



Lecture-4



ECONOMIC SURVEY



- 1 External Sector-Playing the long game
- 2 Services: From stability to new frontiers
- 3 Evolution of AI ecosystem in India: The Way Forward

Dr. Jayant Parikshit

ECONOMIC SURVEY

HANDOUT-4

EXTERNAL SECTOR PLAYING THE LONG GAME

ECONOMIC SURVEY LECTURES



Economic Survey Part 1



Economic Survey Part 2



Economic Survey Part 3



Economic Survey Part 4

BUDGET LECTURES



Budget Session Part 1



Budget Session Part 2



Budget Session Part 3

**EXTERNAL SECTOR: PLAYING
THE LONG GAME**



CONTEXT: Global Realities

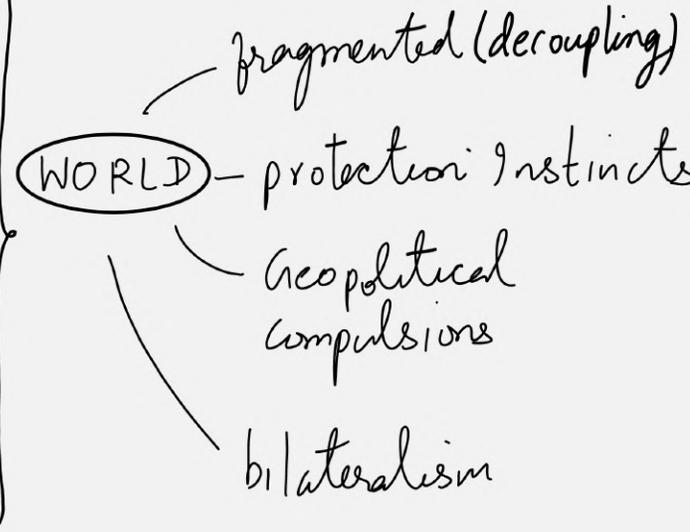
Global uncertainty wrt Gov trade & tariff policy
observations:

- Sovereign Interest via Industrial Policies
- Intense competition for Rare Earths
- Weak regional & multilateral trade agreement

How do we know?

Trade Policy Uncertainty Index (TPU)

Global Economic Policy Uncertainty (GEPU) Index



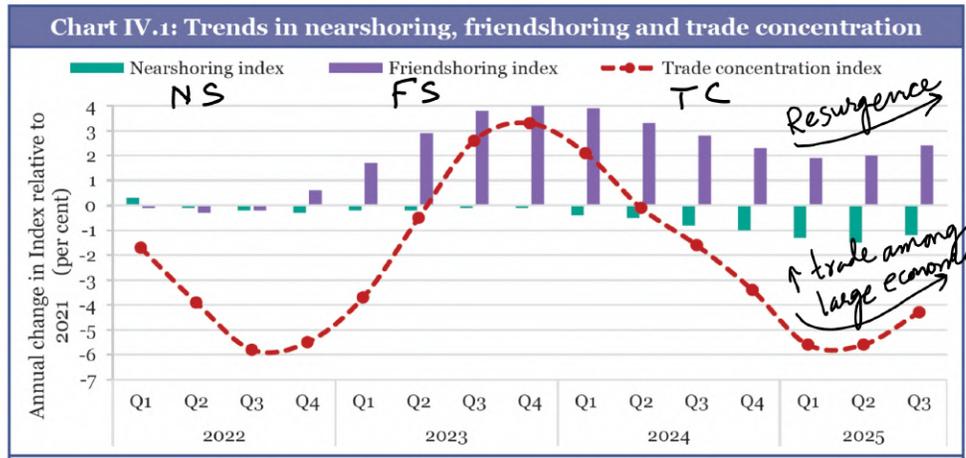
Trade Policy uncertainty (TPU):

→ measure media attention to news related to trade policy uncertainty (i.e. reference from 7 leading newspaper)

Global Economic Policy uncertainty (GEPU)

→ share of own country newspaper article that discusses economic policy uncertainty in that month

GLOBAL TRADE DYNAMICS



Trend: Political Proximity is imp

NS → Geographical proximity of importer & supplier

FS → political " " " " " "

TCI → How much of global trade is concentrated in small set of countries

Resurgence
↑ trade among large economies

INDIA'S TRADE REVIEW:

CURRENT A/C Ex ↑, Im ↑↑, T.D ↑

1. Merchandise/Visible:

EXPORTS

- Petrol, Gas → ↑
- NP-NGJ → ↑↑
↳ electronic (35%),
Mica, Coal, minerals,
marine (>15%)

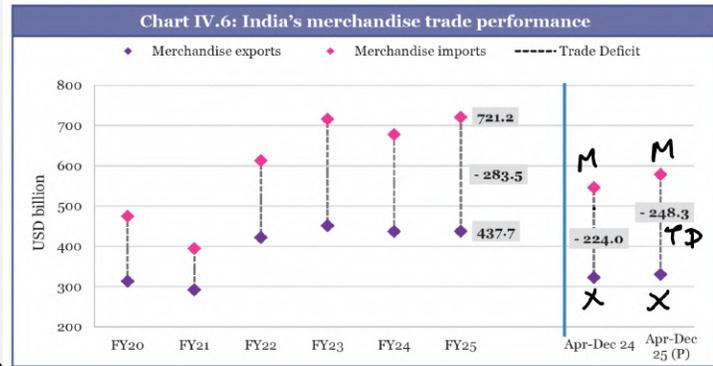
↑ 8% of
ex = 2.4%

IMPORTS

- NP-NGJ = 9.5%
↳ electro (17%), machine
electrical non-elec (>17%)
chemicals (45%)

↑ 8% of
Im = 5.9%

T.D ↑
\$248bn

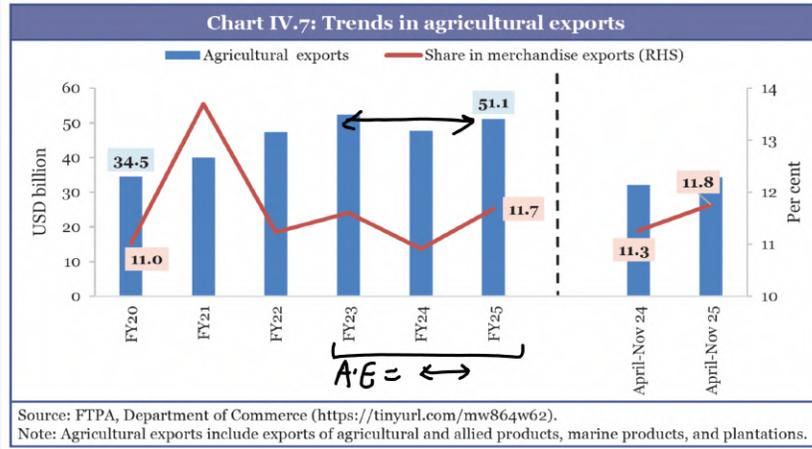


TREND: 2005-24

* India's share in Global Merch exp. = x2 i.e (1% to 1.8%)

* Diversity: Trade diversity = improved
↓
New partners & range of products
Merch. Trade diversity = scope to improve

AGRICULTURAL EXPORTS:

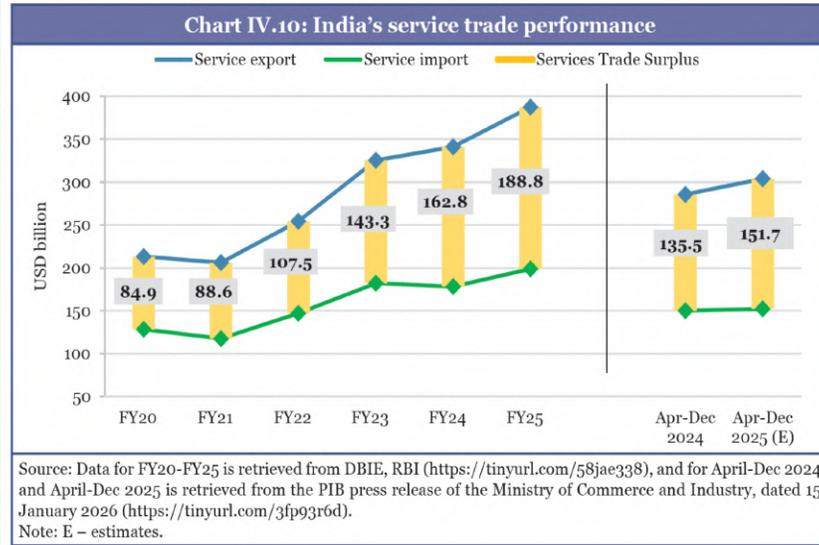


* Aim = \$100 bn agri export by 2030

2019-24:

- % of Merch. export = 6.9%
- % of Agri export = 8.2%
- Share of agri in total Merch. ex = 11-14%
- 2022-24 → $\left\{ \begin{array}{l} \text{Indian agr ex} = \leftrightarrow \\ \text{global agr ex} = \uparrow \end{array} \right.$
- India's share in global agri export = modest (1% (2000) - 2.2% (2024))
 \hookrightarrow Gap b/w prodⁿ & export = untapped pot.

SERVICES:



FY 26:

roq of Service exp. = 6.5% (A-D)

roq of " Imp = 1.5% (A-D)

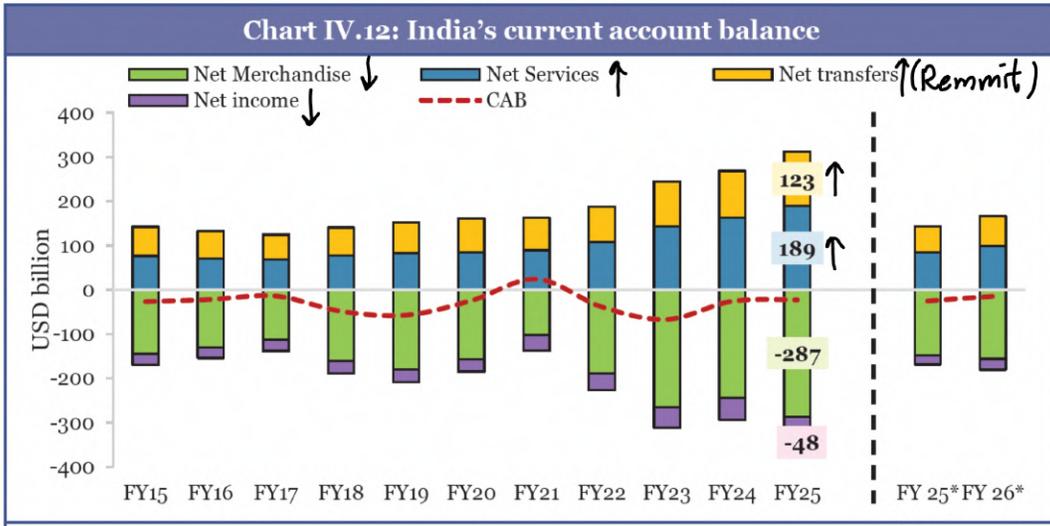
Service Trade Surplus = 61% of Merc. Def.
(61% of \$248 bn)

Top SVs Exp:

- Software, BPM, consulting, fintech

- share of US ↓, Europe ↑ in India's SVs export

CURRENT ACCOUNT:



(Apr-sept)

CAD = Manageable

- a. SVS trade surplus ↑
- b. Remittances ↑

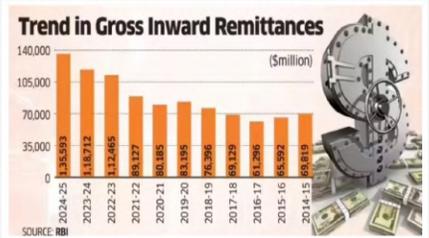
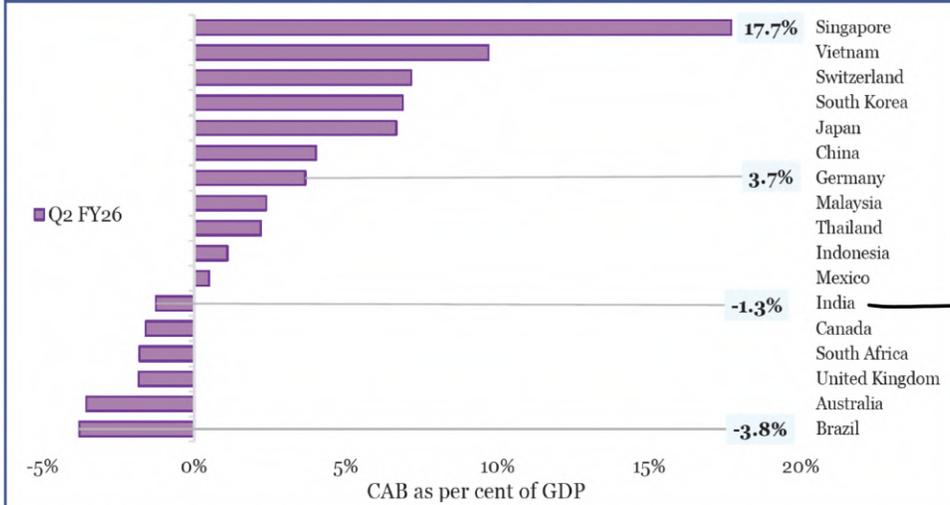


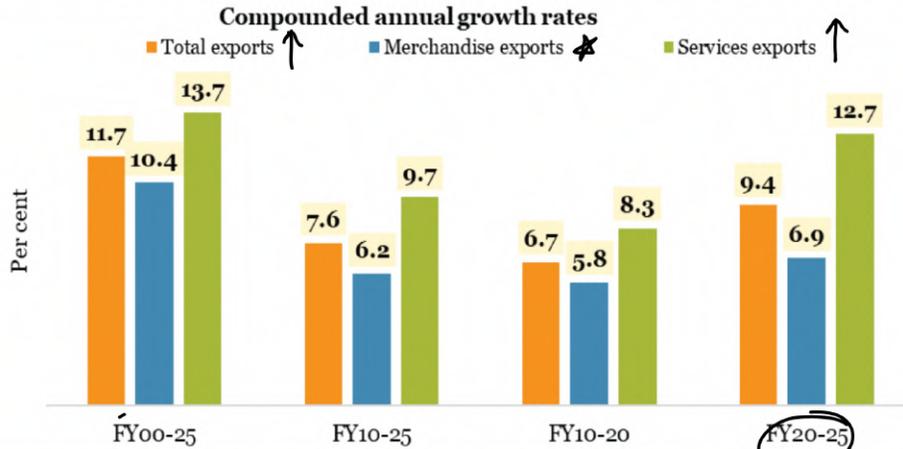
Chart IV.13: Current account balance (as per cent of GDP)
(India vs select countries)



→ Modest relatively

Source: CEIC Data, <https://tinyurl.com/52kavkdh>.

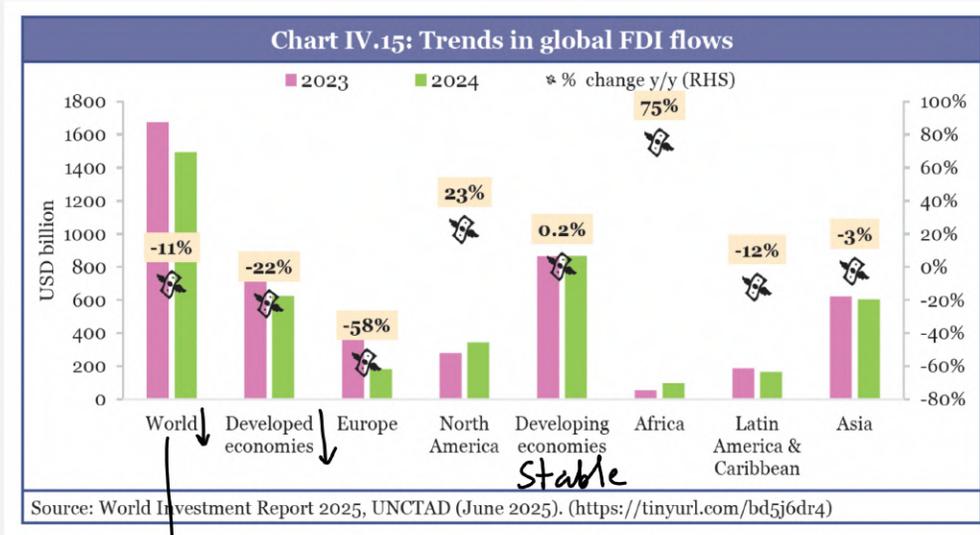
Chart IV.25: CAGR of merchandise exports, services exports and total exports



Source: FTPA, Department of Commerce (<https://tinyurl.com/mw864w62>) and DBIE, RBI (<https://tinyurl.com/58jae338>).

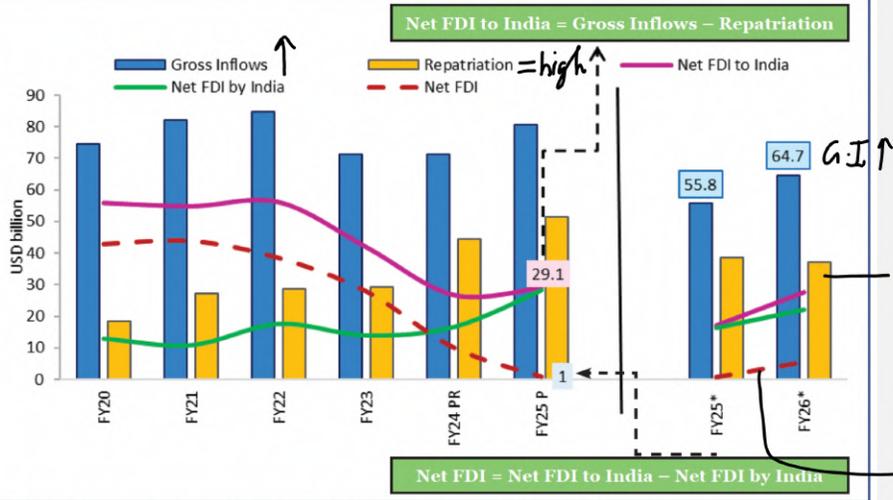
- % of SVS > Merch.
- High tech Mfg, R & D = low
- SVS related tech = ↑

CAPITAL ACCOUNT:



→ esp. due to ↓ Europe & china

Chart IV.16: Trends in India's FDI

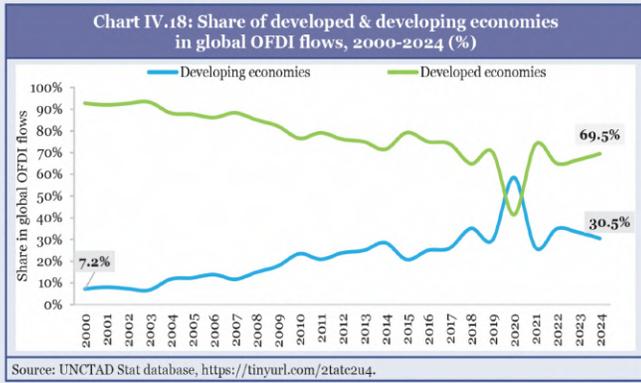


Source: Table Foreign Investment Inflows, DBIE, RBI. (<https://tinyurl.com/4rk4n8r8>).
 Note: *: (April-November); P = Provisional; PR = Provisionally Revised.

high → shows that India delivers high returns

Net FDI ↑:
 · ↑ inflow
 · ↓ repatriation of profit

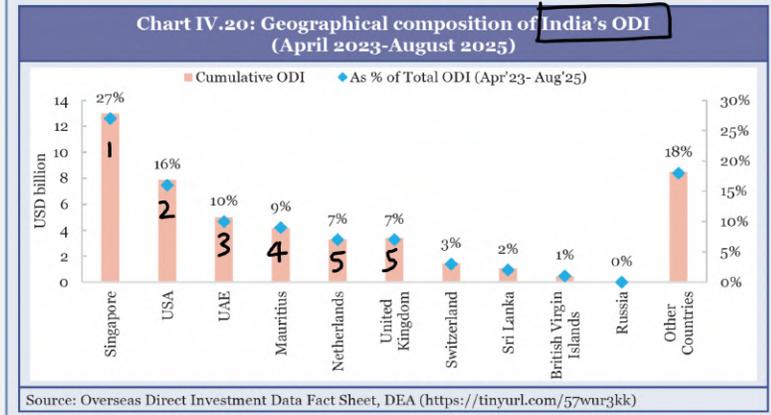
OUTWARD FDI (OFDI):

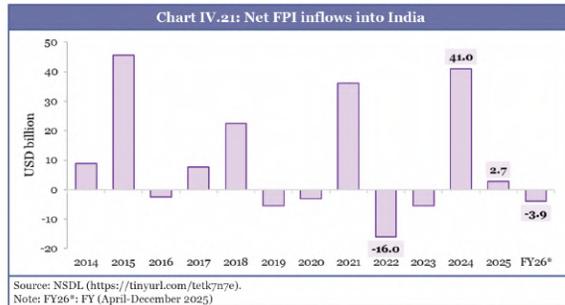


Inward FDI = Investor's confidence
 Outward FDI = internationalisation & competitiveness of dom firms

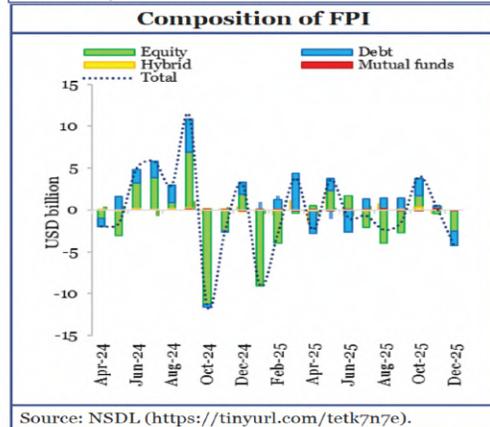
* Global share of developing countries ↑

* India's OFDI = ↑





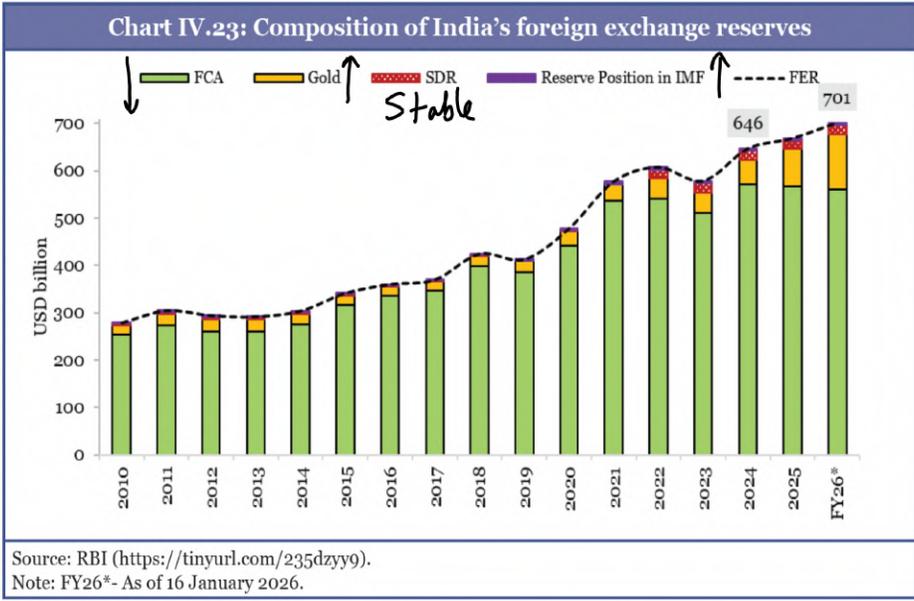
* FPI = Fluctuation due to global factors



* Fluctuation

* ↓ both equity & debt

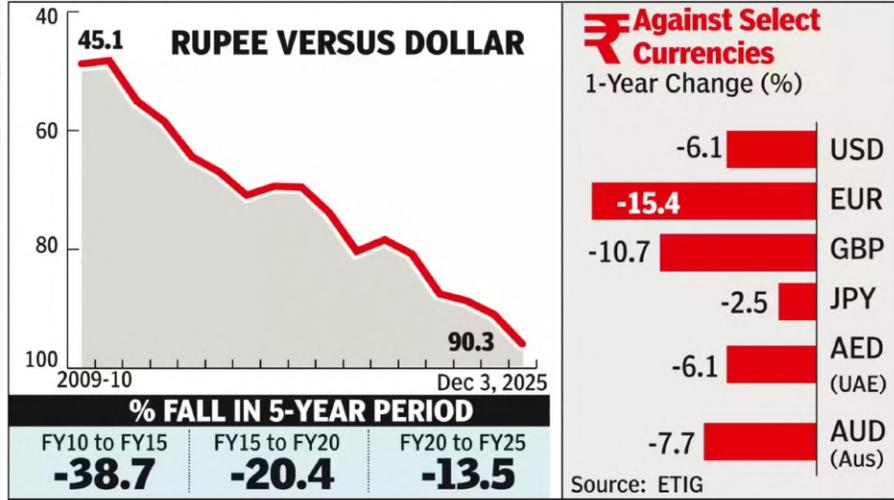
FOREX RESERVE:



FCA - 88%
 Gold - 8%
 SDR - 3%
 RTP - 1%

EXCHANGE RATE:

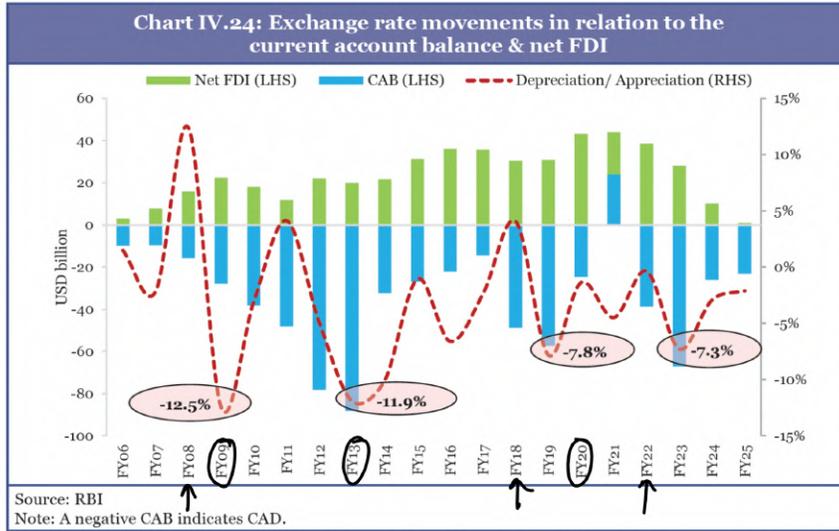
VALUE HALVES IN 15 YEARS



Reasons:

- F.I outflow
- Trade war
- Cautious investors

CAD \rightarrow ₹ depreciation \leftarrow Capital A/C :



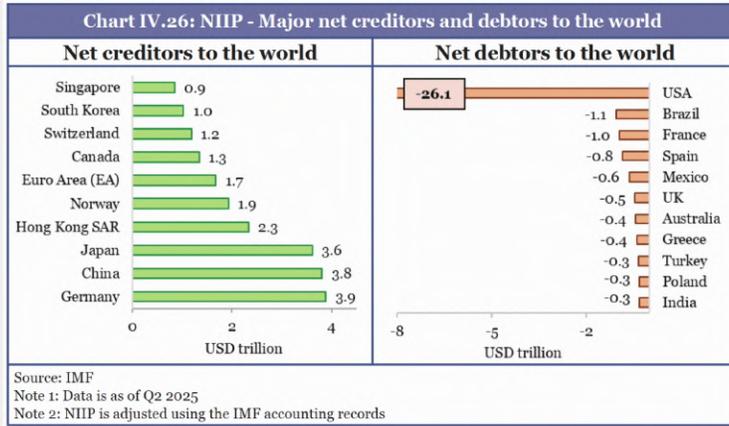
(a)
2008, 12, 19 : High CAD ($Im > Exp$) & ₹ deprecⁿ coincided

(b)
2007, 17, 21 : High CAD ($Im > Exp$) & ₹ apprecⁿ
Reason: ↑ \$ inflow

a + b \rightarrow RoE mov. depends upon:
 \rightarrow CAD
 \rightarrow F.I inflow

Result : weak ₹ helps to improve Merch. T. B
 Service export of India is less price sensitive \rightarrow more quality & specialisation sensitive

INTERNATIONAL INVESTMENT POSITION:



Top Creditors: Germany, Japan, China

Top Debtors: US, Brazil, France, Spain
 India = Rank 11th

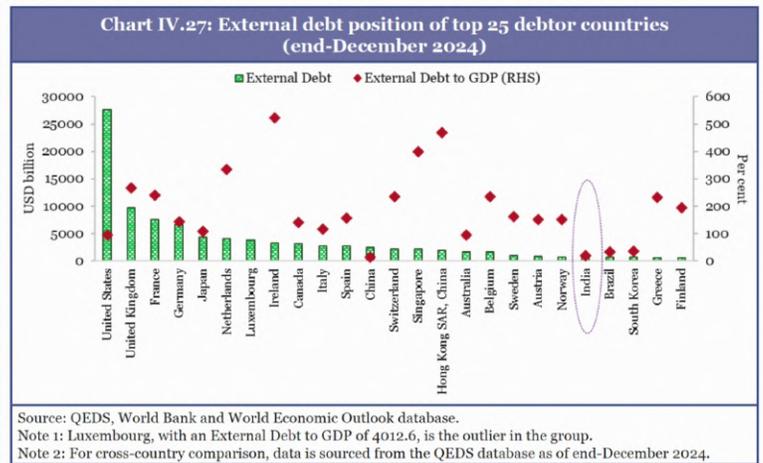
2024-25: India

- International Asset-to-Liab Ratio: ↑
 (74.1% to 77.5%)
- NIIP → -14.1% (2020)
- GDP → -10.1% (2024)
- -8.7% (2025)

NIIP = Country's External Asset - External Liab
 (ODI, currency, deposits, Fx) → (Inward D.I, loan, currency deposits)

NIIP > 0 → Net creditor, < 0 → " Debtor

EXTERNAL DEBT:



India

* EDGR = 18.4%

* Global Rank = 21

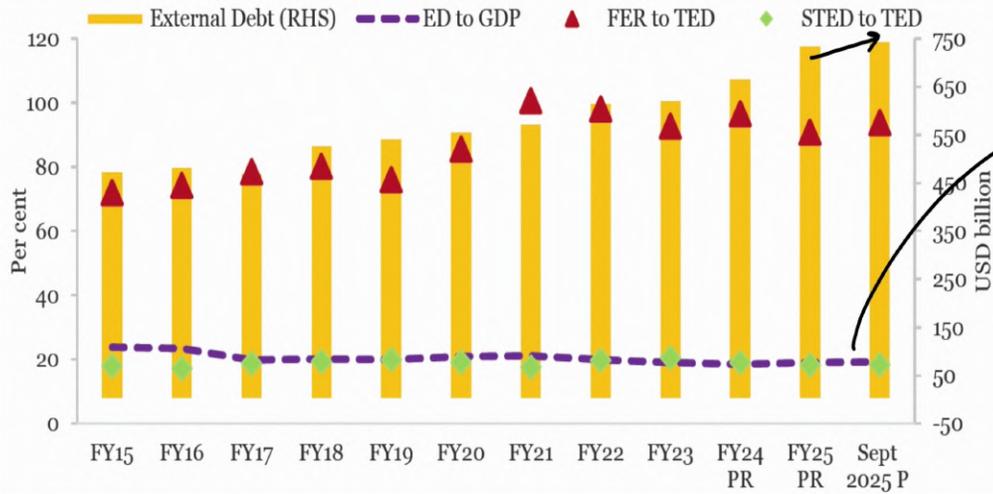
* Mar 2016 - Mar 2025 = ~ 20.2% (Stable)

* ED < 5% of GoI's Total Debt

. Global ED (2024, Dec) = 1.4% high 4-0%

. India's share in Global ED = 0.69%

Chart IV.28: External debt position of India



→ ED = \$750 bn

→ EDGR ≈ 20.2%. Stable
(last 10 yrs)

→ $\frac{FER}{TED} \sim > 85\%$

→ $\frac{STED}{TED} \sim < 20\%$

Source: RBI and Ministry of Finance.

Note: PR – Partially Revised, P – Provisional.

WAY AHEAD: TRADE

1. Crude oil import-diversified: Libya, Egypt, Brazil, US, Brunei, Russia, S. Arabia, Iraq, Venezuela, UAE, Nigeria etc.
2. PLI (20-24) → % of export of PLI sectors = 10.6%, import = 12.6%.
used to create output & ↑ X
→ exp: IT hardware, ACC battery, electronics, Solar Pv, speciality steel
Automobile, pharma, F&E
→ Imp: Electronics, Autom, Food, pharma etc
3. Economic Complexity Index → evaluates future potential to diversify into sophisticated product based on existing capacity (Harvard Atlas of Econ. Complexity)
↳ India's Rank = 44th/145 → modest → unchanged since 2019

**SERVICES: FROM STABILITY
TO NEW FRONTIERS**



SERVICE FACTSHEET:

* GDP = 53.6%

* Emplougt = 30%. (Mfg = 11-12%, Const. = 11-12%)

↳ Mostly low VA SVS like trade, hospitality, transport, personal SVS

* Emplit elastt:

→ SVS = 0.43 (2011-2024)

→ AgYI = 0.41

→ Mfg = 0.22

→ Const. = 0.60

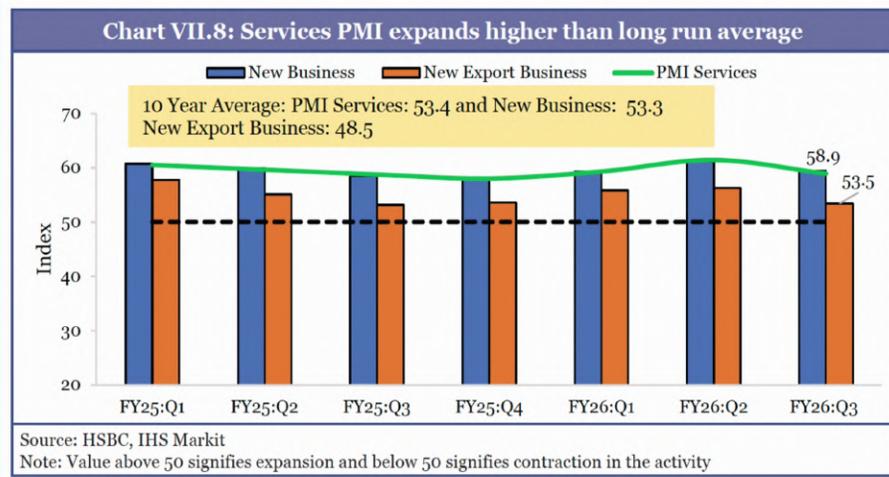
* India = world's 7th largest service exporter

* India's share in Global SVS trade → 2005 = 2%

→ 2024 = 4.3%

* Largest recipient of FDI = SVS

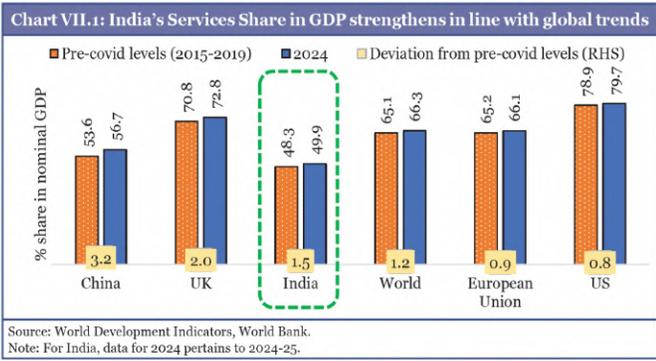
PMI-SVS



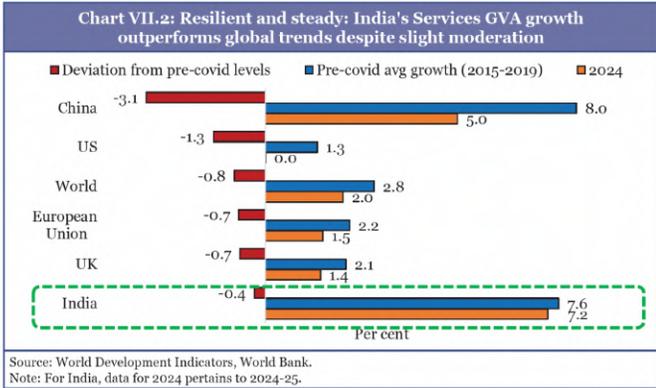
PMI-SVS → Monthly

1. New Order (30%)
2. Prodⁿ (25%)
3. Empl^t (20%)
4. Supplier's delivery (15%)
5. Inventory (10%)

GLOBAL TREND:

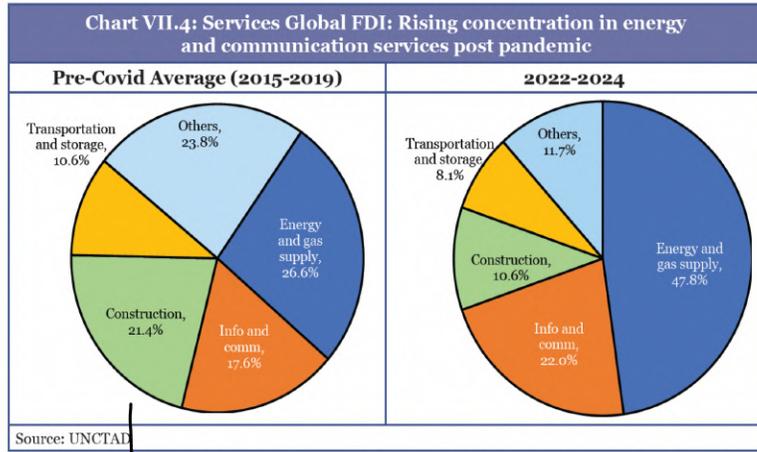


* India = resilient growth in SVS close to PPL



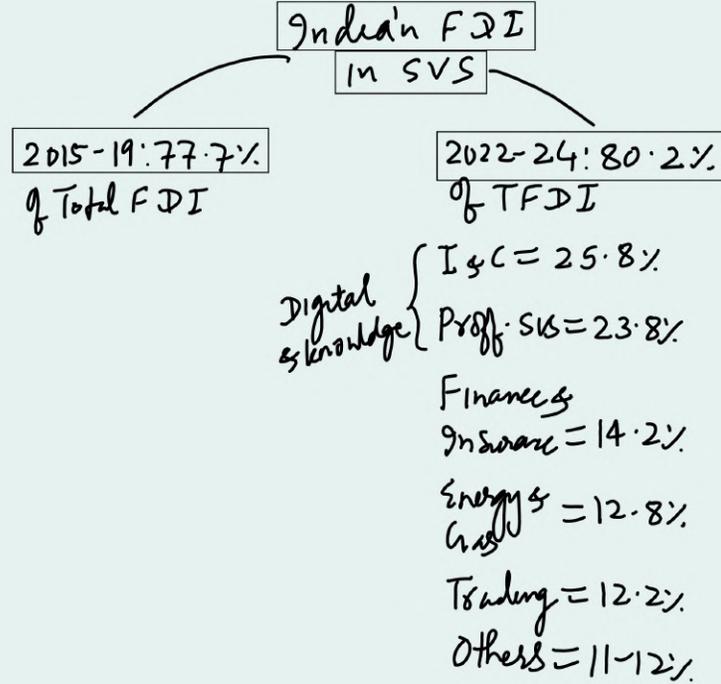
20% of SVS in 2024 ≈ PPL & one of the fastest in world

FDI IN SERVICES



FDI was balanced across SVS

Post-Covid → FDI in SVS ↑ in Energy.

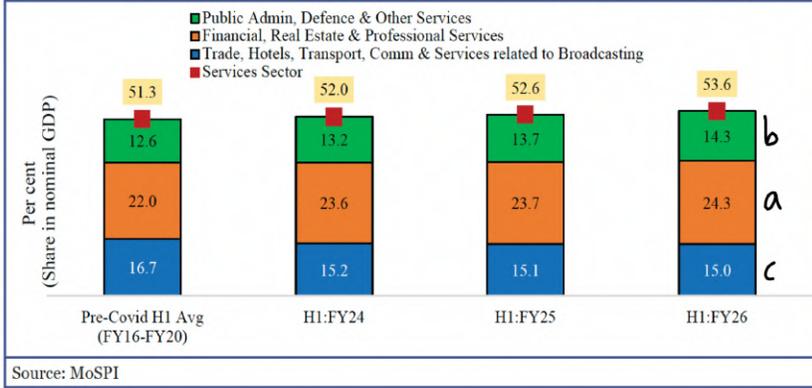


RECENT TREND IN INDIAN SERVICES:

A Driver of economic growth:
 → Share of SVS in GDP ↑

- Key: Finance, Real Estate, Professional SVS
- Moderate: Pub-Ad, Defence, other SVS
- Gradual: Trade, Hospitality, Transport, Communication (contact intensive)

Chart VII.5: Services sector continues to be major driver of growth



* States

→ Kar, Mah, TN, Tel = 40% of India's SVS output → high productive SVS → IT, Finance

→ Bihar → low PCI → 58.7% of GVA from SVS

→ Kerala → 64.3% GVA from SVS

→ Odisha & Assam: share of SVS in GVA ↓
② 35%.

* Rural-Urban scenario:

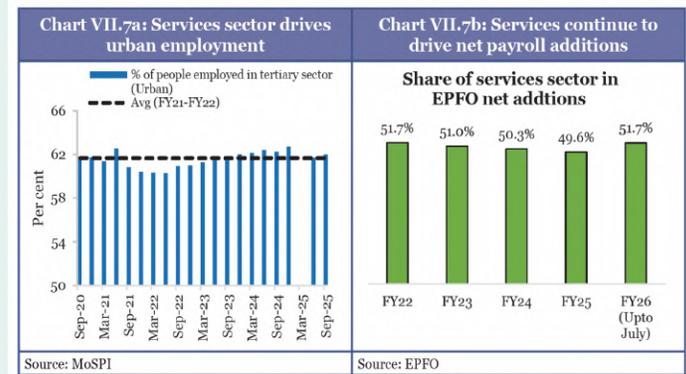
Urban empit = 62% SVS (Q1,2 FY26) → stable

Rural " = 20% SVS

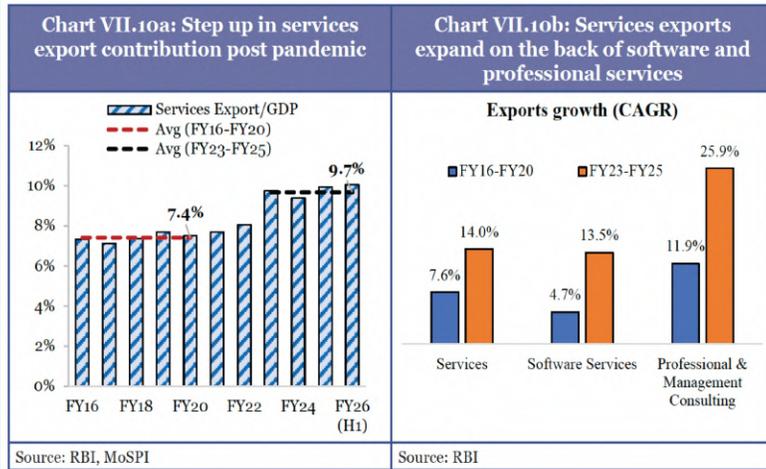
* Women in SVS

Urban → 60% Women in SVS

Rural → 10.5% " " "



* SVS as buffer for global uncertainty:



* $\left(\frac{\text{SVS Exp}}{\text{GDP}}\right)$

- Pre-pandemic: 7.4%
- 2022-24: 9.7%
- 2025-H1: 10%

* (log of SVS export)

- Avg 2015-2019 = 7.6%
- Avg 2022-24: 14%
- FY 26 (A-N) = 8%

(moderated → global factors)

X2 ↑

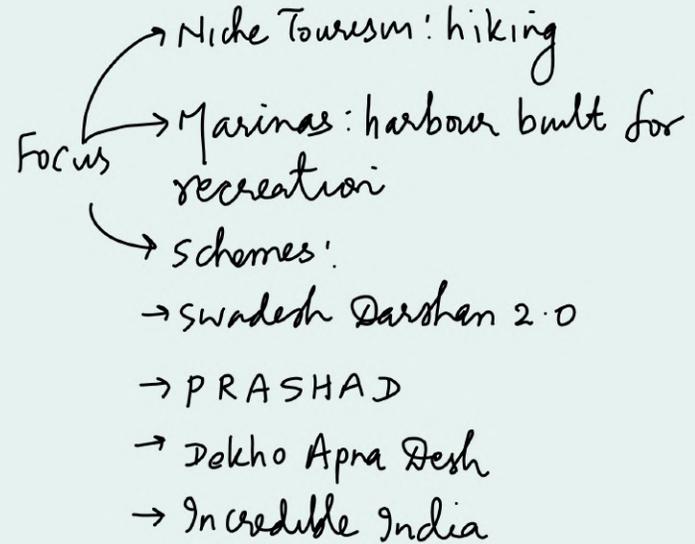
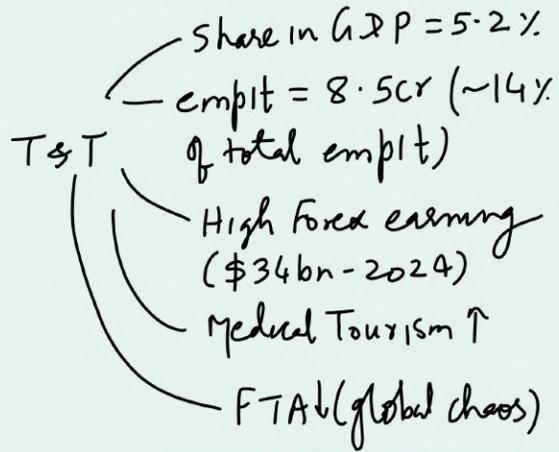
SERVICIFICATION:

- * Integration of SVS into Mfg like design, R & D, logistics, software dev't, professional SVS
e.g. smart devices, medical equipments, automobile (software on wheels)
- * Mfg is becoming more tech & data oriented

Challenges:

- High initial cost
- Complex
- Skilled LF

TOURISM:



SWADESH DARSHAN:

2014-2022:

→ Theme based tourism
e.g. Buddhist, Coastal
Desert etc

→ Aim: ↑ Tourism, empl't, E.G

2023

→ promote "Destination Tourism"
e.g. Prayagraj, Ajanta & Ellora
etc

PRAASHAD:

→ develop identified pilgrimage
destination

→ community based development,
integrate local art & craft, provide
infra etc

DEKHO APNA DESH:

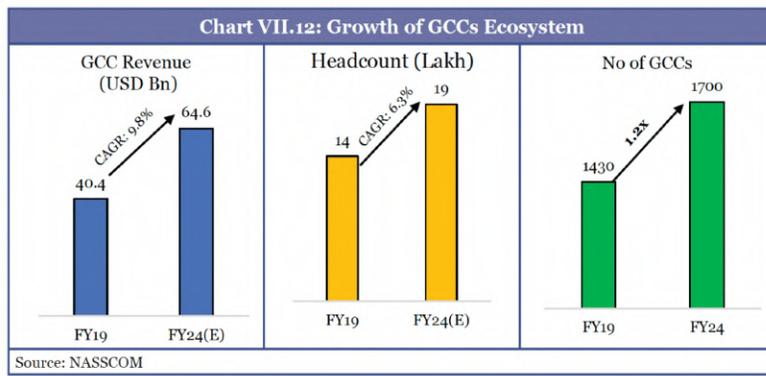
- * encourage citizens to explore Indian culture, nature, heritage
- * promote destinations + products of India

INCREDIBLE INDIA:

- * 2002-2016:
 - general promotion of tourism
- * 2017 onwards:
 - Market specific & niche tourism like spiritual, medical, wellness

IT & IT-ES:

* GCC: offshore units estb by MNCs for tech^y dev't, engg, analytics, & business operations for their global act^y



Challenges:

* India generates 20% of world data but hosts only 3% of Global data centre

* DeepTech = 10% of 2 L SUs

Positive:

* Cybersecurity resilience = Among top

* S por Model: R&D linkages via co-funded programme, collaboration platform to avoid fragmented approach.

TRANSPORT:

- * Share in GVA = 4.5%
- * Port-Turnaround Time
 - FY15 = 43 hr
 - FY25 = 30 hr
- * Aviation
 - ↑ passenger
 - ↑ cargo
- * Railway freight svcs: crossed \$1bn turnover in 2025
 - ↳ DFC
 - ↳ Truck on Train Services



HOW UNION BUDGET 2026 IS REWIRING INDIA'S ECONOMIC GEOGRAPHY

20 New national waterways connecting mineral rich areas, industrial centres & ports

EAST COAST INDUSTRIAL CORRIDOR
Odisha, Kerala, Andhra Pradesh & Tamil Nadu

RARE EARTH CORRIDOR
Odisha, Kerala, Andhra Pradesh & Tamil Nadu

Union Budget 2026 **Seven high-speed rail corridors**

- Delhi to Varanasi
- Varanasi to Siliguri
- Mumbai to Pune
- Pune to Hyderabad
- Hyderabad to Bengaluru
- Hyderabad to Chennai
- Chennai to Bengaluru

TELECOM:

→ Share in GVA = 1.2 %

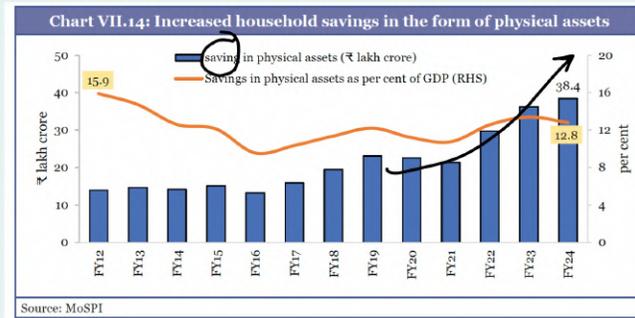
→ > 1.2 bn Teleph connection

→ Teledensity $\left\{ \begin{array}{l} 75\% \end{array} \right.$

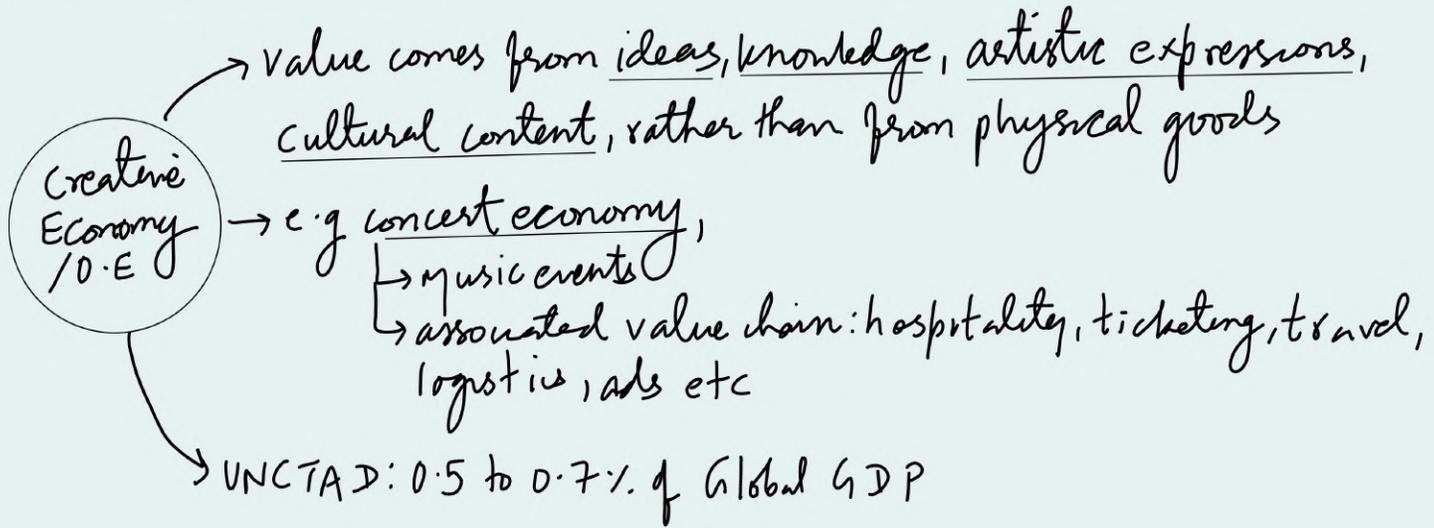
$\left\{ \begin{array}{l} 86.8\% \rightarrow \text{fast rog in rural areas} \end{array} \right.$

REAL ESTATE:

→ Share in GVA = 7% (last decade)



ORANGE ECONOMY:



**EVOLUTION OF THE AI
ECOSYSTEM IN INDIA:
THE WAY FORWARD**



AI & INDIA:

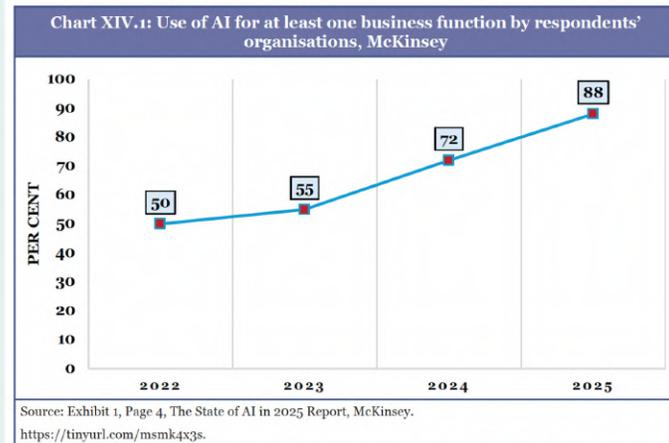
* ES 2024: prepare for AI, skill, data mgt

* ES 2025: already adopted worldwide

HIC: 58.4% of all usage

* AI-USE → UMIC: 22.5%

→ LMIC: 18.7%



EMPLOYMENT IN A.I.:

* Professional, Business & Information SVS (PBIS) → close to AI adoption

initial stage → AI/productivity ↑
due to AI → empit ↑ as firms may expand or relocate
labour to new integrated system
+ve correlation

* PBIS

Post-2022 → Agg empit elasts under AI ↓
i.e labour intensity of o/p has ↓

* Challenges

- Control over critical i/p, data is ↑ concentrated
- Regulations: no uniform std globally
- Entry barriers: created by few large firms as AI needs energy
- Labour abundant economies: stress b/w productivity gain & empit generation

INDIA'S OWN AI SOLUTION: Niti-

Advantages of AI for India:

1. low cost young L.F
2. Spillover to other sectors like Agri, Mfg, defence, power etc
3. Less vulnerable to geopolitical tension due to own A.I
4. Skilled L.F for AI (second only to US)
5. Domestic data sources
6. India is late mover in A.I → better opportunity in regulation & innovation choices

INDIA'S LIMITATIONS:

1. Limited access to cutting-edge computer infra
2. Scarce financial resources for large scale model training
3. Pvt participation in foundation A.I R & D is limited



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