

# What Drives India's Services Exports

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## **Abstract**

India's prowess in the service sector has been recognised the world over. Sustaining services exports is important not only to sustain India's high growth rate but also to compensate for a consistent deficit in merchandise trade and to maintain stability on the external sector. In this context, we analyse the factors of India's performance in services exports over the past three decades. The results reveal that endowment factors such as human capital, improvement in physical infrastructure and financial development are key drivers for India's surge in services exports along with world demand, exchange rate and manufacturing exports. While factors such as institutions, R&D expenditure, telecommunication, foreign direct investment and financial development significantly impact the export of modern services, traditional services exports are more dependent on infrastructure development, manufacturing exports, world demand and exchange rate. India's economic reforms in the financial sector, FDI, communication so far have helped the services exports, but India needs to focus on supply-side factors to improve the competitiveness – and thereby volume – of services exports.