used for data on trade in services through

four modes of supply. For estimating barriers, we have used Services Trade Restrictiveness Index (STRI). Macroeconomic variables (namely, current GDP, GDP per capita in PPP terms, etc.) are from World Bank's World Development Indicators, Ministry of Statistics and Programme Implementation (MoSPI), and the Department for Promotion of Industry and Internal Trade (DPIIT).

1.3 Layout of the Paper

The paper has a total seven sections. Section 2 provides an overview of global trade in services. Section 3 examines the profile of India's services trade, Section 4 discusses FDI in the services sector, while Section 5 discusses the treatment of services in trade agreements. Section 6 examines the challenges that limit the sector's export potential. Section 7 provides recommendations to strengthen India's services sector and position India as a leading global services exporter.

2. Global Services Trade: Emerging Trends

International trade in services has been evolving from the exchange of non-physical traditional goods like finance, telecom, tourism, education to technology-driven digitally-delivered services, thereby making the services trade a major growth catalyst in today's changing world.⁷ In other words, services now account for a significant and increasing share of global trade, driven by digitalization and technological advances.

Global trade in services has been rising over the years. It increased from US\$ 9.89 trillion in 2015 to US\$ 18.24 trillion in 2025, registering a compound annual growth rate (CAGR) of 6.31 per cent. The top ten services exporters and importers, along with their respective shares in global services exports and imports for the years 2015 and 2025, are presented in Tables 2.1 and 2.2, respectively.

Collectively, the top ten economies accounted for over half of global services exports in both years. The USA and the UK retained their first and second positions respectively, while Ireland emerged as a major gainer, moving from ninth to third position. Ireland's growth is driven

by the rapid expansion of knowledge-intensive services, particularly ICT, life sciences and financial services – supported by both the scaling up of indigenous firms and the increasing role of foreign multinational enterprises using Ireland as a base for exporting high-value services.

India has strengthened its position in global services exports, improving its ranking from ninth in 2015 to eighth in 2025. During the same period, its share in global services exports increased from 3.17 per cent to 4.35 per cent.

Table 2.1: Top 10 Services Exporters and Their Share in Global Exports (2015–2025)

2015				2025			
Rank	Country	Value (US\$ million)	Share in Global Exports (%)	Rank	Country	Value (US\$ million)	Share in Global Exports (%)
1	USA	749,311	14.96	1	USA	1,209,260	12.66
2	UK	382,087	7.63	2	UK	721,692	7.55
3	Germany	281,387	5.62	3	Ireland	565,707	5.92
4	France	252,343	5.04	4	China	509,092	5.33
5	China	228,919	4.57	5	Germany	502,208	5.26
6	Netherlands	195,941	3.91	6	Singapore	422,140	4.42
7	Ireland	159,899	3.19	7	France	422,018	4.42
8	Japan	158,290	3.16	8	India	415,445	4.35
9	India	155,717	3.11	9	Netherlands	381,349	3.99
10	Singapore	152,929	3.05	10	Spain	252,206	2.64
Share of top 10 Countries (%)		2,716,823	54.24	Share of top 10 Countries (%)		5,401,117	56.54

Source: WTO.

Table 2.2: Top 10 Services Importers and Their Share in Global Imports (2015–2025)

2015				2025			
Rank	Country	Value (US\$ million)	Share in Global Imports (%)	Rank	Country	Value (US\$ million)	Share in Global Imports (%)
1	USA	476,773	9.76	1	USA	869,808	10.01
2	China	433,821	8.88	2	China	620,549	7.14
3	Germany	303,191	6.21	3	Germany	588,185	6.77
4	UK	237,625	4.86	4	Ireland	535,732	6.17
5	France	236,129	4.83	5	UK	450,968	5.19
6	Netherlands	212,904	4.36	6	Singapore	384,623	4.43
7	Ireland	196,334	4.02	7	France	360,881	4.15
8	Japan	176,702	3.62	8	Netherlands	338,648	3.90
9	Singapore	161,530	3.31	9	India	276,600	3.18
10	Switzerland	153,251	3.14	10	Japan	262,765	3.02
Share of top 10 Countries (%)		2,588,260	53	Share of top 10 Countries (%)		4,688,759	53.96

Source: WTO Statistics; Available at: https://www.wto.org/english/res_e/statis_e/world_trade_statistics_e.htm (Last accessed on July 06, 2026).

India and China – two major Global South economies have strengthened their presence in world services trade. In particular, services trade in India has grown faster than the world average during 2020-2024 and reached US\$ 0.69 trillion in 2025. On the other hand, China’s services trade continued to expand to US\$ 1.3 trillion in 2025 (see Table 2.3).

Table 2.3: World Services Trade vis-à-vis China and India

(US\$ trillion)

Year	Export			Import			Total		
	World	China	India	World	China	India	World	China	India
2010	4.00	0.18	0.12	3.90	0.19	0.11	7.90	0.37	0.23
2015	5.07	0.22	0.16	4.97	0.44	0.12	10.05	0.65	0.28
2020	5.32	0.28	0.20	5.06	0.38	0.15	10.38	0.66	0.36
2024	8.85	0.45	0.37	8.08	0.61	0.27	16.93	1.06	0.64
2025	9.56	0.51	0.42	8.69	0.62	0.28	18.24	1.13	0.69
CAGR (%)									
2010-2014	7.33	5.29	7.65	7.58	22.31	2.80	7.45	15.08	5.33
2015-2019	5.98	6.68	8.27	5.37	3.55	9.77	5.68	4.63	8.94
2020-2024	13.57	12.27	16.55	12.42	12.51	15.05	13.01	12.41	15.91

Source: WTO Stats; Available at: <https://stats.wto.org/> (Last accessed on July 06, 2026).

Growth in services trade is also marked by changes in the distribution of services. In terms of the flow of services trade, services trade occurs via four modes: Mode 1 - cross-border supply (e.g., remote IT support), Mode 2 - consumption abroad (e.g., tourism), Mode 3 - commercial presence (e.g., an overseas bank branch), and Mode 4 - movement of natural persons (e.g., foreign consultants)⁸ (Figure 2.1).

Figure 2.2 and Figure 2.3 present the structures of services trade by modes of supply from the year 2012-2022. Mode 3 (commercial presence) dominates in both services export and import, followed by Mode 1 (cross-border supply) and Mode 2 (consumption abroad). Overall, it is the foreign investment in services that drives the flow of services. What follows is that the technology has made many services easily tradable as digital information.

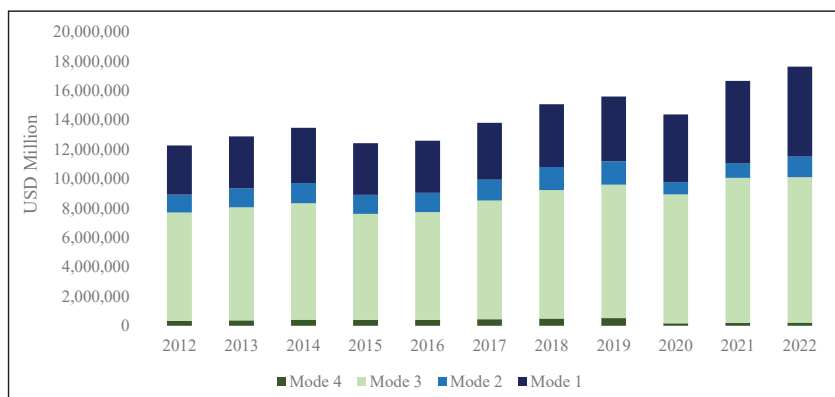
The rise of services trade has also been influenced by regional trading agreements (RTAs). Although the GATS provides the multilateral legal

Figure 2.1: Classification of Services under GATS



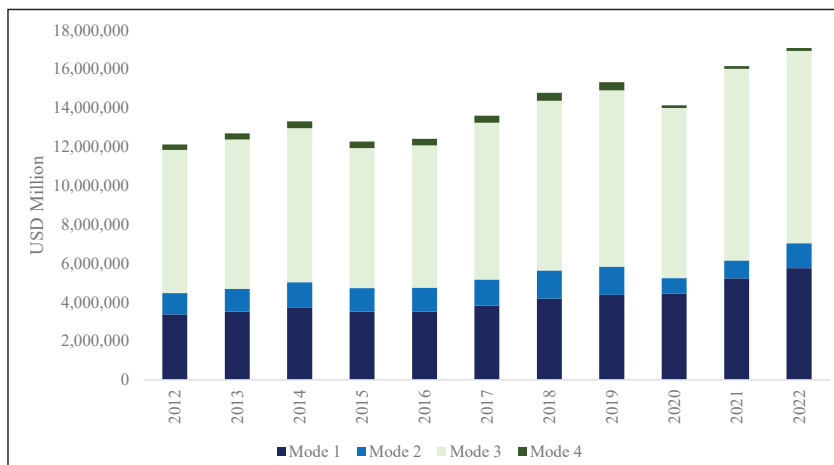
Source: Compiled by the authors

Figure 2.2: Structures of Services Exports by Modes of Supply, 2012-2022



Source: WTO.

Figure 2.3: Structures of Services Imports by Modes of Supply, 2012-2022

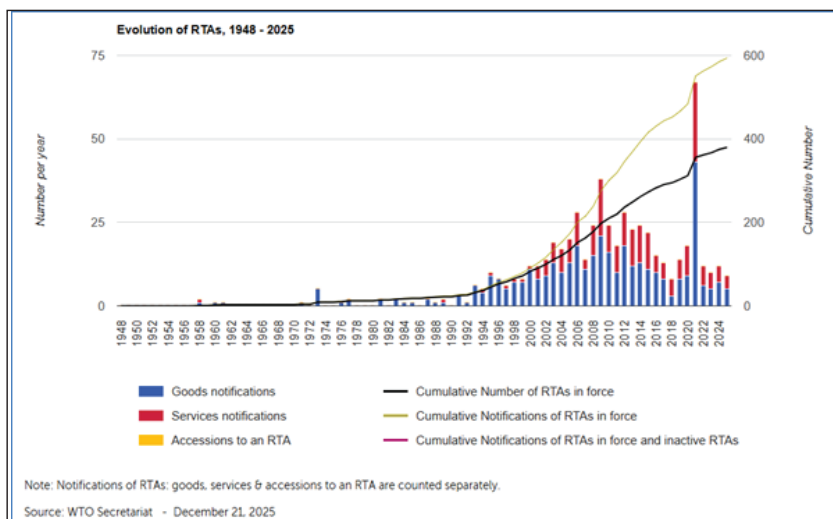


Source: WTO Services Gateway; Available at: https://www.wto.org/english/res_e/statis_e/gstdh_mode_supply_e.htm (Last accessed on July 06, 2026).

framework for service trade, RTAs under Article V of the GATS have been used by countries to liberalise the services trade. As of December 2025, 217 RTAs covering trade in services had been notified to the WTO under Article V of the GATS and were in force⁹ (Figure 2.4), and many of these RTAs were signed by developing countries such as India and China. Over time, China and India have successfully strengthened their shares in global services trade (Figure 2.5). For example, the share of China in global services trade has increased from 3 per cent in 2005 to over 6 per cent in 2024, whereas that for India also increased from almost 2 per cent to 3 per cent between 2005 and 2024. Despite trade barriers, China and India are fast coming up as major drivers of services trade.

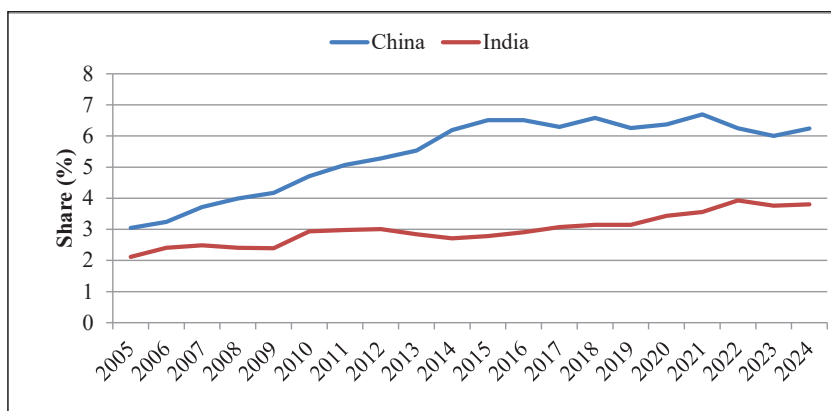
The trade restrictions increase the cost and time of services trade. Barriers to services trade have been rising over the past decade or so,

Figure 2.4: Trends of Regional Trade Agreements



Source: WTO; Available at: <https://rtais.wto.org/UI/PublicMaintainRTAHome.aspx> (Last accessed on July 06, 2026).

Figure 2.5: Share of Global Services Trade of India and China

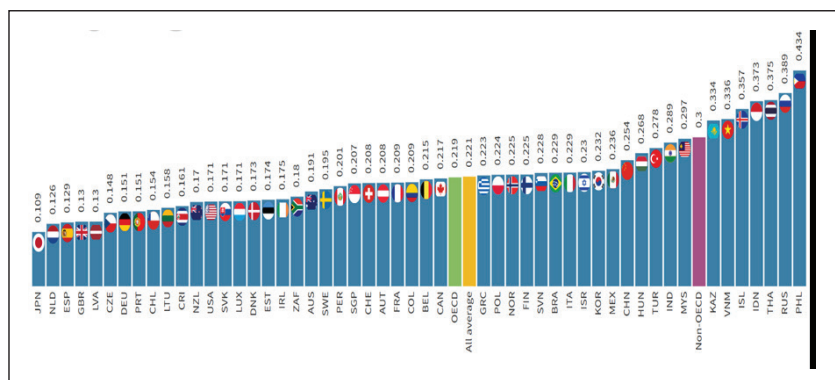


Source: Calculated based on WTO Services Trade Statistics

and unlike tariffs in case of goods trade, it is the domestic regulations that act as a leading barrier to services trade. For example, the OECD STRI reveals that regulations on services trade have become more restrictive and more fragmented over the past decade.¹⁰ The OECD STRI for the year 2025 shows that barriers to trade in services remain high (Figure 2.6). The STRI also indicates that sectors with the highest average restrictions are those that provide essential inputs to other industries, such as transport, professional and communications services.¹¹ In 2025, Japan, the Netherlands and the UK were top ranked performers with the lowest average regulatory barriers to services trade, whereas New Zealand, Indonesia and India were the countries with the highest degree of liberalising reforms.¹²

Today, barriers to services trade are heavily influenced by global economic uncertainties and geopolitical tensions. Illustrated in Figure 2.7, the OECD STRI indicates that air transport, legal and accounting and auditing services are the most restrictive sectors, whereas distribution services, sound recording, and motion picture services are the most open sectors¹³. Services trade restrictions presumably have differential impacts on developing economies since developed economies are the major producers of services. Here, services trade policies have an important

Figure 2.6: Services Trade Restrictiveness Index (STRI), 2025



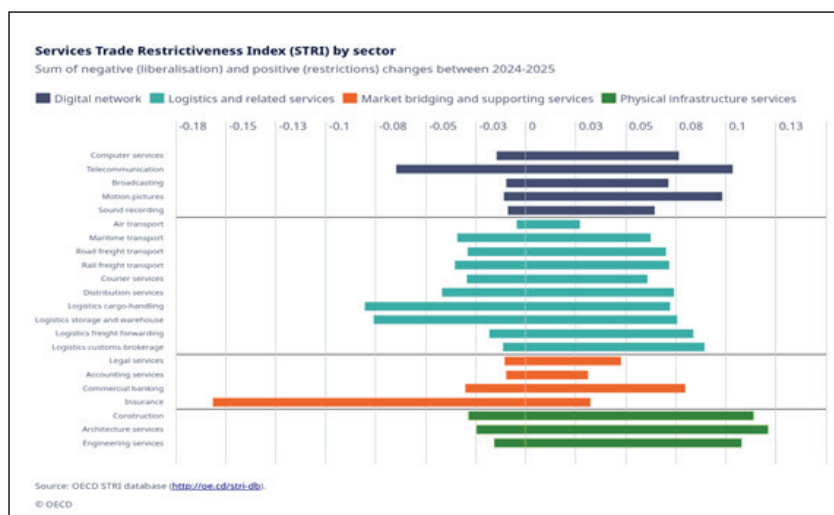
Source: OECD; Available at: <https://www.oecd.org/en/topics/services-trade-restrictiveness-index.html> ((Last accessed on July 06, 2026).

role in easing the burden of trade barriers. The WTO adds that policies in relation to services trade also contribute to a wide range of national objectives, including the achievement of Sustainable Development Goals.¹⁴ India, one of the major services exporters in the Global South, offers many important lessons and best practices while narrowing the gaps with the developed economies. Let's discuss India's performance in services trade.

3. India's Trade in Services: Trends and Performance

India's trade in services has been growing rapidly over the years. In 2025-26, trade in services contributed to 33.85 per cent of India's total trade, an increase from 27.08 per cent in 2015-16. The country's trade in services has almost tripled over the past decade, rising from US\$ 238.94 billion in 2015-16 to US\$ 622.73 billion in 2025-26. During the same period, India's services exports increased from US\$ 154.31 billion to US\$ 418.31 billion, while services imports rose from US\$ 84.63 billion to US\$

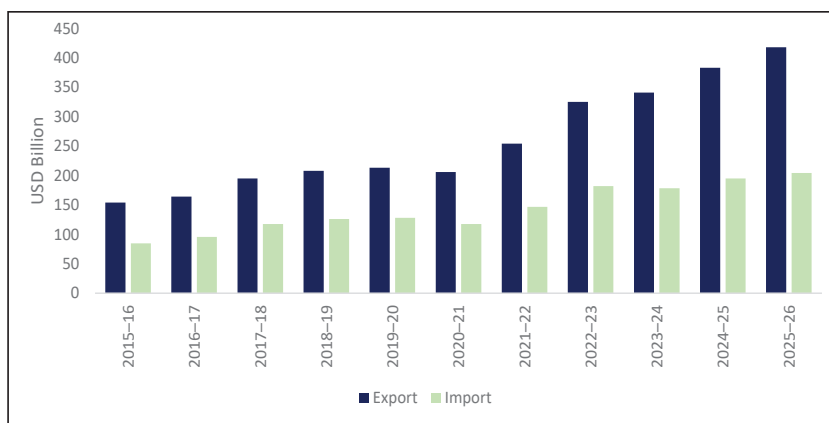
Figure 2.7: STRI Scores by Sectors



Source: OECD; Available at: <https://www.oecd.org/en/topics/services-trade-restrictiveness-index.html> ((Last accessed on July 06, 2026).

204.42 billion (Figure 3.1). Throughout this period, India maintained a positive trade balance in services, which widened from US\$ 69.68 billion in 2015–16 to US\$ 213.89 billion in 2025–26 (Figure 3.2). Compared to China, the rising surplus in services trade has become a fixed scenario for India since 2008 (Figure 3.3).

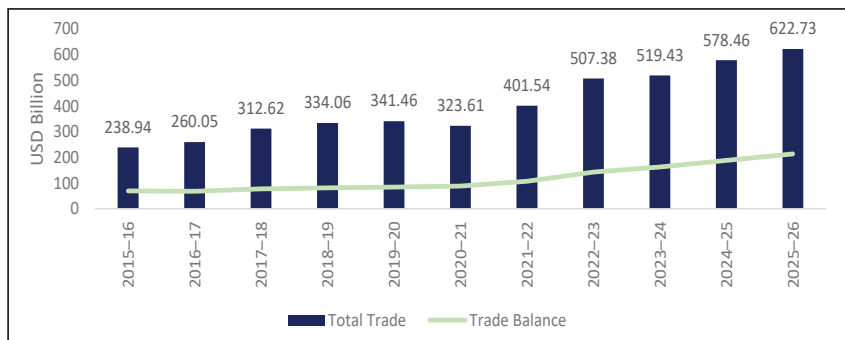
**Figure 3.1: India’s Services Export and Import
(2015-16 – 2025-26)**



Source: Compiled from Ministry of Commerce and Industry, Government of India, and Reserve Bank of India (RBI).

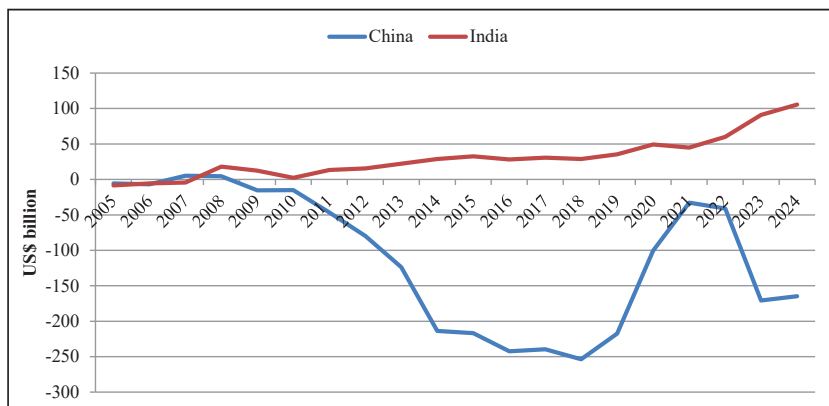
The services sector accounts for nearly half of India's GDP. As shown in Table 3.2, services value added as a percentage of GDP stood at 49.34 per cent in 2025, up from 47.78 per cent in 2015. However, India's share remains lower than the world average and that of countries like Japan (71.43 per cent), China (57.70) and Republic of Korea (57.23 per cent).

Figure 3.2: India's Total Trade and Trade Balance in Services (2015-16 – 2025-26)



Source: Compiled from Ministry of Commerce and Industry, Government of India, and Reserve Bank of India (RBI).

Figure 3.3: Trends in Services Trade Balance



Source: Calculated based on IMF BOPS

**Table 3.1: Share of Services in India's Total Trade
(2015–16 to 2025–26)**

Year	Total Goods Trade (US\$ billion)	Total Services Trade (US\$ billion)	Total Trade (US\$ billion)	Services Share in Total Trade (%)
2015–16	643.30	238.94	882.24	27.08
2016–17	660.21	260.05	920.26	28.26
2017–18	769.11	312.62	1,081.73	28.90
2018–19	844.16	334.06	1,178.22	28.35
2019–20	788.07	341.46	1,129.53	30.23
2020–21	686.25	323.61	1,009.86	32.04
2021–22	1,035.05	401.54	1,436.59	27.95
2022–23	1,167.04	507.38	1,674.42	30.30
2023–24	1,112.55	519.43	1,631.98	31.83
2024–25	1,157.66	578.46	1,736.12	33.32
2025–26	1,216.76	622.73	1,839.49	33.85

Source: Compiled from Ministry of Commerce and Industry, Government of India

**Table 3.2: Services Value Added as a Percentage of
GDP (2015–2025)**

(%)

Year	World	China	India	Japan	Korea
2015	64.41	51.73	47.78	69.22	55.11
2016	65.03	53.29	47.75	69.32	54.98
2017	64.52	53.54	47.67	69.11	54.57
2018	64.30	54.11	48.43	69.12	55.39
2019	64.91	55.23	50.08	69.52	56.94
2020	65.40	55.55	47.93	69.78	56.92
2021	64.11	54.82	47.85	70.06	56.90
2022	62.26	54.96	47.17	71.12	58.07
2023	63.04	56.34	47.59	70.79	58.88
2024	63.30	56.83	47.97	71.43	57.50
2025	—	57.70	49.34	—	57.23

Source: World Bank; Available at: <http://data.worldbank.org/indicator/NV.SRV.TOTL.ZS> (Last accessed on July 06, 2026).

The surge in services can be attributed to several factors, with the 1991 liberalization reforms playing a pivotal role in transitioning India from a closed economy to an open economy, thereby fostering stronger linkages between India and international markets. This was further strengthened with the Information and Communication Technologies (ICT)¹⁵ revolution, wherein there was a rapid adoption of technologies such as computers, internet, mobile phones, among other technologies. As a result, India has become a global IT hub driven by skilled manpower.

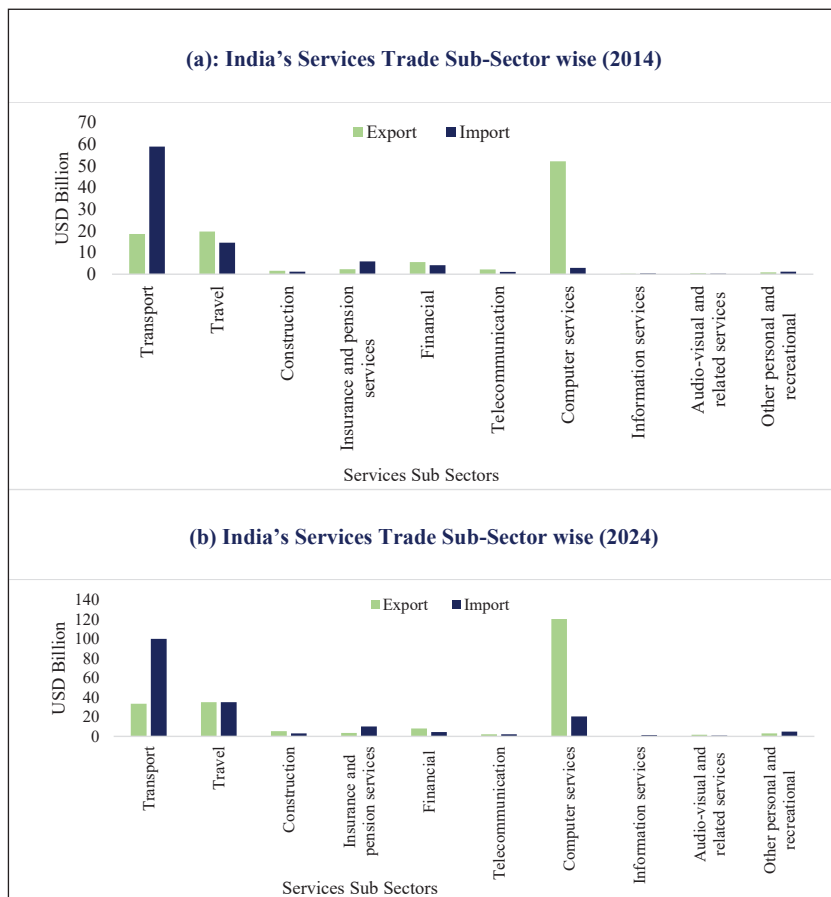
Another significant driver of the sector's growth has been the changing consumption patterns fuelled by rising disposable incomes. Over the years, the share of services in household consumption has grown significantly. This has led to an increased demand for services such as health, education, transportation, telecommunications, audio-visual, etc.¹⁶ Most importantly, the 'servicification' of manufacturing, which is the increasing use of services in production and post-production, has reinforced the service sector's importance and indirect contribution to GDP thereby making it an indispensable component of the Indian economy and the leading factor of its growth (Shingal, 2025).

Against this backdrop, it is important to examine India's position in global services trade and identify the sub-sectors in which the country has developed a comparative advantage.

3.1 India's Global Ranking and Trade across Services Sub-sectors

By sub-sectors classified by the WTO, India ranks second in Telecommunications, Computer and Information services, primarily driven by the exports of IT and Information Technology enabled services (see Table 3.3). Computer Services is the major contributor in India's services trade (see Figure 3.4). Computer services exports doubled from US\$ 52.13 billion in 2014 to US\$ 120.39 billion in 2024, with India maintaining a positive trade balance.

**Figure 3.4: India's Trade by Services Sub-Sectors
(2014 and 2024)**



Source: UNCTAD Statistics on International Trade in Services, Services (BPM6): Exports and Imports by Service-Category and Trade Partner, annual (July 25, 2025)¹⁷

The Government of India has implemented various policy initiatives such as developing software technology parks, signing the WTO Information Technology Agreement (ITA 1) leading to tax-free import of computer hardware, etc., that have enabled the Indian IT industry to gain a competitive edge in terms of service quality and price competitiveness. With a large pool of English-speaking skilled manpower, India has a

strength in exports of both ICT and business services. Along with this, the liberal foreign investment regime has led to inflow of foreign investment and growth of Global Capability Centres (GCCs). As of 2024-25, India hosts over 1,700 GCCs, employing over 1.9 million professionals, making it the largest global hub for captive centres. These GCCs in India have evolved beyond traditional back-office functions into advanced analytics, innovation, and Research and Development (R&D) hubs, leveraging the country's strong analytic talent base.¹⁸

This transformation of GCCs has had significant spillover effects on other segments of the services economy, particularly Other Business Services¹⁹, where India has emerged as the fourth-largest exporter globally.²⁰ The growth in this sub-sector is driven majorly by business and management consultancy and public relations services, and engineering services. A survey of 99 multinationals by Deloitte in 2022 reveals that engineering research and development (ER&D) GCCs in India have met the expectations of their parent organisations. Notably, over 70 per cent of these GCCs plan to increase their budget allocations for Indian operations by 10–25 per cent, reflecting growing confidence in India's capabilities as a business services exporter.

Table 3.3: Top 10 Exporters by Services Sub-Sectors and Their Shares in Global Exports (2024)

Sub-Sectors					
Telecommunications, Computer and Information Services		Other Business Services		Financial Services	
Country	Share in Global Exports (%)	Country	Share in Global Exports (%)	Country	Share in Global Exports (%)
EU	48.23	EU	38.23	EU	33.08
India	9.81	USA	12.38	USA	24.89
China	8.00	UK	10.98	UK	16.58
USA	7.25	India	7.28	Singapore	6.85

UK	4.7	Singapore	5.39	Hong Kong, China	3.52
Israel	2.77	China	5.29	Switzerland	3.43
Singapore	2.46	Japan	2.19	Canada	1.78
Switzerland	1.63	Canada	1.91	Japan	1.76
Canada	1.53	Korea	1.7	India	1.04
Korea	1.16	Switzerland	1.54	Korea	0.68
Sub-Sectors					
Construction		Insurance and Pension Services		Changes for the Use of Intellectual Properties nie	
Country	Share in Global Exports (%)	Country	Share in Global Exports (%)	Country	Share in Global Exports (%)
EU	29.16	EU	35.54	EU	37.01
China	28.3	UK	15.51	USA	30.82
Japan	6.81	USA	11.74	Japan	9.4
India	4.59	UAE	10.65	UK	7.35
Korea	4.25	Switzerland	4.82	Switzerland	6.23
Russia	4.06	Singapore	3.94	Singapore	3.57
UK	2.56	Mexico	2.22	China	1.87
USA	2.1	India	1.50	Korea	1.7
UAE	2	Turkey	1.22	Canada	1.47
Malaysia	1.69			Australia	1.14
Sub-Sectors					
Transport		Travel		Personal, Cultural and Recreational Services	
Country	Share in Global Exports (%)	Country	Share in Global Exports (%)	Country	Share in Global Exports (%)
EU	37.34	EU	29.17	EU	39.46
Singapore	8.73	U.S.A	12.38	USA	16.54
China	7.58	UK	4.85	UK	6.34
USA	6.89	UAE	4.1	UAE	5.78
UAE	3.23	Turkey	3.24	India	3.67

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UK	2.8	Japan	3.16	Canada	3.54
Korea	2.73	Australia	2.98	Singapore	2.84
Turkey	2.69	Canada	2.87	Korea	2.02
Hong Kong, China	2.41	Thailand	2.45	China	1.96
India	2.25	Saudi Arabia	2.35		

Source: WTO Stats; Available at: https://www.wto.org/english/res_e/statis_e/world_trade_statistics_e.htm (Last accessed on July 06, 2026).

However, India’s performance in traditional services sectors such as transport services, travel services and tourism services remains modest. Among the top exporters of transport services, the EU, Singapore, China, and Hong Kong lead the global market. China has invested heavily in ports, railways, and air transport, creating a dense and modern logistics network, while Singapore leverages its strategic location and a seamless “one-stop” electronic customs system (TradeNet) to facilitate fast and reliable trade. These countries are actively adopting digital and smart logistics technologies, such as intelligent warehousing, automated sorting, tracking systems, and logistics internet platforms, which improve efficiency, reduce costs, and enhance timeliness.²¹ Countries like Singapore have become travel and transshipment hubs. Unlike them, India has not been able to develop a transshipment hub.

With a rank of 38 in 2023, India lagged behind Singapore (rank 1), Hong Kong, China (rank 10), China (rank 19), Malaysia (rank 26) and Thailand (rank 34) in World Bank’s Logistics Performance Index (LPI). While initiatives such as the PM Gati Shakti National Master Plan and the National Logistics Policy have helped to improve logistics performance, persistent gaps in port efficiency, turnaround time, and multimodal integration continue to constrain the competitiveness of India’s transport exports and limit its ability to fully leverage global trade opportunities.

In travel and tourism, the Association of Southeast Asian Nations (ASEAN) countries have been able to create a niche for themselves. In 2024, India received only 9.52 million international tourist arrivals,²² compared with 35.5 million²³ in Thailand and 25.2 million in Malaysia.²⁴ India is ranked 39th among 119 countries in the Travel and Tourism Development Index (TTDI) 2024, while the topmost ranks are held by the

USA and Spain. ASEAN member states like Singapore (13th), Indonesia (22nd) and Malaysia (35th) are ahead of India. With a rich cultural heritage, topography and good quality healthcare system, India has the potential to attract more tourists, which presently is low.

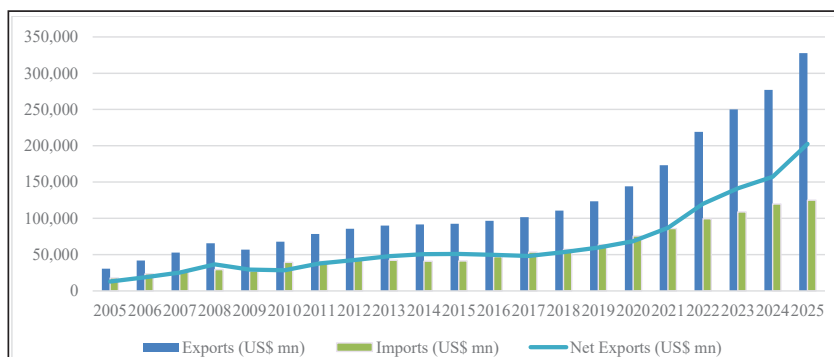
India's strengths across specific services sub-sectors have also shaped the geographical distribution of India's services exports. The next section examines India's bilateral services trade, highlighting its major export destinations and the concentration of services exports across key partner economies.

3.2 India: A Major Exporter of Digitally Delivered Services (DDS)

In 2025, India was the fourth largest exporter of DDS in the world, after the USA, the UK and Ireland, with exports reaching an estimated US\$ 328 billion.²⁵ Further, as shown in Figure 3.5, India has maintained a consistent trade surplus in DDS since 2005, with exports growing nearly seven-fold by 2025. This trade surplus suggests that India stands to gain more from the moratorium than it may lose as an importer. India, in this respect, is unique among developing countries, which are mostly net importers.

Figure 3.5: India's Exports, Imports and Net Exports of DDS

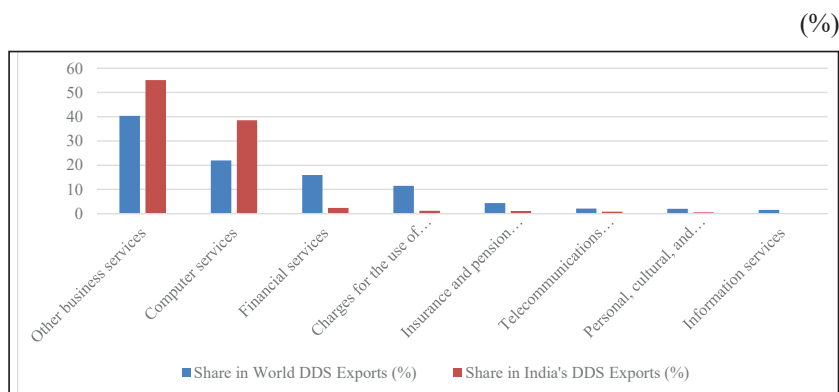
(US\$ million)



Source: https://www.wto.org/english/res_e/statist_e/gstdh_digital_services_e.htm (Last accessed on 9 May 2026).

As seen in Figure 3.6, in 2025, the share of computer services and other business services in India's total DDS exports was higher than their corresponding share in global DDS exports, reflecting India's comparative advantage in these sectors. This export specialisation highlights the growing integration of Indian firms into global digital value chains and strengthens the argument that maintaining open and predictable digital trade regimes could support India's long-term interests as a leading exporter of DDS.

Figure 3.6: Share of Export of Types of DDS in Total Exports of DDS by India and in Total World DDS Exports (2025)

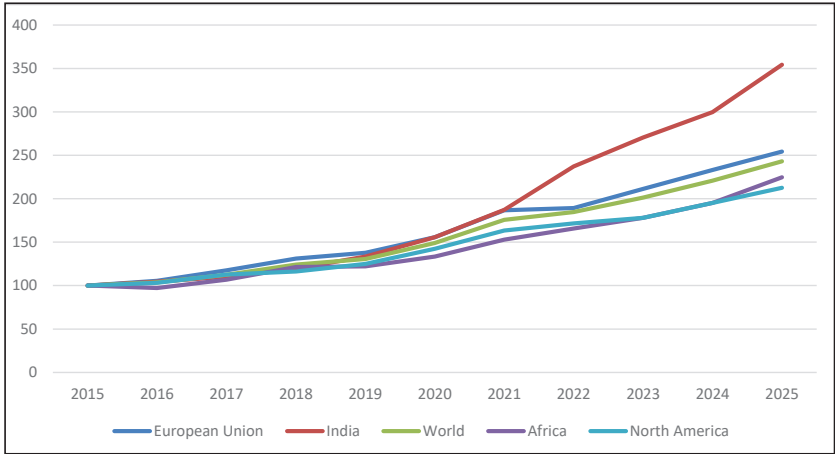


Source: https://www.wto.org/english/res_e/statistics_e/gstdh_digital_services_e.htm (Last accessed on 9 May 2026).

As Figure 3.7 shows, India is experiencing a faster growth in DDS exports not only in comparison to the world but also compared to the regions like North America and the EU. This rapid export growth has strengthened India's stake in a predictable and rules-based global digital trade regime. India has traditionally supported a rules-based multilateral trading system under the WTO and has maintained that new disciplines on services and digital trade should be negotiated through consensus-based multilateral processes rather than plurilateral initiatives. Accordingly, India did not join the Joint Statement Initiative (JSI) on Electronic Commerce, citing concerns over its negotiating mandate, the evolving scope of electronic transmissions, and the need to preserve

policy space as its domestic regulatory framework on areas such as data governance and consumer protection continues to evolve. At the same time, India's rapid emergence as one of the world's largest exporters of digitally delivered services has made a predictable global digital trade regime increasingly important for its export interests. This is reflected in India's evolving approach to digital trade, including the incorporation of digital trade provisions in recent FTAs with partners such as the UK and the EU, while continuing to support discussions within the WTO Work Programme on Electronic Commerce (WPEC). India has raised concerns on the permanent moratorium, and scope and coverage of ecommerce, but it has never objected to the extension of the temporary moratorium in the WPEC. As India's integration into global digital value chains deepens, greater engagement in international rule-making on digital trade is likely to become increasingly important for safeguarding the competitiveness of its services exports. In this context, the removal of the WTO moratorium on customs duties on electronic transmissions could expose India's rapidly expanding DDS exports to reciprocal duties in key overseas markets, adversely affecting their international competitiveness.

Figure 3.7: Growth of DDS Exports: India vs. Select Regions and the World



Source: https://www.wto.org/english/res_e/statistics_e/gstdh_digital_services_e.htm (Last accessed on 9 May 2026).

3.2.1 The Role of Technology, Artificial Intelligence (AI) and Digital Governance in Digitally Delivered Services

Rapid advances in digital technologies, particularly artificial intelligence (AI), cloud computing, big data analytics and digital platforms, are reshaping the nature of services trade. AI is expected to have the greatest impact on digitally delivered and knowledge-intensive services such as IT and business services, finance, education, healthcare and professional services by improving productivity, enabling greater personalisation and reducing language, search and compliance costs. WTO (2024) estimates suggest that the AI could increase global trade by up to 14 per cent by 2040, with digitally delivered services expected to record the highest growth.²⁶

At the same time, AI is reshaping labour market requirements. India's services sector with its over 9 million technology and customer experience professionals is at the forefront of this AI-led workforce transition. While routine and repetitive service functions, including basic customer support, data entry, document processing and back-office business process outsourcing (BPO) activities - are increasingly being automated or augmented by AI. It is also expected to create demand for new and higher-value roles requiring expertise in AI, data analytics, cybersecurity and cloud technologies, alongside strong domain knowledge. Consequently, firms are increasingly seeking workers who combine domain expertise with digital, data and AI capabilities.²⁷ Therefore, there is a need for skilling and reskilling of the workforce to make them future ready.

As services become more data-intensive and digitally delivered, robust digital governance, including trusted cross-border data flows, interoperable digital regulations, cybersecurity, privacy and AI governance, will become critical for reducing regulatory uncertainty, building trust and enhancing countries' competitiveness in global digital services trade.²⁸

3.3 India's Bilateral Trade in Services

According to the latest available BaTiS data, India's top three export destinations for services are the USA (20.7 per cent), driven largely by demand for high-skilled IT and professional services; followed by the UK (8.7 per cent) and Singapore (5.6 per cent). Collectively, India's top five export destinations, the USA, the UK, Singapore, Germany, and China, account for 42.7 per cent of India's total services exports, while the top ten destinations together account for 57.1 per cent (see Table 3.4). The USA, the UK and the EU are the top export markets for services.

Table 3.4: India's Bilateral Trade in Services in 2023

Country	Value (US\$ million)	Share in Total Exports (%)
USA	51120.23	20.7
UK	21635.61	8.7
Singapore	13747.39	5.6
Germany	10290.96	4.2
China	8590.19	3.5
Hong Kong, China	8305.12	3.4
Ireland	7891.50	3.2
Switzerland	6882.93	2.8
Netherlands	6236.20	2.5
Australia	6091.00	2.5

Note: Given that the BaTiS database reports only the top forty partner economies and not all EU Member States individually, complete data for each EU country is unavailable. However, based on the available figures for Germany, the Netherlands, and other EU economies, the EU collectively emerges as the second-largest export destination for India's services after the USA

Source: WTO's BaTiS database; Available at: https://www.wto.org/english/res_e/statis_e/gstdh_batis_e.htm (Last accessed on July 06, 2026).

Apart from China, India has signed or is in the process of negotiating trade agreements with other countries. This is discussed in detail in Part 4 of the paper.

3.3.1 Role of Services in Value Addition and Exports

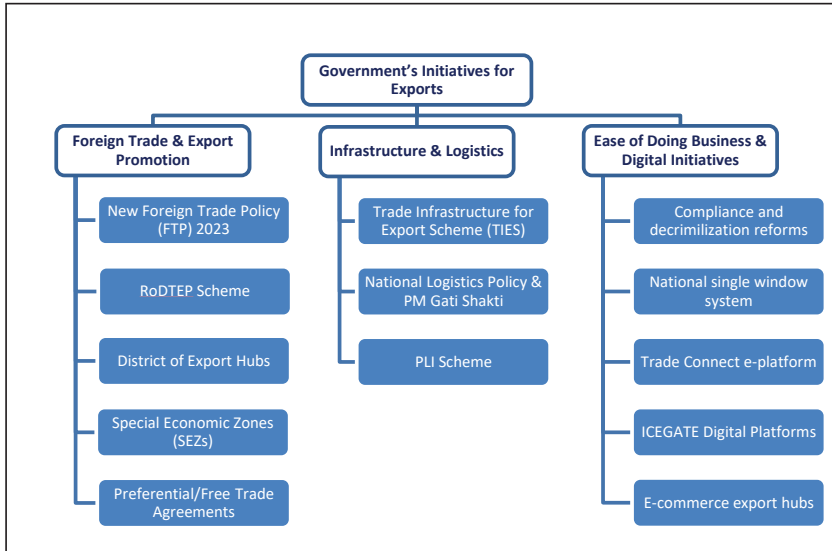
The contribution of services to India's exports extends well beyond direct services exports through a process of servicification, whereby services such as logistics, finance, ICT, R&D, design, marketing and after-sales support are increasingly embodied in manufactured goods. According to the OECD Trade in Value Added (TiVA) 2025 database, services accounted for 26.7 per cent of the value of India's manufactured goods exports in 2022, with the highest services content observed in ICT and electronics (38.0 per cent), pharmaceuticals (37.1 per cent) and rubber and plastics products (34.7 per cent). Furthermore, information and communication services accounted for 18.3 per cent of the domestic value added embodied in India's total gross exports, making it the single largest contributor among all industries.²⁹ While India has developed a strong comparative advantage in modern services such as IT and information services, these services remain underutilised as inputs into manufacturing exports, which continue to rely more heavily on traditional producer services such as transport, storage and wholesale and retail trade. This highlights considerable scope to strengthen linkages between manufacturing and knowledge-intensive services, including IT, R&D and other business services, to enhance productivity, innovation and movement up global value chains. Supporting this, Manghnani et al. (2021) found that a 1 per cent increase in expenditure on complex services - including R&D, technical, managerial and IT-enabled services - is associated with a 10 per cent increase in manufacturing productivity, while firms importing services record around 10 per cent higher productivity than firms that do not. Given that the competitiveness of services sector drives the competitiveness of manufacturing and agriculture sector, strengthening high-value services linkages with manufacturing can enhance productivity, deepen participation in global value chains and improve the competitiveness of India's exports.³⁰

3.3.2 Drivers of India's Services Export Growth

As India's external sector continues to be hit by a complex global environment, the persistent strength in services exports provides an important counterbalance to the volatility in merchandise trade.³¹ What are

the factors driving such a rapid rise in India's services exports? Besides an important role played by the World Trade Organization (WTO) as an institution in promoting services trade, international exchange is increasingly taking the form of trade in services tasks as opposed to trade in goods, as the production process is sliced into different parts that are performed in different locations such as in India.³² Ghani and Kharas (2010) argued that India's 'services revolution' has been supported by deregulation of services sectors. Telecommunication has been substantially opened up to competition in the mid-1990s. Newer sectors such as information technology (IT) and IT-enabled services (Business Process Outsourcing, Knowledge Process Outsourcing, and Business Transformation Services) are largely liberalized. Knowledge-based segments have been prominent among the faster growing services sectors, assisted by technological advances and a low-cost educated workforce with good English language capabilities. As noted by Mishra et al. (2011), technology has changed the very nature of the production frontier of services and in particular service exports, which has resulted in a rapid increase in the service exports and growing share of services in GDP growth in India. This study also shows that service exports sophistication is positively related to growth. Unfortunately, it is not so easy for an economy to raise its international competitiveness in services trade. Trade in services is distinguished from trade in merchandise by the intangible and "disembodied" nature of many transactions. Unlike physical goods, which must cross borders and thus are subject to customs procedures and tariffs, services often involve direct transactions between the consumer and producer and do not necessarily cross the border. This fact complicates measurement of both service flows and their corresponding impediments. The challenge is thus to remove barriers to services trade. However, contrary to popular belief, the measurement of impediments to services trade is problematic.³³ Given severe data limitations, econometric studies on services trade and barriers facing it are rare. A proper analysis of the barriers to India's services trade is essential to formulate appropriate trade policies in this sector. De (2013) made an attempt, despite tremendous data limitations, to assess barriers to India's services exports.

Figure 3.8: Initiatives for Exports



Source: PIB, India

Noted in Chaudhuri and Dash (2025), key drivers of services trade growth in India are identified as:

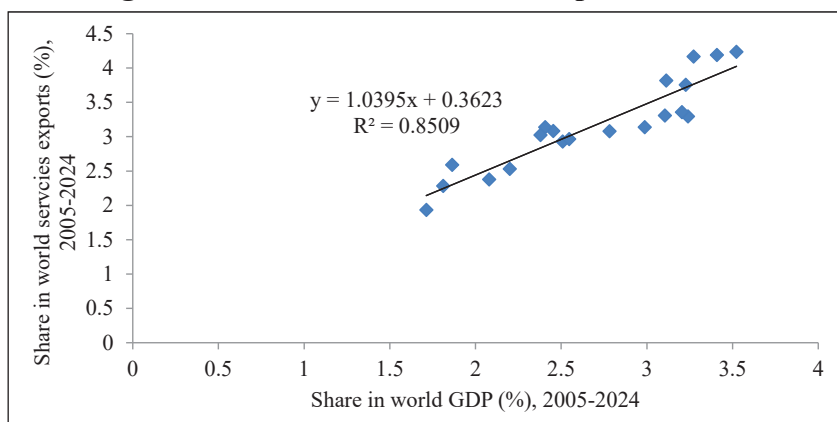
- Fully automated FDI policy: 100 per cent FDI liberalization of selected services sectors with concomitant regulatory mechanisms;
- IT & BPM Dominance: Software/IT and Business Services remain the largest contributors, with India a powerhouse in IT-BPM services;
- Customised infrastructure: Special Economic Zones (SEZs) and Software Technology Parks of India (STPI) hugely facilitated exports of IT and consulting;
- Rise of Global Capability Centres (GCCs): India is a preferred hub for MNCs, with over 1,600 GCCs operating, boosting 'Other Business Services' exports;
- Digital Services: India's share in global digitally delivered services exports has been increasing;
- Strategic Trade Agreements: FTAs like with the UK expand market access for Indian professionals, easing mobility and mutual recognition of qualifications; and

- **Champion Sectors Focus:** Government initiatives target sectors like tourism, finance, education, and healthcare for focused growth³⁴. The Government of India has undertaken many initiatives for services exports (Figure 3.8).
- **E-commerce:** Dedicated E-Commerce export policy through creation of E-Commerce hubs, automation and paperless trade.

3.3.3 Comparative Advantage of India's Services Exports

India's services exports and economic size are positively correlated and the linear fit indicates the association between them has been quite strong (Figure 3.9). The higher the economic size, higher is the services export, *ceteris paribus*. But that does not assure competitiveness in services exports. The calculated Revealed Comparative Advantage (RCA) scores indicate that India has been losing its comparative advantage in services exports of (i) transport services, (ii) travel services, (iii) financial services, (iv) telecom services, (v) computer services, and (vi) information services between the years 2010 and 2024 (Table 3.5). On the other hand, the country has been gaining the comparative advantage in construction services and audio-visual services. India has gained a revealed comparative advantage in construction services and computer services, as $RCA > 1$ in both the cases in 2024³⁵.

Figure 3.9: Income and Services Exports in India



Source: Authors' calculation based on WDI and UNCTAD Stat data.

Table 3.5: Indian Services Exports: RCA Scores

	2010	2015	2020	2024
Transport services	0.547	0.517	0.617	0.531
Travel services	0.512	0.561	0.599	0.475
Construction services	0.211	0.500	0.792	1.084
Financial services	0.539	0.378	0.189	0.244
Audio-visual services	0.238	0.261	0.445	0.584
Telecom services	0.598	0.709	0.784	0.477
Computer services	7.715	4.811	2.545	2.639
Information services	1.124	0.246	0.155	0.123

Source: Calculated based on UNCTAD Stat

Given the $RCA > 1$, India is a competitive producer and exporter of computer (IT-related) and construction services. India is therefore considered to have export strength in these services³⁶. Why is India losing its revealed comparative advantage in some of the services exports? It has been argued in literature that India's services export advantage faces threats from rising global competition (especially from countries like China and the Philippines), evolving digital services requiring new skills, infrastructure gaps (logistics, digital), complex domestic regulations, and global economic slowdowns, though India remains strong in modern services like IT/BPO, needing focus on supply-side improvements like human capital and digital infrastructure to maintain an edge.³⁷

4. Foreign Investment in Services Sector in India

The services sector continues to be one of the largest recipients of foreign direct investment (FDI) in India. Between January 2000 and March 2026, the Services sector accounted for over 62 per cent of the total cumulative FDI equity inflows (Tables 4.1 and 4.2).

Table 4.1: Services Sub-Sector-wise FDI Equity Inflow during Calendar Year from January to March 2026

Services Sub-sectors	FDI Equity Inflow (INR crore)	FDI Equity Inflow (US\$ million)	Share of Total FDI Inflow (%)
Financial Services	3,439.33	373.41	3.4
Banking Services	19.33	2.12	0.02
Insurance	3,945.07	429.81	3.92
Non-financial Services / Business Services	3,535.17	388.63	3.54
Outsourcing	1,616.26	178.13	1.62
Research & Development (R&D)	119.86	13.03	0.12
Courier Services	3.98	0.43	0.004
Technical Testing and Analysis	45.74	5.02	0.05
Other Services	1,801.76	196.49	1.79
Total (Services Sector)	14,526.50	1,587.06	14.46

Source: DPIIT; Available at: <https://www.dpiit.gov.in/static/uploads/2026/06/46fb1739a627be5a3e48e726e103e689.pdf> (Last accessed on July 06, 2026).

Table 4.2: Service Sub-Sector-wise FDI Equity Inflow from January 2000 to March 2026

Sub-sectors	Amount of FDI equity inflow		Share in total
	(INR crore)	(US\$ million)	(%)
Computer Software & Hardware	907,355.53	124,668.80	17.2
Services	853,722.33	128,874.54	16.1
Trading	369,842.60	51,606.35	7.0
Telecommunications	242,132.61	40,192.80	4.6
Construction (Infrastructure) Activities	281,161.95	38,737.03	5.3
Hotel & Tourism	122,558.30	19,074.48	2.3

Hospital & Diagnostic Centres	91,300.66	12,847.31	1.7
Information & Broadcasting (Including Print Media)	83,414.64	12,588.46	1.6
Consultancy Services	78,839.08	11,325.20	1.5
Education	83,605.29	11,290.86	1.6
Sea Transport	62,367.46	8,606.39	1.2
Air Transport (Including Air Freight)	41,025.22	5,590.86	0.8
Retail Trading	36,740.24	5,028.12	0.7
Agriculture Services	26,480.73	3,983.21	0.5
Ports	6,730.91	1,637.30	0.1
Total FDI Equity Inflow	2,433,555.22	347,177.17	62.1
Total FDI for all the 64 sectors	5,289,321.87	788,529.07	

Source: <https://www.dpiit.gov.in/static/uploads/2026/06fabcab197199dcb8ba91d870e689d79f.pdf> (Last accessed on July 06, 2026).

Note: For the purposes of this section and analysis of FDI in India, the services sector includes not only the 10 sub-sectors but rather 24 sub-sectors.

5. India's Services Trade Agreements

Agreements to promote and liberalise services trade has gained limited attention in India. As of December 2025, India has signed and ratified a total of 19 FTAs, of which only 9 agreements are having services trade provisions (Figure 5.1). Since 2021, India has signed several agreements enhancing services trade, notably the EU, UK, United Arab Emirates, EFTA (Iceland, Liechtenstein, Norway, Switzerland), Australia, New Zealand and Oman to name a few.³⁸ Coverage of services in some of these FTAs is presented in Table 5.1.

Table 5.1: India's Trade Agreements including Services: Select Examples

Trade Agreements	Date of Signing	Date of Enforcement	Coverage of Service Sector India	Coverage of services sector Partner country
India – Singapore Comprehensive Economic Cooperation Agreement (CECA)	June 29, 2005	August 1, 2005	Professional and business services (including accounting, taxation, architectural, and engineering services), computer and related services, R&D services, tourism, travel, real-estate, construction, telecom, financial, and selected transport services. ⁸⁴	Professional and business services, accounting, taxation, architectural, engineering, R&D, tourism, travel, real estate, distribution, education, telecom and financial services ⁸⁵ .
India – Republic of Korea Comprehensive Economic Partnership Agreement (CEPA)	August 7, 2009	January 1, 2010	India offered commitments in 28 sub-sectors among all 12 broad service sectors such as business and professional services, R&D, tourism and travel-related services, financial services like banking and insurance etc. ⁸⁶	Korea's schedule covered 31 sub-sectors across all 12 broad service sectors such as, computer related services, telecom, construction services, education services and so on. ⁸⁷

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India – Japan Comprehensive Economic Partnership Agreement (CEPA)	February 16, 2011	August 1, 2011	Commitments was made in sectors such as professional and business services (including accounting, taxation, architectural, and engineering services), computer and related services, R&D services, telecom services, financial services, travel and tourism services. ⁸⁸	Japan offered commitments for business and professional services, computer and information services, R&D, telecom, financial, distribution, education, transport and travel services. ⁸⁹
India – Malaysia Comprehensive Economic Cooperation Agreement (CECA)	February 18, 2011	July 1, 2011	Professional and business services (including accounting, auditing, architectural, and engineering), computer and related services, R&D, medical, dental and para-medical services, real estate services, rental and leasing services, management consulting, maintenance and repair services, telecom, tourism and travel, and selected transport servicees ⁹⁰	Business and professional services, computer and related services, IT, construction, telecom, financial, education, tourism and travel related services, transport and distributional services. ⁹¹

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India – Mauritius Comprehensive Economic Cooperation and Partnership Agreement (CECPA)	February 22, 2021	April 1, 2021	India offered around 95 sub-sectors from 11 broad services sectors. ⁹²	Mauritius provided access in around 115 sub-sectors from the 11 broad service sectors. ⁹³
India – United Arab Emirates (UAE) Comprehensive Economic Partnership Agreement (CEPA)	February 18, 2022	May 1, 2022	Broader and deeper commitments were made across all sectors and modes of supply. Out of 160 service subsectors, India offered 100 subsectors to UAE. ⁹⁴	UAE offered 111 services subsectors to India. ⁹⁵
India – Australia Economic Cooperation and Trade Agreement (ECTA)	April 2, 2022	December 29, 2022	India offered market access to Australia in around 103 service sub-sectors. Moreover, it also granted MFN status in 31 sub-sectors, spread across 11 broad service sectors such as business services, communication services, construction services and so on. ⁹⁶	Australia offered commitments in around 135 services sub-sectors and provided MFN status in 120 sub-sectors covering key areas in India's interest. ⁹⁷

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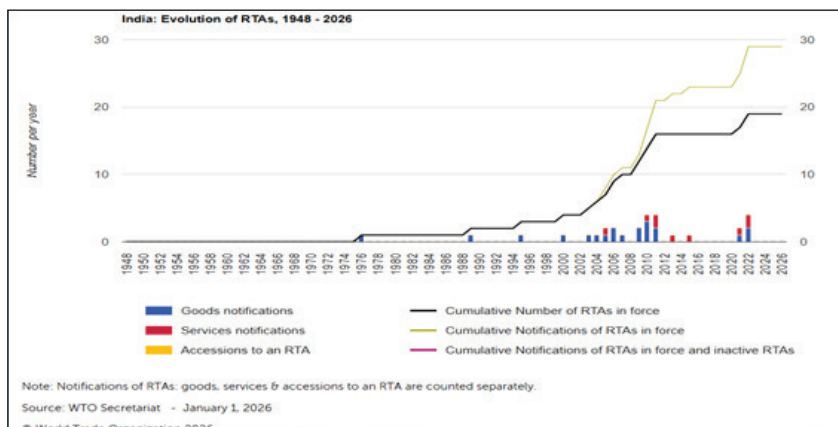
India – European Free Trade Association (EFTA) Trade and Economic Partnership Agreement (TEPA)	March 10, 2024	October 1, 2025	India has offered commitments in 105 sub-sectors. ⁹⁸	EFTA commitments: 128 (Switzerland), 114 (Norway), 107 (Liechtenstein), 110 (Iceland). ⁹⁹
India – United Kingdom (UK) Comprehensive Economic and Trade Agreement (CETA)	July 24, 2025	2026	India has committed in 108 subsectors, including Accounting Services, Telecom Services, Financial Services, Environmental Services, and Auxiliary Air Transport Services. ¹⁰⁰	UK has committed 137 sub-sectors, including areas of significant interest to India such as IT/ITeS, Professional Services, Other Business Services and Educational Services. ¹⁰¹
India-Oman Comprehensive Economic Partnership Agreement (CEPA)	December 18, 2025	2026	India made commitments in computer and related services, business services, professional services, R&D, real estate and rental services and so on. ¹⁰²	Oman has offered 127 services sub-sectors. Oman has offered to increase the quota for Intra-Corporate Transferees from 20 per cent to 50 per cent. ¹⁰³

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India-New Zealand FTA	December 22, 2025 (Concluded FTA negotiations)	2026	India made commitments in nearly 100 additional service sectors beyond its GATS offers. ¹⁰⁴	New Zealand has extended commitments in around 118 service sectors of interests to India. Uncapped student numbers with 20 hours/week work rights and extended post study work (up to 3-4 years), new TEE visas for professionals and 1000 Working Holiday visas. ¹⁰⁵
India-EU FTA	27 th January, 2026 (Concluded FTA negotiations)	Yet to be decided	India's offer on 102 subsectors covers EU priorities such as professional, business, telecommunications, maritime, financial, and environmental services.	The EU has extended commitments across 144 services subsectors, including IT/ITeS, professional services, education, and other business services. Provisions have also been built to facilitate mobility of Indian AYUSH practitioners to EU, mobility of Indian students to the EU as well as maintain/conclude/adopt social security arrangements between India and EU member states.

Figure 5.1: India's Evolution of RTAs: 1948 – 2026



Source: WTO; Available at: <https://rtais.wto.org/UI/PublicMaintainRTAHome.aspx> (Last accessed on July 06, 2026).

The India-Singapore Comprehensive Economic Cooperation Agreement (CECA) signed on June 29, 2005, was the first comprehensive agreement in which India took commitment in services. Since then, scope and coverage of the services sectors have increased as seen in Table 5.1. While in the past, the reason for the inclusion of services was to reduce the negative impact of tariff reduction in goods, it is increasingly felt in the country that securing service market access through online delivery and foreign investment is becoming necessary along with more market access for our service providers, to enter and provide services in partner countries. Many key markets like the USA have become protectionists, imposing new conditions on entry of professionals, making it important for India to use trade agreements to secure market access. In contrast to trade agreements prior to 2020, India's approach in more recent FTAs reflects a noticeable shift. While Mode 4 continues to remain important, India has shown a greater willingness to make and seek commitments in more service sectors and sub-sectors and across more modes, especially under Mode 1, for digitally delivered services. India supports cross-border data flows to enable digital trade, and at the same time, it also preserves the right to restrict such flows for legitimate public-policy objectives,

which is clearly reflected in the provisions made in India-UK CETA and India-UAE CEPA.³⁹

While earlier agreements largely focussed on IT and business services, the recently signed agreements with Oman⁴⁰ and New Zealand,⁴¹ extend coverage to new sectors like “health, wellness and traditional medicine services,” opening significant opportunities for India’s AYUSH sectors, promotes medical value travel, and strengthens cooperation in traditional healthcare systems, also reflecting an attempt to diversify India’s services export profile beyond its traditional strengths.

5.1 Evolving structure of services trade in India’s trade agreements⁴²

Services today span across multiple chapters in a trade agreement such as the chapter on investment or that on digital trade or trade facilitation, apart from the chapter on services. While India mostly follows a GATS type positive listing of sectors and negative listing of barriers in the services chapter in its trade agreements, the scope and coverage of services have seen a change over time. For example, the number of sectors and sub-sectors in which India wants to take commitments has increased. In recent trade agreements, India is more aggressive in giving and seeking commitments in Mode 1 or digital delivery of services. In all of the trade agreements there are separate annexes for temporary movement of people and for sensitive sectors such as telecommunications and financial services. In recently concluded WTO MC14, India has highlighted the need for policy flexibility in the digital economy, specifically expressing caution over the e-commerce moratorium to protect domestic industry. India has argued that the moratorium on customs duties on electronic transmissions (in place since 1998) disadvantages nations lacking advanced digital industries, emphasizing it is a policy space issue, not just revenue.⁴³

In none of its trade agreements, commitments given by India or sought from its trade partners go beyond the autonomous regime. Commitments undertaken by partners like Singapore, Australia, Republic of Korea, Japan and Chile are comparatively deeper in their FTAs with other trade partners like the USA, the EU and the Regional Comprehensive Economic Partnership (RCEP) partners than those with India.

In more recent trade agreements, India supports cross-border data flows to enable digital trade, and at the same time, it also preserves the right to restrict such flows for legitimate public-policy objectives, which is clearly reflected in the provisions made in India-UK CETA and India-UAE CEPA.⁴⁴

Mode 4 or temporary mobility of high skilled professionals is a core component of India's trade agreements. The commitments with respect to Mode 4 are listed under a separate annex on Movement of Natural persons which specifies the categories of workers allowed for temporary entry and their stay in the respective markets. Through these trade agreements, there are two things that India aims to achieve: mutual recognition agreements (MRAs) for professional qualifications and ease of getting work permits and visa.

India has consistently sought MRAs in professions such as engineering, chartered accountancy, nursing, architecture, and legal services, yet, its outcomes have been limited. As of 2026, the India-Singapore Mutual Recognition Agreement on Nursing Services (2018) is the only professional MRA concluded by India with any of its FTA partners. Operational since 2018, seven Indian institutions and four Singaporean nursing institutions have been recognised under the MRA.⁴⁵

The main reason behind why these MRAs have remained aspirational rather than operational is because the earlier trade agreements did not establish a time-bound commitment for their conclusion and the monitoring process is weak. To address this issue, in the India-UK CETA, both the countries have agreed to identify relevant bodies in select professional services (nursing, accounting, and architecture) for discussing MRAs within 12 months of the date of entry into force of the agreement. Once the professional bodies have been identified and negotiations start, the agreement says that it should be concluded within 36 months of the date of entry into force of the agreement. Thus, for the first time a time-bound agreement has been drawn for MRAs in select services sectors. Another reason for the slow progress in MRAs is the lack of initiatives by professional bodies in India and partner countries to

conclude MRAs. In many countries professional bodies are independent of the government and therefore are not bound by government decisions.

Focusing on work permits and visas, India's trade agreements do not have provision for a special visa category unlike the USA H-1B1 visa category or the APAC Business Travel Card (ABTC).⁴⁶

By service provider categories, in more recent agreements India seeks commitments from its trading partners on the temporary movement of high-skilled professionals across four categories: business visitors (BV)⁴⁷, intra-corporate transferees (ICT)⁴⁸, independent professionals (IP)⁴⁹, and contractual service suppliers (CSS)⁵⁰. The commitments secured by India in its earlier agreements did not cover all these categories. For example, in India-Singapore CECA, while the agreement allowed entry for professionals such as business-visitors and intra-corporate transferees, it excluded contractual service suppliers and short-term secondments, such as three-month deployments, which left important sectors of India's workforce outside its scope.

More recently, India has begun negotiating quota-based Mode 4 commitments for select skills going beyond the professionals. For example, under the India-Australia ECTA and the India-UK CETA, a dedicated quota of 1800 positions per year has been reserved for chefs and yoga instructors, and chefs, yoga instructors and classical musicians, respectively as CSS. However, how a qualified yoga instructor is defined is not very clear in these agreements. In the India-Oman CEPA, Oman has increased the Intra-Corporate Transferee quota from 20 per cent to 50 per cent which will help the Indian firms. While India has secured specific quotas for niche occupations such as yoga instructors, the MRAs sought by India are primarily for professions such as nursing, architecture, etc. Mobility can occur only when professional qualifications are recognised in the partner country. Recognising this, India has included a separate chapter on Health and Traditional Medicine Services in the India - New Zealand FTA, which includes provisions for MRAs.

An analysis of Mode 4 in India's trade agreements shows that there is limited coverage of skilled workforce mobility as the mobility mostly focuses on high skilled professionals.

The India-UK FTA signed on July 24, 2025, is the most comprehensive services agreement that India has signed so far. The UK offered market access in 12 major sectors and 137 sub-sectors, covering over 99 per cent of India's export interests, including IT, financial services, education, healthcare, professional services, telecommunications, and aviation support. India has committed to 108 sub-sectors, granting the UK firms access to accounting, auditing, financial services (FDI up to 74 per cent), telecommunication (100 per cent FDI), environmental services, and air transport. The agreement also encourages the UK's investment in India's financial market, strengthens access for Indian firms to the UK, and supports fintech, electronic payments, and digital financial integration. Non-discrimination and transparency provisions ensure fair treatment and clarity for Indian businesses.

A key issue for many Indian firms and professionals going for a short duration to the UK was the double payment of social security,⁵¹ without enjoying the benefit of the contribution. For the first time, India has successfully negotiated the elimination of dual National Insurance contributions for stays of up to 36 months, benefiting 75,000 professionals and 900 companies, with estimated annual savings of over US\$ 500 million, as short-term employees previously paid social security without accruing long-term pension benefits.

On 27 January 2026, India and the EU concluded negotiations for the India–EU FTA, described as the "mother of all deals" because of its scale and importance. Together, India and the EU represent a market of over INR 2,091.6 lakh crore (US\$ 24 trillion) and nearly 2 billion people, creating significant opportunities for trade, investment, and innovation. The FTA provides duty-free or preferential market access for more than 99 per cent of India's exports by trade value, while protecting sensitive sectors and preserving India's policy priorities. The agreement builds on a strong and growing trade relationship. In 2024–25, bilateral merchandise trade between India and the EU was valued at around INR 11.5 lakh crore

(US\$ 136.54 billion), with India's exports to the EU reaching INR 6.4 lakh crore (US\$ 75.85 billion). Bilateral trade in services also remained strong, amounting to INR 7.2 lakh crore (US\$ 83.10 billion) in 2024.

Alongside this, India and the EU are also negotiating an Investment Protection Agreement (IPA) and a Geographical Indications (GI) Agreement.

India and the European Free Trade Association (EFTA)⁵² countries signed the Trade and Economic Partnership Agreement (TEPA) in March 2024, which included commitment of US\$ 100 billion investment in India and aimed to create 1 million direct jobs in the next 15 years. Under this, India made commitments in 105 sub-sectors, while EFTA countries' offers covered 128 sectors from Switzerland, 114 from Norway, 110 from Iceland, and 107 from Liechtenstein, including services such as IT and business services, education, media, cultural, and professional services. TEPA has provisions for MRAs in professions like nursing, chartered accountancy, and architecture.⁵³

The USA is the largest trading partner of India in the services sector. Once a relatively open and private sector-driven market, the USA has become increasingly protective, imposing restrictions on Mode 4 mobility and capping H-1B visas. India is yet to have a services agreement with the USA.

In totality, India's approach to trade in services has evolved from limited commitments under the WTO's GATS to a more proactive strategy pursued through bilateral and regional agreements since the UK agreement, signed in 2025. While early negotiations were largely defensive, India now actively seeks deeper market access, Mode 4 mobility, and regulatory cooperation. Despite this progress, gaps persist between India's domestic liberalisation and its external commitments, with limited reciprocal arrangements on visas and professional recognition continuing to constrain its service providers abroad. Negotiations have to be forward-looking and encompass future technology developments, an evolving regulatory regime for AI, data governance, labour and environment standards, restrictions imposed by partner countries on

outsourcing through domestic taxation and its impact on services exports, and many such issues.

6. Challenges in Enhancing the Competitiveness of India's Services Sector

India's services sector faces multiple challenges that limit its growth and global competitiveness. These are discussed here.

Institutional Challenges

India's services sector faces four major institutional challenges. First is the quasi-federal and fragmented governance structure, second is the large informal service sector, third is the lack of a structured mechanism for data collection and collation, and fourth is the mismatch between skill development and employability.

Fragmented Institutional Structure for Governance

India has a quasi-federal governance structure where many services are regulated jointly by the Centre and states, making coordination difficult without a unified framework. While some services have a nodal ministry, others, like retail, are regulated by more than one Department across ministries. Moreover, even where nodal ministry or agency exists, there have been limited proactive efforts to promote cross border collaboration or sign MRAs for professional qualifications. While India has secured specific quotas for niche occupations such as yoga instructors, mobility can occur only when professional qualifications are recognised in the partner country. As discussed in Section 5, the India-Singapore MRA on Nursing Services (2018) is the only professional MRA concluded by India with any of its FTA partners (as of 2026). The lack of initiatives by professional bodies is another reason for the slow progress in MRAs.

Large Informal Service Sector

India has a large informal sector, which varies across sectors like construction, retail, road transport, hotels and restaurants, etc. Over 70 per cent of the workforce is informally employed in the services sector.⁵⁴ Among these sectors, construction services are one of the largest

absorbers of casual labour, as it offers seasonal informal employment to people engaged in agriculture.⁵⁵

Lack of Mechanism for Consolidated Data Collection for Policymaking

As discussed in Part I (A), different government bodies in India follow different systems for classifying services, leading to inconsistencies in data collection, reporting, and policy-making. In addition to this, the RBI does not provide the disaggregated data on services trade by sub-sectors and markets. DPIIT does not provide sub-sector-wise FDI data by country and clubs services with goods (for example, computer hardware and software). State-level data on services exports are not available, making it difficult to identify their strengths and design targeted interventions. Many countries, like the USA, have laid down a clear process of collection and collation of services trade data from regulatory sources and surveys, which is yet to happen in India.

Issues Related to Skill Development and Employability

There is a huge gap between the skills available and employability. India has 1,45,050 architects,⁵⁶ and 13,86,150 doctors as of 2025,⁵⁷ and produces 1.5 million engineering graduates annually. However, 53 per cent of graduates and 36 per cent of postgraduates remain underemployed, working in positions below their qualifications,⁵⁸ reflecting a mismatch between industry needs and education. This is because existing skill development programmes have failed to keep pace with evolving industry requirements, with curricula lagging in emerging domains such as artificial intelligence, data analytics, and digital services. As a result, the sector faces widening skills–jobs mismatch, constraining its ability to leverage its growth potential and sustain long-term competitiveness.

Regulatory Challenges

Regulatory challenges can be broadly categorised into three types. First, market access restrictions, such as limitations on FDI, are only applicable to foreign firms. Second, national treatment restrictions treat foreign investors or firms less favourably than domestic ones. Third

are outdated laws and non-uniform implementation, which affect both foreign and domestic firms.

Restricting Market Access through FDI Restrictions and Conditions

Despite India's efforts to liberalise and open up the services sector to private and foreign investment, it remains one of the most restrictive countries in the world. As per the Organisation for Economic Co-operation and Development Services Trade Restrictiveness Index (OECD STRI), India ranked 44th out of 52 countries in 2025 with a score of 0.29, above the OECD average of 0.22 and relatively higher than countries such as China, Brazil, and Singapore, etc. These restrictions and rigidity on FDI are leading to low FDI inflow in certain sectors, restricting foreigners from bringing the best management practices and technology inflow, and slowing modernisation. For example, India is the only country in the world with a segregated FDI policy in the retail sector on the basis of single-brand retail (SBR) and multi-brand retail, resulting in a lack of clarity among global retailers who want to invest.⁵⁹ Due to these restrictions, retail received only 0.63 per cent of the total FDI inflows (US\$ 5028.12) from April 2000 to March 2026.

National Treatment Challenges

India has a higher corporate tax for foreign firms (30-40 per cent) compared to domestic firms (25-30 per cent).⁶⁰

Many key incentives in India's policies are not extended to foreign companies. For example, in India, under the Start-up India initiative, only Indian start-ups have 100 per cent tax exemption on profits for any three consecutive years out of their first ten years.⁶¹ This benefit is not extended to foreign-incorporated companies or those without majority Indian ownership.

This is not the case with many countries like China, the EU Member States, and ASEAN countries. For example, in the EU, the start-up specific initiatives of member states such as France, Denmark and Ireland are applicable to foreign start-ups as well. In China, the start-up policies and programmes are mostly province-based and do not apply

at the national level. For example, in 2017, to incentivise and attract high-level foreign talent and start-ups, Shenzhen province provided subsidies up to RMB 3 million (US\$ 444,000) to foreign entrepreneurs in possession of a permanent residence permit. Treating foreign firms or investors less favourably reduces the inflow of global talent, investment and innovation – which are needed to build a strong start-up ecosystem.

Outdated Regulations and Non-Uniform Implementation of Laws

Some regulations do not take into account technological developments, while others are outdated or do not follow international best practices. For example, India has withdrawn the SEZ Act (2005), and the new regulation is yet to be put in place.

Non-uniform implementation of the labour standards, like the four Occupational Codes (on wages, industrial relations, social security, and occupational safety) across states, is another issue. While some states, such as Uttar Pradesh, Madhya Pradesh, Gujarat, and Karnataka, have notified or operationalised most labour code rules, several others (such as Meghalaya, Tamil Nadu, and West Bengal) have not.⁶²

Infrastructural Challenges

Unlike countries such as China, where the government is a key provider of basic infrastructure like roads, ports, and power, in India, government investment in infrastructure is low and has not been able to meet demand. While the private sector is investing, it is not enough. For example, India lags behind countries like Singapore, China, Malaysia, etc. in logistics performance (*see* sub-part II-B). In the case of digital infrastructure, India lags in terms of broadband speed and overall quality of digital connectivity. For instance, in 2025, Singapore's median fixed broadband speed is about 406 Mbps, China's is around 222 Mbps, and Thailand's is approximately 273 Mbps, whereas India's median fixed broadband speed is much lower at around 63 Mbps. In the telecommunications sector in India, network quality remains patchy in urban areas, with Fiber-to-the-Home (FTTH) penetration below 40 per cent. Approximately 21,000 villages lack mobile coverage, and 29,000 villages remain without 4G connectivity in 2022.⁶³ In addition, while India has the largest number

of internet users, nearly 48 per cent remain unconnected in 2024, and fixed-line internet⁶⁴ quality lags G20 standards.⁶⁵ Erratic power supply forces IT companies to invest in their own power backup systems, which increases their costs.

The government is encouraging private investment in infrastructure and has allowed 100 per cent FDI through the automatic route in the construction development sector since 2014.⁶⁶ Yet, other issues, such as issues relating to land acquisition hurdles or environmental clearances, continue to delay the projects.⁶⁷

High Taxes and Lack of Incentives Increasing the Cost-of-Service Delivery

While the GST on goods has been reduced significantly post the reforms in August 2025 (with the majority of products now taxed at a rate of 5 per cent), services continue to face high tax burdens. For example, five-star hotels in India are subject to 18 per cent GST, which leads to a high cost of accommodation for tourists.

In the aviation sector, Aviation Turbine Fuel (ATF) is excluded from GST and is subject to central excise duty and state-level VAT ranging from 20–30 per cent, making ATF prices in India 40–60 per cent higher than global aviation hubs such as Singapore and Dubai. This leads to increased airfares and cargo charges.⁶⁸ Together with high hotel costs, it reduces India’s attractiveness as a tourism destination, as travel and stay are much costlier than in many countries.

Further, India has a high corporate tax rate compared to countries like Singapore (17 per cent) and China (25 per cent).

India’s subsidy and incentive framework remains heavily skewed towards goods, with limited support to the services sector. The Action Plan for 12 Champion Services Sectors, which allocated Rs. 5,000 crores for sector-specific initiatives, has also been discontinued. In the past, incentives were given to exporters through the “Served from India” Scheme of the DGFT, which has also been withdrawn. Many countries are giving export-linked incentives to services, as there is no WTO discipline

on subsidies in services, unlike in the case of goods. Countries (such as China, the Philippines and Viet Nam) are creating services zones and providing both fiscal and non-fiscal incentives. However, India is yet to come up with a revised or new Special Economic Zone (SEZ) policy, and there are no export-linked incentives for services.⁶⁹

7. Recommendations and Way Forward

To fully harness the potential of India's services sector amidst rising global protectionism, it is imperative to enhance its competitiveness and make it resilient to external shocks. The sector must adapt to evolving international trends by accelerating digitalisation, integrating artificial intelligence, diversifying export markets and service offerings, strengthening skill development, and deepening global and regional partnerships.

This section presents key recommendations to the challenges in services trade, aimed at increasing the competitiveness of the sector, reducing barriers, enhancing market access, and expanding economic opportunities. Together, these measures seek to reinforce India's position in global value chains, attract higher FDI inflows, and enable the services sector to remain the key driver of sustainable and inclusive economic growth. These are discussed here.

Improve Competitiveness of the Services Sector by Addressing Institutional and Governance Gaps

Competitiveness of the services sector will enhance if we develop an institutional mechanism for governance to facilitate inter-ministerial coordination, formalise the sector, have a structured process for data collection for data-driven policymaking, and focus on addressing skill and capacity gaps.

Set up an Inter-Ministerial Working Group on Services and Create a Vision Document/Roadmap for Exports

To facilitate coordination across ministries/departments, an inter-ministerial group should be set up to develop a framework or roadmap for

services exports. While a target for achieving US\$ 1 trillion in services exports by 2030 (aligned with the Viksit Bharat 2047 agenda) has been set, how to achieve the target is missing. The Vision document can lay down growth scenarios to achieve the target, what different ministries can prioritise in their reform agenda, the investment that is needed to meet the target, fiscal and non-fiscal incentives that the government can offer, etc. It should identify the top 30-35 export markets of interest by services sub-categories, and make recommendations on how to diversify exports of different sub-sectors across markets.

A robust monitoring and evaluation framework should be embedded within the vision document, with clearly defined milestones and periodic reviews. A nodal agency can be identified for each service and given the responsibility to track the progress.

Systematic Data Collection and Data-Driven Policy Making

India must establish a comprehensive and standardised data collection framework. RBI is already collecting the data on exports using the BMP6 framework. However, other agencies such as DPIIT are not providing the data in that framework. They may do so. The Directorate General of Commercial Intelligence and Statistics (DGCI&S)⁷⁰ under the Ministry of Commerce and Industry has been designated as the nodal agency to lead a coordinated harmonisation exercise, in collaboration with RBI, DPIIT, the Central Statistics Office under the MoSPI, and other relevant ministries to collect and collate data on trade in services. However, there has not been any substantial outcome.

India is yet to implement a robust survey for services trade data collection. Services trade data is highly privatised and therefore requires a survey. There is a need for consultations with states on how to collect and collate services trade data and with other agencies like the GST Council. The Inter-Ministerial Working Group on services may set up a panel of experts to facilitate data collection. This is because the existing system has not been able to collect and collate the data. Line ministries should strengthen their data repository of services.

Box 7.1: Additional Budget Initiatives for Supporting Services Sector

The Union Budget FY 2026-27 has also introduced initiatives aimed at strengthening India's services ecosystem through skill development. Some of them relate to traditional medicine, medical value travel and tourism-linked infrastructure.

- 1. Developing skilled Care givers:** A strong Care Ecosystem, covering geriatric and allied care services will be built. A variety of NSQF-aligned programmes will be developed to train multiskilled caregivers combining core care and allied skills, such as, wellness, yoga and operation of medical and assistive devices. In the coming year, 1.5 lakh caregivers will be trained.
- 2. AYUSH:** As India focuses on expanding the global reach of AYUSH, the announcements in Budget 2026-27 are expected to enhance the global acceptability and recognition of these traditional branches of medicine along the lines of the massive global recognition that Yoga has achieved today. The following measures have been announced:
 - Setting up of 3 new All India Institute of Ayurveda.
 - Upgradation of the WHO Global Traditional Medicine Centre in Jamnagar that will bolster evidence-based research, training and awareness for traditional medicine.
 - Upgradation of the AYUSH pharmacies and Drug Testing Labs for higher standards of certification ecosystem
- 3. Boosting Tourism:** A host of measures have been announced for boosting tourism which includes the following:
 - Medical Value Travel: Aimed at positioning India as a global hub for medical value tourism, the government will be supporting the setting up of five regional medical tourism hubs in partnership with the private sector.
 - Upskilling of Guides: Launching a pilot scheme to upskill 10,000 guides across 20 iconic destinations. This initiative features a 12-week hybrid training programme developed in collaboration with the Indian Institute of Management (IIM).

Continued...

- **Development of Archaeological Sites:** Boosting heritage and cultural tourism by developing 15 major archaeological sites, including Lothal, Sarnath, and Hastinapur, into world-class experiential hubs. The initiative focuses on enhancing visitor infrastructure, promoting sustainable tourism, and launching a new Buddhist Circuit in the Northeast to boost religious tourism.
- Focus is also on building on India's potential and opportunity to offer world-class trekking and hiking experiences.
- **High-Speed Rail for Tourism Connectivity:** The proposed high-speed rail routes (Mumbai–Pune; Pune–Hyderabad; Hyderabad–Bengaluru; Hyderabad–Chennai; Chennai–Bengaluru; Bengaluru–Varanasi, and Varanasi–Siliguri) aims to potentially cut travel times between major business centres and culturally significant destinations.

Source: <https://static.pib.gov.in/WriteReadData/specificdocs/documents/2026/mar/doc2026314824001.pdf> (Last accessed on July 08, 2026).

Industry bodies, such as the Services Export Promotion Council (SEPC), should be mandated to systematically collect, collate, and publish detailed data through primary surveys of their members on services exports by state, sector, and mode of supply. Such surveys should cover (a) sector growth and growth projections; (b) key growth indicators; (c) strengths of each state (d) current export market and future potential; and (e) barriers to exports and FDI inflows.

Make Skills 4th IR Ready

India should align skilling, reskilling, and education systems with the evolving needs of the services sector and the 4th IR by investing in digital literacy, soft skills, and multilingual capabilities. This requires a systematic integration of emerging technologies such as artificial intelligence, machine learning, data analytics, and data science what into higher education curricula. Such integration should move beyond introductory exposure to focus on application-oriented learning aligned with industry requirements.

Certain steps have also been taken in this regard. The Union Budget 2026–27 allocated INR 100 crore to establish a Centre of Excellence in Artificial Intelligence for education under the Ministry of Education, aimed at advancing AI-driven learning and innovation. Complementing this, is the *National Apprenticeship Promotion Scheme* (NAPS)⁷¹ where 1,480 apprentices have been trained between FY 2022–23 and FY 2025–26 (till June) in AI-related roles such as AI Data Engineer and Machine Learning Engineer.

Public–private partnerships must be scaled up with a targeted focus on vulnerable groups, including Scheduled Castes (SC), Scheduled Tribes (ST), women, youth, and informal workers. The government should also focus on improving the quality of education, which in turn depends on factors such as the availability of good faculty, infrastructure, and curriculum based on recent demands of the job market. Collectively, such changes in the education system can improve employability, position India as a global talent hub, and boost the export of skilled professionals under Mode 4.

Address Regulatory Challenges

Removing FDI restrictions can bring in new business models, technology, and best management practices. This, along with review/revision of outdated regulations and extending the same benefits to domestic and foreign firms, will help to improve the competitiveness of the services sector.

Reduce/Remove FDI Restrictions to help the Inflow of Technology and Best Management Practices

The inflow of FDI in India’s services sector can be increased by removing the existing restrictive conditions under the FDI policy. India should open key services sectors to foreigners, such as rail freight corridors, legal services, accounting and insurance, to ensure that FDI is not concentrated in a few select sectors like IT/ITeS. The recent reforms indicate a shift in this direction. In the insurance sector, the government, in the Union Budget 2025-26, announced to raise the FDI cap from 74 per cent to

100 per cent under the automatic route, subject to the condition that the entire premium is invested within India. This was done with the aim of attracting greater foreign capital.

Focusing on FDI reforms by sector, in retail, where foreign firms have an interest, India needs to move away from a brand-based retail policy and adopt a uniform FDI framework for both store-based and non-store-based formats, allowing companies the flexibility to implement business models. The FDI policy should not adversely impact the best business model of the foreign firms.

Ensure National Treatment to Foreign Firms

A uniform corporate tax should be levied on both domestic and foreign firms. In the current geopolitical situation, corporate tax may be lowered to attract more investment from both domestic and foreign firms. To attract foreign innovative firms and start-ups, the same benefits should be extended to foreign firms as are given to domestic firms under the Start-up India Initiative.

Review and Revise Outdated Laws and Implement Regulations to Support the Sector

India should come up with a revised or new SEZ policy that has earlier supported the growth of technology-based services. In this context, the Government has set up a 17-member committee in March 2026 to review the SEZ framework and suggest broad-based reforms for an SEZ 2.0 policy within a period of six months. The committee adopts a whole-of-government approach, bringing together representatives from key ministries, regulatory bodies, and SEZ administration. It includes representatives from DOC, DPIIT, NITI Aayog, CBIC, DEA, DGEP, and Development Commissioners of SEZs. The committee will review the effectiveness of the SEZ framework under the SEZ Act, 2005, assessing its impact on exports, investment, employment, and technology development, while identifying gaps and drawing on global best practices. It will also work toward harmonising SEZs with other export promotion schemes to reduce overlaps and improve policy coherence. In addition, it

will also review fiscal and non-fiscal issues being faced by stakeholders for a more competitive and future-ready SEZ 2.0 framework.

States may be encouraged to operationalise the labour codes to ensure uniformity in their implementation across the country. A platform may be created for regular interactions between the Centre and states in this regard.

India may also consider signing the UN Cross-border Paperless Trade Agreement to improve the transport and logistics sector efficiency and performance. India has already enacted laws to govern electronic transactions, and most of the provisions are covered under the Information Technology (IT) Act (2000), which is predominantly based on the UNCITRAL (United Nations Commission on International Trade Law) model. Signing international agreements such as these will reduce logistics costs and improve efficiency. India, with a strong IT base, can take the lead in training and capacity building in regions like the Asia Pacific.

Improve Digital and Physical Infrastructure

To strengthen India's services sector competitiveness, it is essential to improve both digital and physical infrastructure. On the digital front, fast-tracking BharatNet⁷² and National Broadband Mission 2.0⁷³ is critical to expand FTTH penetration, provide high-speed broadband access, and roll out 4G/5G networks across urban and rural areas. This will benefit digitally delivered services and support the growth of service hubs and GCCs, especially in Tier-2 and Tier-3 cities.

Simultaneously, upgrading physical infrastructure, including urban transport systems and logistics networks, will facilitate the seamless delivery of services across regions. For example, port modernisation can reduce turnaround times and enhance efficiency. To support this, the Government of India has undertaken initiatives such as the Maritime India Vision 2030,⁷⁴ the Sagarmala Programme,⁷⁵ and the National Logistics Policy,⁷⁶ which aim to modernise ports through automation and digitisation. The Ministry of Railways has taken up the Dedicated

Freight Corridors (DFCs) project to decongest passenger routes and lower logistics costs.⁷⁷ Together, these initiatives will help in positioning India as a transshipment hub.⁷⁸

India should also establish dedicated Services Export Zones (SEZs) or export zones that combine hard infrastructure with innovation ecosystems, taking inspiration from countries like South Korea's Free Economic Zones (FEZs) and Global Innovation Zones. These zones should ensure 24×7 uninterrupted power supply, high-speed broadband connectivity, integrated data centres, and world-class workspaces to support IT, financial, professional, design, and creative services. Such targeted interventions in India's infrastructure and connectivity will make it easier for Indian firms to seamlessly integrate into global value chains, deliver services efficiently across borders, and attract multinational companies seeking reliable service hubs.

Reduce High Taxes and Introduce Targeted Export-Linked Incentives for Services

Corporate tax should be reviewed and reduced to align with ASEAN countries to attract more corporate investment for firms. This can also facilitate the formalisation of the services sector.

Further, there is a need to reduce high taxes on select services. For example, 18 per cent GST on five-star hotels should be reduced to 12 per cent, as it is for other hotels. This will help to reduce costs for foreign tourists. In the aviation sector, either ATF should be brought under GST or a lower (at least by 20 per cent) tax should be levied, which would reduce airfares and logistics costs. Together, these would help in increasing India's attractiveness as a tourist destination.

The Union Budget 2026–27 has also introduced important measures to strengthen India's position as a global hub for digitally delivered services. To attract global cloud service providers and encourage investment in digital infrastructure, the Budget proposes tax holidays until 2047 for foreign companies providing cloud services to global clients using data centre infrastructure located in India. In addition, entities providing data

centre services from India will benefit from a safe harbour margin of 15 per cent on costs. These measures are expected to promote investment in hyperscale data centres, strengthen India's cloud computing ecosystem, and support exports of digitally delivered services.

The Budget has also simplified the tax and compliance framework for the IT and IT-enabled services sector. Software development, IT-enabled services, knowledge process outsourcing, and software-related contract R&D services have been consolidated under a single category of Information Technology services with a common safe harbour margin of 15.5 per cent, while the safe harbour threshold has been increased from ₹300 crore to ₹2,000 crore. Further, the safe harbour regime will operate through an automated rule-based approval process, and firms opting for the regime may continue under the same provisions for up to five consecutive years.

The Budget also proposes to fast-track the Unilateral Advance Pricing Agreement (APA) process for IT services companies, reducing the expected completion period to two years. These measures will reduce tax uncertainty, lower compliance costs, and improve India's attractiveness as a destination for investment in high-value services.

Given that services are not subject to subsidy disciplines under the WTO framework, India should strategically introduce export-linked subsidies for services to enhance competitiveness. Like China, India can also subsidise services to offset high production costs in the manufacturing sector. India should also come up with a revised or new SEZ policy to provide WTO-compliant fiscal and non-fiscal incentives to the service sector. SEZs may be created separately for the services sector, like services export zones.

While the Action Plan for the 12 Champion Services Sectors allocated dedicated financial resources to sector-specific initiatives, future support could be designed as a performance-linked incentive mechanism. Financial assistance/subsidies may be linked to measurable outcomes such as export growth, employment generation, investment mobilisation, market diversification, or achievement of predefined sectoral milestones,

thereby improving accountability and ensuring more effective utilisation of resources.

To reduce the cost-of-service delivery, fiscal and non-fiscal incentives should be given to both domestic and foreign firms. Countries are giving tax holidays⁷⁹ (Brazil, Singapore, Vietnam), reduced corporate tax rates (Vietnam and Singapore),⁸⁰ investment-linked incentives and benefits under special economic or export processing zones (Mexico and Singapore),⁸¹ to reduce the cost of service delivery and channel investment into priority sectors, promote regional development, and encourage innovation.⁸² Vietnam, for instance, provides corporate income tax exemptions for up to four years, followed by a 50 per cent tax reduction for nine years for investments in high-technology, Research and Development (R&D) and infrastructure sectors.

Addressing the Challenges in the Export Market

To address the challenges in the export market, it is important to first set up a process to identify the challenges mode-wise and sector-wise that exporters are facing in different markets. Once the Inter-ministerial working group has prepared the vision document and identified the top 30-35 markets with high export potential, then meetings and consultations with the industry can help to identify the challenges in different markets. This is needed to have a constructive discussion with the trade partners.

Additionally, a comprehensive mapping of India's services imports should be undertaken to identify (i) strategic services that need to be sourced internationally to improve the competitiveness of domestic firms, and (ii) services that are currently imported but could be competitively produced domestically with targeted policy support.

Further, services exports are often closely linked to market access for complementary goods, regulatory recognition, and supporting ecosystems. This is particularly evident in the healthcare sector, especially traditional systems of medicine such as AYUSH. For example, in the AYUSH sector, the export of services by Ayurveda doctors and practitioners is closely linked to market access for Ayurveda products. In

several countries such as the EU and Japan, Ayurveda medicines are not recognised as therapeutic products or are subject to stringent registration and regulatory requirements. As a result, even where qualified Indian Ayurveda practitioners are permitted to provide services, their ability to prescribe or administer Ayurvedic medicines is constrained, limiting the scope for effective service delivery. Similarly, the lack of recognition of Ayurveda qualifications and practitioners in many markets further restricts the export of Ayurveda services. Therefore, negotiations should adopt an integrated approach that simultaneously addresses barriers affecting both Ayurveda products and services, including product registration, standards, recognition of practitioners, mutual recognition of qualifications and regulatory cooperation.

To conclude, the services sector is the fastest-growing sector in India, contributing significantly to the country's GDP, exports, and FDI inflows; hence, India needs to retain its position as a key services exporter. Global uncertainties have significantly impacted services trade, primarily through increased costs, reduced investment, and disrupted supply chains. While merchandise trade is often more heavily affected, the services sector is also vulnerable to the dampening effects of policy unpredictability. Sudden shifts in tariffs, subsidies, and trade restrictions (such as those from the US-China trade tensions) create volatility and discourage long-term planning and investment. On the multilateral trade front, restoration of faith in the WTO is the way forward. A stronger WTO is good for the world and the only solution to addressing the global trade erosion. A fair and rules-based multilateral trading system is essential for services trade and global integration.

However, services trade should be viewed not merely as a source of export earnings but as an important driver of India's broader development trajectory. Services underpin the competitiveness of the entire economy by providing critical inputs such as finance, logistics, digital technologies, research and development, professional services and telecommunications, while sectors such as manufacturing and agriculture increasingly rely on these services to participate in global value chains. At the same time, rising incomes and productivity in these sectors generate new demand

for services, creating strong two-way linkages across the economy. Consequently, policies aimed at promoting services trade should be integrated with national initiatives on manufacturing, skilling, innovation, digitalisation and infrastructure development.

A competitive services sector can also contribute to wider development objectives. Expanding services exports can create high-quality employment opportunities, particularly for women and youth, support the internationalisation of MSMEs and start-ups, strengthen human capital through greater demand for skilled professionals, and promote regional development. Equally, access to globally competitive services imports in areas such as digital technologies, logistics, finance and professional services can enhance the productivity and competitiveness of domestic firms and facilitate deeper integration into global value chains. Together, services exports and imports can support economic diversification, resilience to external shocks and the transition towards a more digital, knowledge-based and sustainable economy.

India's continued investments in physical and digital infrastructure, coupled with regulatory reforms, technological adoption and sustained investments in skills and human capital, are expected to further strengthen the services ecosystem. As India progresses towards becoming a US\$ 7 trillion economy by 2030 and a US\$ 30 trillion economy in 2047⁸³ services trade will play an increasingly important role in driving productivity, innovation and inclusive growth. Realising this potential will require not only reducing barriers to services trade and strengthening international cooperation, including through the WTO and other trade initiatives, but also addressing domestic supply-side constraints through better regulation, institutional capacity, skilling and coordinated policy support. Such a comprehensive approach would position services trade as a key pillar of India's long-term economic transformation rather than merely an export sector.

Appendix 1

Classification of Services in the World and India

Different frameworks have been developed by various international organisations for classifying the service sectors as it is not a homogenous category but is divided into several subsectors. The most common global classification is the United Nation's Central Product Classification (UNCPC) which is used for trade negotiations and provides the basic framework for sector and sub sector classification under the World Trade Organisation (WTO) and the General Agreement on Trade in Services (GATS). The Services Sectoral Classification List (MNT.GNS/W/120) is based on UNCPC classification, which supported the Uruguay Round of negotiations. The Balance of Payments and International Investment Position Manual by International Monetary Fund (IMF) is used for comprehending international transactions and resulting financial positions. Both these classification frameworks are updated periodically to reflect the changes in the global economy, financial landscapes, technological advancements, and evolving statistical needs. In India, The Reserve Bank of India (RBI) follows the Balance of Payments and International Investment Position Manual by International Monetary Fund. In India the Ministry of Statistics and Programme Implementation have the National Industrial Classification (NIC) (see Box A.1).

Box A.1: Classification of the Services Sector by Different Organisations

1. The Central Product Classification by United Nations (Version 2.1)

The Central Product Classification (Version 2.1) is the updated version of an internationally recognised classification framework developed by the United Nations which systematically categorises all goods and services. The service sector is classified into the following categories: (i) Constructions and construction services; (ii) Distributive trade services; accommodation, food and beverage serving services; transport services; and electricity, gas and water distribution services; (iii) Financial and related services; real estate services; and rental and leasing services; (iv) Business and production services; (v) Community, social and personal services.

2. Balance of Payments and International Investment Position Manual, Sixth Edition (BPM6) by International Monetary Fund (IMF)

The Balance of Payments and International Investment Position Manual, Sixth Edition by International Monetary Fund which is used by the Reserve Bank of India classifies the service sector into the following categories: (i) Manufacturing services on physical inputs owned by others; (ii) Maintenance and repair services; (iii) Transport; (iv) Travel; (v) Construction; (vi) Insurance and pension services; (vii) Financial services; (viii) Charges for the use of intellectual property; (ix) Telecommunications, computer, and information services; (x) Other business services; (xi) Personal, cultural, and recreational services; (xii) Government goods and services.

3. The Services Sectoral Classification List (MNT.GNS/W/120)

The Services Sectoral Classification List (MNT.GNS/W/120) is an informal World Trade Organisation Note is based on the UNCPD classification. It divides services into twelve sectors and one hundred and sixty sub-sectors.

4. Scheme of Classification of Services by India's Goods and Services Tax (GST) Regime

The India's Goods and Services Tax Regime uses its own classification scheme to categorise the service sector into the following categories: (i)

Construction Services; (ii) Trade Services; (iii) Accommodation, Food & Beverage; (iv) Passenger Transport Services; (v) Goods Transport Services; (vi) Postal & Courier Services; (vii) Financial & Related Services; (viii) Real Estate/Rental/Leasing; (ix) Legal/Business/Professional;(x) Telecommunication/Information; (xi) Support/Ancillary Services; (xii) Maintenance/Repair/Installation; (xiii) Manufacturing on Inputs.

5. The National Industrial Classification (NIC) by the Ministry of Statistics and Programme Implementation (MoSPI)

The National Industrial Classification by the Ministry of Statistics and Programme. It classifies the services sector fifteen sectors and fifty-five sub-sectors.

Sources: Compiled from various sources. Available at:

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<https://www.imf.org/external/pubs/ft/bop/2007/pdf/bpm6.pdf>,

https://gstcouncil.gov.in/sites/default/files/2024_02/scheme_of_classification_of_services_amended.pdf.

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- ⁷ Refer, for example, WTO–WB (2023)
- ⁸ Designed by the GATS member countries under the guidance of the WTO Secretariat.
- ⁹ Based on WTO RTA database, <https://rtais.wto.org/UI/publicsummarytable.aspx>
- ¹⁰ Refer, for example, <https://www.oecd.org/en/about/news/announcements/2025/02/oecd-services-trade-restrictiveness-index-2025.html> (Last accessed on July 06, 2026).
- ¹¹ *ibid*
- ¹² https://www.oecd.org/content/dam/oecd/en/publications/reports/2026/02/oecd-services-trade-restrictiveness-index-2026_a1f8485a/db87d74e-en.pdf (Last accessed on July 06, 2026).
- ¹³ The figure shows the changes in the STRI index across sectors, where decreases in the index values indicate trade liberalisation and increases show trade restrictive changes.
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- ¹⁵ This refers to the rapid and widespread adoption of Information and Communication Technologies (ICTs), such as computers, the internet, mobile phones, and various software applications, which have significantly transformed the ways information is created, accessed, stored, and shared.)
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- ¹⁸ NASSCOM, Technology Sector in India 2023: Strategic Review (2023), <https://nasscom.in/knowledge-center/publications/technology-sector-india-2023-strategic-review>.

- ¹⁹ Other business services cover research and development, professional and management consulting and technical, trade-related and other business services.
- ²⁰ Dhirendra Gajbhiye et al. (2024)
- ²¹ Xie Yifan (2024).
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- ²⁹ https://www.oecd.org/content/dam/oecd/en/publications/reports/2026/06/trade-in-value-added-country-notes_b71e7fb9/india_af59602f/d9085309-en.pdf (Last accessed on July 22, 2026).
- ³⁰ <https://csep.org/wp-content/uploads/2025/07/Serviceification-of-Manufacturing.pdf> (Last accessed on July 22, 2026).
- ³¹ Refer, Monthly Economic Review, Department of Economic Affairs, Ministry of Finance, October 2025
- ³² Refer, for example, Grossman and Rossi-Hansberg (2008a, 2008b)
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- ³⁴ Refer, <https://www.pib.gov.in/PressReleasePage.aspx?PRID=2175702®=3&lang=2#:~:text=Services%20Exports:%20The%20New%20Engine,key%20factors%20driving%20sustained%20growth> (Last accessed on July 06, 2026).

- ³⁵ Country A is said to have a revealed comparative advantage in a given service *i* when its ratio of exports of service *i* to its total exports of all services exceeds the same ratio for the world as a whole.
- ³⁶ Such was the conclusion of some recent studies such as Nath and Goswami (2018)
- ³⁷ Read, Business Standard (2017), John West (2020), etc.
- ³⁸ Refer, <https://www.pib.gov.in/PressReleasePage.aspx?PRID=2177724> (Last accessed on July 06, 2026).
- ³⁹ Kulsoom and Banerjee (2025)
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- ⁴⁴ Refer, Kulsoom and Banerjee (2025)
- ⁴⁵ Press Information Bureau, India Signs Mutual Recognition Agreement (MRA) in Nursing with Singapore (June 1, 2018).
- ⁴⁶ The APEC Business Travel Card streamlines short-term business travel across APEC economies by allowing a single application for multiple entries. Cardholders from fully participating economies receive a five-year card granting pre-cleared entry for visits of up to 60 or 90 days and access to fast-track immigration lanes at major airports.
- ⁴⁷ A person who visits another country specifically for business negotiations and/or for preparatory work for establishing presence for short duration.
- ⁴⁸ Employee of a company who transferred from originating country's office to office of the same company in another country.
- ⁴⁹ A self-employed person who entered another country to perform a service on contract basis.
- ⁵⁰ Employee of a foreign company who enters another country temporarily in order to perform a service pursuant to a contract.
- ⁵¹ Social security is the protection that a society provides to individuals and households to ensure access to health care and to guarantee income security, particularly in cases of old age, unemployment, sickness, invalidity, work injury, maternity or loss of a breadwinner. Source: Observer Research Foundation (ORF), Towards Universal Social Security: Priorities for the G20, Occasional Paper No. 386 (Dec. 29, 2023), <https://www.orfonline.org/public/uploads/posts/pdf/20231230102327.pdf> (Last accessed on July 06, 2026).

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- ⁵⁹ India caps foreign ownership in the multi-brand retail sector at 51% and leaves it to each Indian state to make the final decision on whether to authorise such FDI in its territory. In addition, where FDI is allowed, it is subject to conditions, such as a minimum investment of approximately USD 100 million, at least 50% of which must be in “back-end infrastructure” (e.g., processing, distribution, quality control, packaging, logistics, storage, and warehousing); a requirement to operate only in cities identified by the relevant state government; and a requirement to source at least 30 % of the value of products sold from a subset of Indian enterprises.
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- ⁶⁴ Fixed-line internet is a wired connection to a building that delivers high-speed data through physical cables, such as fibre optic or copper lines.
- ⁶⁵ Mishra et al. (2025), https://icrier.org/pdf/State_of_India_Digital_Economy_Report_2025.pdf (Last accessed on July 06, 2026).
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- ⁶⁹ India introduced its Special Economic Zone (SEZ) programme on April 1st, 2000. Its main goals were to increase foreign investment and give exporters access to a hassle-free, competitive global market. Yet, the early competitive edge that Indian SEZs enjoyed on a global scale has slowed down in recent years, with India losing the SEZ subsidy case against the U.S.A. and not coming up with a modified SEZ policy.
- ⁷⁰ The Directorate General of Commercial Intelligence and Statistics (DGCI&S), Kolkata, under the Ministry of Commerce, Government of India, is the pioneer official organization for collection, compilation and dissemination of India's Trade Statistics and Commercial Information.
- ⁷¹ National Apprenticeship Promotion Scheme (NAPS) aims to promote apprenticeship training throughout the country. Initially launched in August 2016, the scheme is currently being continued under its second phase, NAPS-2. Under NAPS-2, the Government shares partial stipend support, limited to 25% of the minimum prescribed stipend payable to apprentices, subject to a maximum of ₹1,500 per apprentice per month during the training period.
- ⁷² BharatNet, one of the biggest rural telecom projects in the world, implemented in a phased manner to all Gram Panchayats (approximately 2.5 lakh) in the country for providing non-discriminatory access to broadband connectivity to all the telecom service providers.

- ⁷³ The National Broadband Mission (NBM) 2.0, which started on 1 April 2025, sought to address broadband connectivity challenges in remote and difficult areas by promoting satellite broadband for rural and remote connectivity and by coordinating with the Ministry of Power to utilise Optical Ground Wire (OPGW) from the power sector to improve connectivity in hilly and remote regions.
- ⁷⁴ The Maritime India Vision (MIV) 2030 provides a comprehensive framework for the holistic development of India's maritime sector, encompassing ports, shipping, and waterways.
- ⁷⁵ The Sagarmala Programme, launched in March 2015, is the flagship initiative of the Ministry of Ports, Shipping, and Waterways, which aims to streamline logistics, reduce costs, and enhance international trade competitiveness by shifting from traditional, infrastructure-heavy transport to efficient coastal and waterway networks. The programme focuses on port modernisation, industrial growth, job creation, and sustainable coastal development, ensuring minimal infrastructure investment while maximising economic impact.
- ⁷⁶ The National Logistics Policy (NLP) was launched in September 2022 with the aim of creating a more seamless logistics ecosystem by improving efficiency and reducing logistics costs.
- ⁷⁷ The Eastern Corridor is from Ludhiana to Sonnagar (1337 Km), and the Western Corridor is from Jawaharlal Nehru Port Terminal (JNPT) to Dadri (1506 Km which is spanning over 2,800 km).
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- ⁸⁰ The government sets lower tax rates as an exception to the standard tax rate to attract capital into specific sectors or regions of the country; therefore, the amount of tax payable by a business is reduced.
- ⁸¹ Under special zones, eligible enterprises can avail various types of tax exemptions, such as a complete tax exemption on export income or reductions.
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