Services Sector

10

CHAPTER

India's services sector expanded quickly with double-digit growth in the second half of the 2000s. As the Euro-zone crisis has worsened, growth has slowed, though the sector is still growing at a much higher rate than the other two sectors of the economy.

10.2 The services sector covers a wide array of activities ranging from services provided by the most sophisticated sectors like telecommunications, satellite mapping, and computer software to simple services like tehose performed by the barber, the carpenter, and the plumber; highly capital-intensive activities like civil aviation and shipping to employment-oriented activities like tourism, real estate, and housing; infrastructure-related activities like railways, roadways, and ports to social sector-related activities like health and education. Thus, there is no one-size–fits- all definition of services resulting in some overlapping and some borderline inclusions. The National Accounts classification of the services sector incorporates trade, hotels, and restaurants; transport, storage, and communication; financing, insurance, real estate, and business services; and community, social, and personal services. In the World Trade Organization (WTO) list of services and the Reserve Bank of India (RBI) classification, construction is also included.

Services Sector : International Comparison

10.3 In world GDP of US$70.2 trillion in 2011, the share of services was 67.5 per cent, more or less the same as in 2001. Interestingly the top 15 countries in terms of services GDP are also the same in overall GDP in 2011. This list includes the major developed countries and Brazil, Russia, India, and China. Among the top 15 countries with highest overall GDP in 2011, India ranked 9th in overall GDP and 10th in services GDP. A comparison of the services performance of the top 15 countries in the eleven-year period from 2001 to 2011 shows that the increase in share of services in GDP is the highest for India (8.1 percentage points) followed by Spain. While China's highest services compound annual growth rate (CAGR) of 11.1 per cent was accompanied by marginal change in its share of services for this period, India's very high CAGR (9.2 per cent) which was second highest was also accompanied by the highest change in its share. This is also a reflection of the domination of the industrial sector along with services in China in its growth, while India's growth has been powered mainly by the services sector (also see Chapter 2). Despite the higher share of services in India's GDP and dominance of industry over services in China, in terms of absolute value of services GDP as well as growth in services (both decadal and annual in 2001, 2010, and 2011) China is still ahead of India. (Table 10.1)

10.4 Country estimates for 2012 show a deceleration in services growth in some major countries. For example, in 2012 it decelerated to 0.5 per cent from 0.9 per cent (in 2011) in the USA; 8.1 per cent in 2012 from 9.4 per cent (in 2011) in China; and 6.6 per cent in FY 2012-13 from 8.2 per cent (in FY 2011-12) in India. In Brazil, the services sector grew by a 1.4 per cent in Q3 of 2012 compared to 2.1 per cent in the corresponding period of the previous year.

Table 10.1 : Performance in Services : International comparison

	Country	Rank: Overall GDP	Rank: Services GDP	Overall GDP (US$ billion): At current Prices 2011	Overall GDP (US$ billion): At constant Prices 2011	Share of services (percent of GDP): 2001	Share of services (percent of GDP): 2010	Share of services (percent of GDP): 2011	Change in Share 2011 over 2001	Services growth rate (per cent): 2001	Services growth rate (per cent): 2010	Services growth rate (per cent): 2011	CAGR 2001-11
1	US	1	1	14991.3	13225.9	77.0	78.3	78.4	1.4	2.9	2.5	5.1	2.1
2	China	2	3	7203.8	4237.0	40.6	41.9	41.7	1.1	10.4	9.9	8.9	11.1
3	Japan	3	2	5870.4	4604.1	70.6	69.9	70.5	-0.1	1.8	1.1	0.6	0.4
4	Germany	4	4	3604.1	3048.7	70.0	70.8	70.0	0.0	2.5	1.0	1.9	1.3
5	France	5	5	2775.5	2240.5	76.8	79.0	79.2	2.4	1.8	1.9	2.1	1.4
6	Brazil	6	8	2476.7	1126.4	65.4	66.2	66.5	1.1	1.8	5.0	3.1	3.8
7	UK	7	6	2429.2	2381.1	74.0	76.4	76.0	2.0	3.8	1.1	1.2	2.3
8	Italy	8	7	2195.9	1773.1	70.9	73.1	73.1	2.2	2.6	1.4	0.7	0.6
9	India	9	10	1897.6	1322.7	50.1	56.8	58.2	8.1	7.5	9.4	7.4	9.2
10	Russia	10	13	1857.8	947.2	56.3	62.4	62.1	5.8	3.3	3.9	3.6	5.5
11	Canada	11	9	1736.9	1233.5	65.0	69.9	69.7	4.7	3.5	2.6	2.2	2.7
12	Australia	12	11	1515.5	894.5	67.9	69.0	69.2	1.3	3.9	2.3	3.6	3.3
13	Spain	13	12	1478.2	1183.8	63.7	69.8	70.0	6.3	3.6	1.2	1.2	2.8
14	Mexico	14	14	1155.2	956.8	61.4	63.8	64.2	2.8	1.2	5.4	5.0	2.9
15	South Korea	15	15	1116.2	1056.1	60.5	57.0	56.6	-3.9	4.4	3.9	2.7	3.5
	World			**70201.9**	**52667.7**	**68.2**	**67.6**	**67.5**	**-0.7**	**2.8**	**2.9**	**3.6**	**2.6**

Source **: Computed from UN National Accounts Statistics accessed on 4 January 2013.**

Note **: Rank is based on current prices, shares are based on constant prices(US$), growth rates are based on constant prices(US$), CAGR is estimated for 2001-11, construction sector is excluded in services GDP.**

10.5 While the share of services in employment for many developed countries is very high and in many cases higher than the share of services in incomes, the gap between these shares is relatively less. Except China and India, all the other BRICS countries also have a similar pattern. In the Indian and Chinese cases, there is a wide gap between the two, with gap being wider for India. China's share of services in both income and employment is relatively low due to the domination of the industrial sector, but the gap is also narrower than that of India.

10.6 World services export growth (CAGR) reached a high of 12.6 per cent during 2000 to 2008 compared to 6.6 per cent in the 1990s. Growth of world exports of services which declined to - 11.1 per cent due to the global economic crisis of 2008, quickly rebounded in 2010 and grew by 10 per cent. However, the pre-crisis (2008) level of US $ 3.84 trillion was reached and surpassed only after a lag of two years in 2011 when world services exports reached US $ 4.17 trillion with a growth of 11 per cent. The Euro-zone crisis and the global slowdown in 2012 affected services trade as well. Mirroring the trends in world GDP growth and merchandise trade, world exports of commercial services started decelerating from Q4 of 2011 with 5 per cent growth followed by 4 per cent in Q1 of 2012, zero per cent in Q2 of 2012 and - 2 per cent in Q3 2012.

10.7 World services-sector FDI rebounded in 2011 after falling sharply in 2009 and 2010, to reach around US $570 billion, registering a growth of 15 per cent over the previous year. FDI in non-financial services, which accounted for 85 per cent of the total, rose modestly, on the back of increases in FDI, targeting electricity, gas, and water as well as transportation and communications. Financial services registered a 13 per cent increase in the value of FDI projects in 2011 reaching US$80 billion, though still 50 per cent below the pre-crisis average (2005-2007). FDI projects in banking remained subdued in the wake of the global financial crisis. European banks, which had been at the forefront of international expansion through FDI, were largely absent, with a number of them remaining under government control. In 2012, United Nations Conference on Trade and Development (UNCTAD) estimates indicate a fall in global FDI by 18 per cent to US $ 1.3 trillion, while forecasting a moderate recovery in 2013-14.

India's Services Sector

10.8 India's services sector has emerged as a prominent sector in terms of its contribution to national and states incomes, trade flows, FDI inflows, and employment.

Services GDP

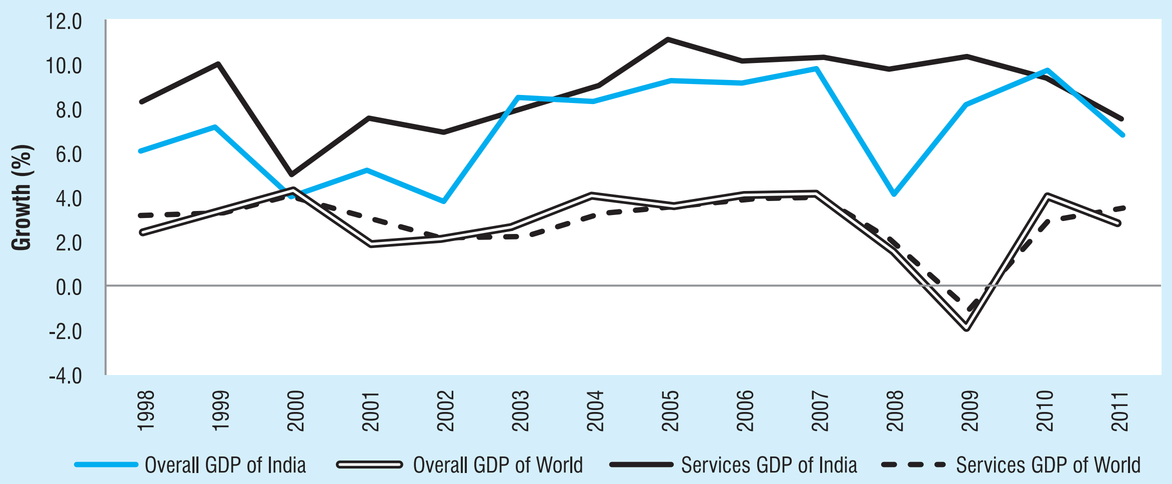
10.9 The growth story overall and services of world and India in the 2000s began from almost the same level of around 4-5 per cent in 2000. But over the years, India's overall and services growth rates have outpaced those of the world. Interestingly, unlike world services growth, which has been moving in tandem with its overall growth with mild see-saw movements over the years, India's services growth has been consistently above its overall growth in the last decade except for 2003 (when the former was marginally lower than the latter). Thus, for more than a decade, this sector has been pulling up the growth of the Indian economy with a great amount of stability (Figure 10.1).

10.10 The share of services in India's GDP at factor cost (at current prices) increased from 33.3 per cent in 1950-1 to 56.5 per cent in 2012-13 as per Advance Estimates (AE). Including construction, the share would increase to 64.8 per cent in 2012-13. With an 18.0 per cent share, trade, hotels, and restaurants as a group is the largest contributor to GDP among the various services sub-sectors, followed by financing, insurance, real estate, and business services with a 16.6 per cent share. Both these services showed perceptible improvement in their shares over the years. Community, social, and personal services with a share of 14.0 per cent is in third place. Construction, a borderline services inclusion, is at fourth place with an 8.2 per cent share (Table 10.2).

10.11 The CAGR of the services sector GDP at 10 per cent for the period 2004-5 to 2011-12 has been higher than the 8.5 per cent CAGR of overall GDP during the same period. However in 2011-12 and 2012-13, there has also been a deceleration in growth rate of services sector at 8.2 per cent and 6.6 per cent respectively. Among the major broad categories of services, 'financing, insurance, real estate, and business services', which continued to grow robustly both in 2010-11 and 2011-12 decelerated to 8.6 per cent in 2012-13. While in 2011-12 growth in 'trade, hotels, and restaurants' and 'transport, storage, and communication' slowed down to 6.2 per cent and 8.4 per cent respectively, in 2012-13 'trade, hotels, and restaurants' and 'transport, storage, and communication' combined grew by an estimated 5.2 per cent.

10.12 Sub-sector wise, among commercial services, in terms of shares, the major services are trade, transport by other means (i.e. excluding

Figure 10.1 : Growth rate of Services GDP and Overall GDP - India and World



Source : Based on UN National Accounts Statistics accessed on 2 February 2013.

Table 10.2 : Share and Growth of India's Services Sector (at factor cost)

(per cent)

	2000-01	2005-06	2006-07	2007-08	2008-09	2009-10^	2010-11@	2011-12*	2012-13**
Trade, hotels, & restaurants	**14.6 (5.2)**	**16.7 (12.2)**	**17.1 (11.1)**	**17.1 (10.1)**	**16.9 (5.7)**	**16.5 (7.9)**	**17.2 (11.5)**	**18.0 (6.2)**	**25.1# (5.2)**
Trade	13.3 (5.0)	15.1 (11.6)	15.4 (10.8)	15.4 (9.8)	15.3 (6.7)	15.1 (8.5)	15.7 (11.5)	16.6 (6.5)	
Hotels & restaurants	1.3 (7.0)	1.6 (17.4)	1.7 (14.4)	1.7 (13.0)	1.5 (-3.3)	1.4 (1.9)	1.5 (10.8)	1.5 (2.8)	
Transport, storage, & communication	**7.6 (9.2)**	**8.2 (11.8)**	**8.2 (12.6)**	**8.0 (12.5)**	**7.8 (10.8)**	**7.7 (14.8)**	**7.3 (13.8)**	**7.1 (8.4)**	
Railways	1.1 (4.1)	0.9 (7.5)	0.9 (11.1)	1.0 (9.8)	0.9 (7.7)	0.9 (8.8)	0.8 (5.9)	0.7 (7.5)	
Transport by other means	5.0 (7.7)	5.7 (9.3)	5.7 (9.0)	5.6 (8.7)	5.5 (5.3)	5.3 (7.3)	5.3 (8.2)	5.4 (8.6)	
Storage	0.1 (6.1)	0.1 (4.7)	0.1 (10.9)	0.1 (3.4)	0.1 (14.1)	0.1 (19.3)	0.1 (2.2)	0.1 (9.4)	
Communication	1.5 (25.0)	1.6 (23.5)	1.5 (24.3)	1.4 (24.1)	1.4 (25.1)	1.4 (31.5)	1.1 (25.4)	0.9 (8.3)	
Financing, insurance, real estate, & business services	**13.8 (4.5)**	**14.5 (12.6)**	**14.8 (14.0)**	**15.1 (12.0)**	**15.9 (12.0)**	**15.8 (9.7)**	**16.0 (10.1)**	**16.6 (11.7)**	**17.2 (8.6)**
Banking & insurance	5.4 (-2.4)	5.4 (15.8)	5.5 (20.6)	5.5 (16.7)	5.6 (14.0)	5.4 (11.4)	5.6 (14.9)	5.7 (13.2)	
Real estate, ownership of , dwellings & business services	8.7 (7.5)	9.1 (10.6)	9.3 (9.5)	9.6 (8.4)	10.3 (10.4)	10.4 (8.3)	10.4 (6.0)	10.8 (10.3)	
Community, social, & personal services	**14.8 (4.6)**	**13.5 (7.1)**	**12.8 (2.8)**	**12.5 (6.9)**	**13.3 (12.5)**	**14.5 (11.7)**	**14.0 (4.3)**	**14.0 (6.0)**	**14.3 (6.8)**
Public administration & defence	6.6 (1.9)	5.6 (4.3)	5.2 (1.9)	5.1 (7.6)	5.8 (19.8)	6.6 (17.6)	6.1 (0.0)	6.1 (5.4)	
Other services	8.2 (7.0)	7.9 (9.1)	7.6 (3.5)	7.4 (6.3)	7.5 (7.4)	7.8 (7.2)	7.9 (8.0)	7.9 (6.5)	
Construction	**6.0 (6.1)**	**7.9 (12.8)**	**8.2 (10.3)**	**8.5 (10.8)**	**8.5 (5.3)**	**8.2 (6.7)**	**8.2 (10.2)**	**8.2 (5.6)**	**8.2 (5.9)**
Total Services	**50.8 (5.4)**	**53.1 (10.9)**	**52.9 (10.1)**	**52.7 (10.3)**	**53.9 (10.0)**	**54.5 (10.5)**	**54.4 (9.8)**	**55.7 (8.2)**	**56.5 (6.6)**
Total Services (incl. Construction)	**56.8 (5.5)**	**61.0 (11.1)**	**61.0 (10.1)**	**61.2 (10.3)**	**62.4 (9.4)**	**62.7 (10.0)**	**62.6 (9.8)**	**63.9 (7.9)**	**64.8 (6.5)**
Total GDP	**100.0 (4.3)**	**100.0 (9.5)**	**100.0 (9.6)**	**100.0 (9.3)**	**100.0 (6.7)**	**100.0 (8.6)**	**100.0 (9.3)**	**100.0 (6.2)**	**100.0 (5.0)**

Source **: Central Statistics Office (CSO).**

Notes **:Shares are in current prices and growth in constant prices;**
Figures in parenthesis indicate growth rate;
*** first revised estimates, @ second revised estimates, ^ third revised estimates,**
**** Advance Estimate (AE);**
 # includes the shares and growth of both trade, hotels, & restaurants and transport, storage, & communication only for 2012-13.

railways), banking, and insurance, and real estate ownership of dwellings, and business services, besides construction. In 2011-12, though the growth of 'trade' decelerated to 6.5 per cent, its share improved to 16.6 per cent. The share of 'transport by other means' at 5.4 per cent was almost at earlier levels, while its growth was at 8.6 per cent. Banking and insurance with marginal improvement in its share to 5.7 per cent was the most dynamic sector in 2011-12 with a growth of 13.2 per cent on the top of high growths in the preceding years. 'Real estate, ownership of dwellings, and business services' with a share of 10.8 per cent, which is marginally higher than that of the previous year, also had robust growth of 10.3 per cent. 'Other services' with a share of 7.9 per cent both in 2010-11 and 2011-12 grew at a slower pace of 6.5 per cent in 2011-12. Among 'other services', the two major items are community services, of which education, medical, and health, are the major items; and personal services. Interestingly some items among community services like coaching centres and membership organizations have high growth rates with small shares which are rising. Construction, the borderline services sector, has been the most vulnerable to global events. With a share of 8.2 per cent as in the previous two years, it has been growing unevenly since the global crisis.

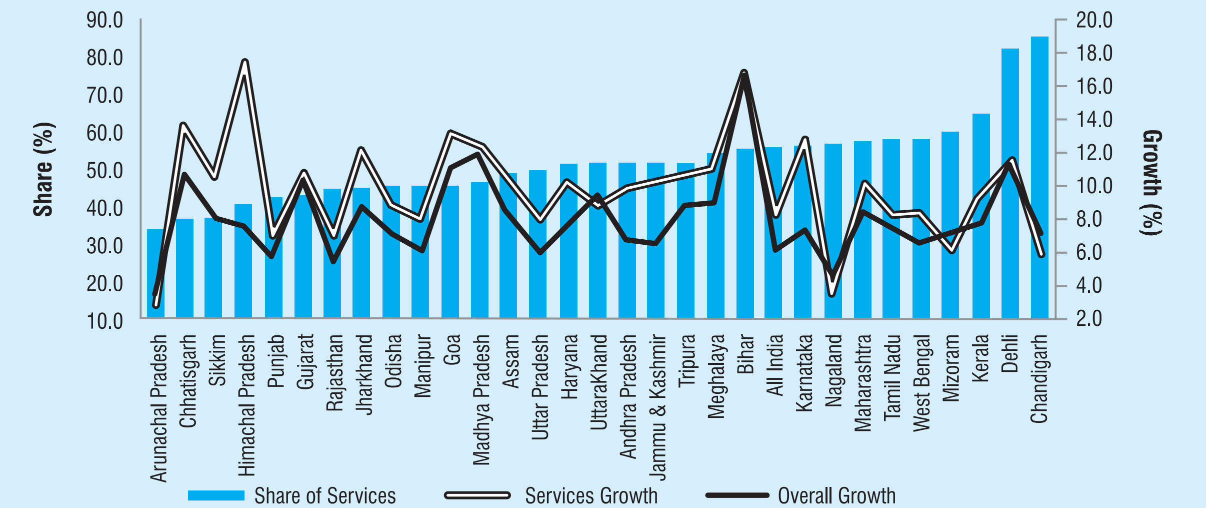
State-wise Comparison of Services

10.13 A comparison of the share of services in the gross state domestic product (GSDP) of different states and union territories (UTs) in 2011-12 shows that the services sector is the dominant sector in most states of India (Figure 10.2). States and UTs such as Chandigarh, Delhi, Kerala, Mizoram, West Bengal, Tamil Nadu, Maharashtra, Nagaland, and Karnataka have higher than all-India shares. Chandigarh tops the list with a share of 85 per cent followed by Delhi with 81.8 per cent. Other than Arunachal Pradesh (33.8 per cent), Chhattisgarh (36.7 per cent), and Sikkim (37.0 per cent), the share of services in the GSDP in all other states is more than 40 per cent. In 2011-12, in tune with the general moderation in overall services growth, services growth rates in many states also moderated. But some states continued to register high growth rates with the highest being in Himachal Pradesh at 17.3 per cent followed by Bihar at 16.6 per cent. Among UTs with high services share in GSDP, Delhi with11.5 per cent growth tops the list. While the services revolution in India is becoming more broad-based, with even the hitherto backward states piggy-backing on the good performance of this sector, the initial momentum seems to have slowed down for some north-eastern states like Arunachal Pradesh, Mizoram, and Nagaland after the advantage of base effect is over.

FDI in the Services Sector

10.14 The growth of the services sector is closely linked to the FDI inflows into this sector and the role of transnational firms. While the ambiguity in classifying the different activities under the services sector continues, the combined FDI share of financial

Figure 10.2 : Share and growth of Services Sector in 2011-12



Source **: Computed from CSO data.**
Notes **: Data in the case of Gujarat and Mizoram are from 2010-11.**
Shares at current prices, growth rate at constant (2004-5) prices.

and non-financial services, construction development, telecommunications, computer hardware and software, and hotel and tourism can be taken as a rough estimate of the FDI share of services, though it could include some non-service elements. This share is 47 per cent of the cumulative FDI equity inflows during the period April 2000-November 2012. The five service sectors are also the sectors attracting the highest cumulative FDI inflows to the economy with financial and non-financial services topping the list at US$ 36.04 billion during the period April 2000-November 2012. This is followed by other service sectors—construction development (US$21.77 billion), telecommunication (US $12.62 billion), and computer software and hardware (US $ 11.54 billion). If the shares of some other services or service-related sectors like trading (1.96 per cent), information and broadcasting (1.65 per cent), consultancy services (1.11 per cent), construction (infrastructure) activities (1.06), ports (0.88 per cent), agriculture services (0.80 per cent), hospital and diagnostic centres (0.82 per cent), education (0.36 per cent), air transport including air freight (0.24 per cent), and retail trading (0.02 per cent) are included then the total share of cumulative FDI inflows to the services sector would be 56.08 per cent.

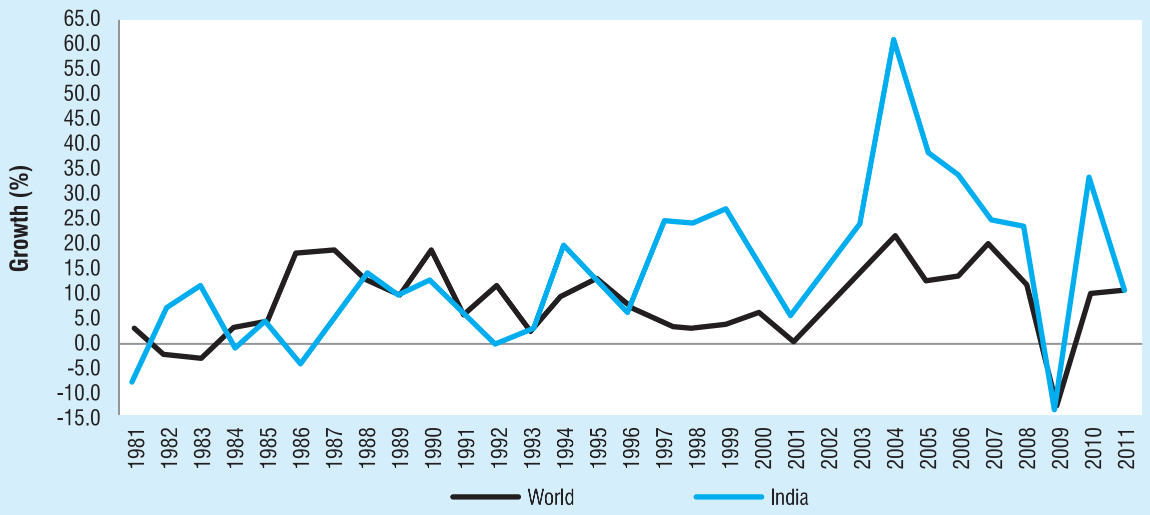
10.15 In 2011-12, FDI inflows to the services sector (top five sectors including construction) grew robustly at 57.62 per cent to US $ 12.14 billion compared to the growth of overall FDI inflows at 33.6 per cent. However, in 2012-13 (April-November), overall FDI inflows fell by 43.3 per cent to US$ 15.85 billion from US$ 27.93 billion in the corresponding period of the previous year. Following this trend, FDI inflows in the top five services also fell by 9.7 per cent to US $ 8.19 billion. Among them, while FDI inflows to the top four services sectors fell in the range of 14 to 97 per cent, FDI inflows to the hotel and tourism sector increased by a very high 328 per cent over the corresponding period in the previous year.

10.16 The government has taken many policy initiatives to liberalize the FDI policy for the services sector. These include liberalizing the policy on foreign investment for companies operating in the broadcasting sector, like increasing the foreign investment limit from 49 per cent to 74 per cent in teleports (setting up up-linking HUBs/teleports) and direct to home (DTH) and cable networks, and permitting foreign investment (FI) up to 74 per cent in mobile TV; permitting foreign airlines to make foreign investment, up to 49 per cent in scheduled and non-scheduled air transport services; permitting FDI, up to 51 per cent, in multibrand retail trading, (also see Box 10. 2); and amendment of the existing policy on FDI in single-brand product retail trading.

India's Services Trade

10.17 India's share of services exports in the world exports of services, which increased from 0.6 per cent in 1990 to 1.0 in 2000 and further to 3.3 per cent in 2011, has been increasing faster than the share of merchandise exports in world exports. The growth rates of exports of services of India and the world show two distinct phases, the first till 1996 when the two growths had a scissor-like movement and the second phase after 1996 when the growth of India's services exports was higher than that of the

Figure 10.3 : Export growth of commercial services- India and world



Source **: Computed from WTO data.**

world in almost all the years except 2009. In this second phase, the former was much above the latter in upswings but almost converged with the latter during downswings. (Figure 10.3) (also see Chapter 7: 'International Trade').

10.18 The overall openness of the economy reflected by total trade including services as a percentage of GDP shows a higher degree of openness at 55.0 per cent in 2011-12 compared to 38.1 per cent in 2004-5. The openness indicator based only on merchandise trade is at 43.2 per cent in 2011-12 compared to 28.3 per cent in 2004-5.

Services employment in India

10.19 The pattern of sectoral share of employment has changed over the last two decades with the share of agriculture falling from 64.75 per cent in 1993-4 to 53.2 per cent in 2009-10 and of industries (excluding construction) falling from 12.43 per cent to 11.9 per cent. The shares of the services and construction sectors in employment, on the other hand, increased in the same period from 19.70 per cent to 25.30 per cent and 3.12 per cent to 9.60 per cent respectively. As per the National Sample Survey Office's (NSSO) report on Employment and Unemployment Situation in India 2009-10, on the basis of usually working persons in the principal and subsidiary statuses, for every 1000 people employed in rural India, 679 people are employed in the agriculture sector, 241 in the services sector (including construction), and 80 in the industrial sector. In urban India, 75 people are employed in the agriculture sector, 683 in the services sector (including construction) and 242 in the industrial sector. Construction; trade, hotels, and restaurants; and public administration, education, and community services are the three major employment-providing services sectors.

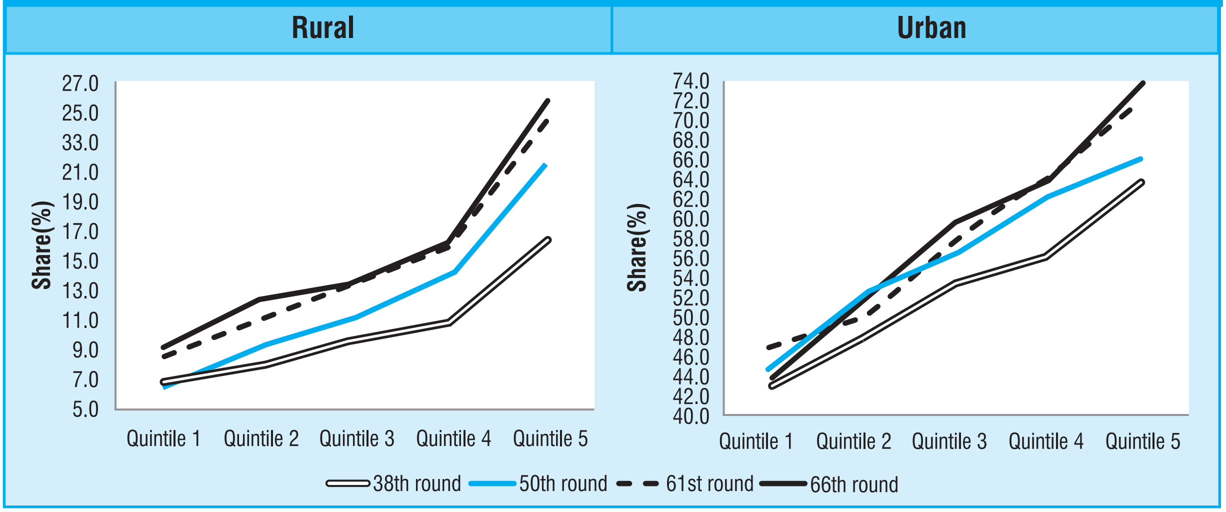
10.20 Studies show that the tertiary employment share has strong upward slopes in all the income quintiles both in rural and urban areas with higher income quintiles having higher shares in each successive NSSO round (Figure 10.4). Thus tertiary employment growth is steadily moving from being an absorber of low income labour to provider of high income jobs.

Performance of Some Major Services

10.21 The performance of the different services based on the different indicators shows that sectors like telecom, tourism, and railways have done well in 2011-12 (Table 10.3). Shipping and ports show poor performance reflecting the effects of the global slowdown. The performance and outlook for the different services sectors based on limited firm-level data, based on estimates and forecasts, show a mixed picture for this year, though there are some grounds for optimism in the coming year (Box 10.1).

10.22 The important commercial services for India based on their significance in terms of GDP, employment, exports, and future prospects, have been dealt with in detail in this section. Care has been taken to avoid duplication to the extent possible of services covered in other chapters like Infrastructure, Financial Intermediation, and Social

Figure 10.4 : Tertiary Sector Employment share (UPS) in Different Quintiles of Household APCE



Source : **D. Mazumdar, S. Sarkar and B.S. Mehta, 'Inequality in India', part of IHD Research Programme on Globalisation and Labour funded by ICSSR. (forthcoming).**

Note : **APCE : Average per capita expenditure; UPS : Usual principal status.**

Sectors. The important services for India include trade, tourism, shipping and port services, real estate services, business services including IT and IT enabled services (ITeS), research and development (R&D) services, legal services, and accounting and audit services.

Table 10.3 : Performance of India's Services Sector: Some Indicators

Sector	Indicators	Unit	Period 2008-09	2009-10	2010-11	2011-12	2012-13
Aviation	Airline passengers (domestic and international)	Million	49.5 (a)	54.5 (a)	64.5 (a)	70.2(a)	67.5(a)
Telecom	Telecom connections (wireline and wireless)	Lakh	4297.25	6212.8	8463.2	9513.4	8955.1(b)
Tourism	Foreign tourist arrivals	Million	5.28 (a)	5.17 (a)	5.78 (a)	6.31 (a)	6.65 (a)
	Foreign exchange earnings from tourist arrivals	US $ million	11832 (a)	11136(a)	14193 (a)	16564(a)	17737(a)
Shipping	Gross tonnage of Indian shipping	Million GT	9.28	9.69	10.45	11.06(c)	10.45(d)
	No. of ships	Numbers	925	1003	1071	1122 (c)	1158(d)
Ports	Port traffic	Million tonnes	744.02	850.03	885.45	911.68	455.77(e)
Railways	Freight traffic by railways	Million tonnes	833.31	887.99	832.75	969.78	735.32(c)
	Net tonne kilometers of railways	Million	538226	584760	444515	639768	470956(c)
Storage	Storage capacity	Lakh MT	105.25	105.98	102.47	100.85	101.60
	No. of warehouses	Numbers	499	487	479	468	469

Sources **: Directorate General of Civil Aviation, Telecom Regulatory Authority of India, Ministry of Tourism, Ministry of Shipping, Ministry of Railways and Central Warehousing Corporation (Compiled by EXIM Bank of India).**

Notes **: (a) calendar years, for example 2007-8 for 2007. (b) As on 31st December, 2012, (c) April-December, (d) As on 31 January 2013, (e) April-September. GT is gross tonnage; MT is metric tonnes.**

Box 10.1 : Performance of Services Firms : A Sectoral Analysis

The Centre for Monitoring Indian Economy's (CMIE) analysis of the sector-wise performance of services activities based on firm-level data show that the performance of sectors such as transport logistics, aviation and construction in the year 2012-13 is subdued in comparison to with the previous year. High negative PAT in hotel sector continued. The health services and telecom sectors are projected to have rebounded in the year 2012-13. Overall the year 2013-14 is projected to be better for most of the sectors, except retail trading, which is projected to have negative growth in profitability. This negative growth is contributed by two factors—one is the base effect with high profit after tax (PAT) growth in the year 2012-13; and the other is an expected shrinking of margins in 2013-14 due to increase in operating costs and price cuts driven by high competition (Table 1).

Table 1: Performance of Select Services Firms

Sector	Annual Growth (per cent change over previous year) Sales 2011-12	2012-13*	2013-14*	PAT 2011-12	2012-13*	2013-14*	Expenditure 2011-12	2012-13*	2013-14*
Transport logistics	11.0	1.8	11.9	5.8	-2.5	16.3	13.4	3.1	10.8
Shipping	9.3	12.9	4.2	-78.5	63.7	84.0	23.0	9.5	0.0
Aviation	10.6	-0.2	8.0	-	-	-	21.0	-4.2	7.5
Retail trading	-10.3	10.6	12.3	24.9	169.6	-59.4	-2.5	7.8	12.3
Health services	16.6	21.1	19.5	-22.0	52.4	24.7	18.8	20.0	17.8
Hotel	9.2	9.5	11.0	-77.5	-76.2	-11.7	16.4	12.9	10.9
Telecom	8.9	9.5	11.8	-71.0	39.9	56.2	13.0	12.6	11.4
Software	21.3	19.3	10.7	16.2	19.6	5.2	26.0	18.5	11.8
Construction	18.6	12.1	17.2	-2.6	0.4	19.3	21.6	13.6	16.4

Source**: CMIE Industry Analysis (Compiled by Exim Bank of India).**

Note**: * Forecast.**

Trade

10.23 Trade with a share of above 15 per cent in India's GDP in the last seven years (16.6 per cent in 2011-12) and a CAGR of 9.3 per cent during 2004-5 to 2011-12, has grown to ₹ 8,10,585 crore in 2011-12. As per the A.T. Kearney, Global Retail Development Index 2012 report, India ranked at 5th place remains a high-potential market with accelerated retail market growth of 15 to 20 per cent expected over the next five years. While the overall retail market contributes 14 per cent of India's GDP, organized retail penetration remains low, indicating room for growth. Brazil tops the ranks with retail sales accounting for 70 per cent of Brazil's consumer spending, followed by Chile, China, and Uruguay. In India, the food and beverages segment is seeing increased activity from foreign players, and grocery remains India's largest source of retail sales. Hypermarkets and supermarkets continue to dominate the organised retail market, but cash-and-carry is growing fast, with significant expansion planned from Bharti Wal-Mart, Metro Group, and Carrefour. Apparel is expected to grow by 9 to 10 per cent annually for the next five years. Players such as Zara, Marks & Spencers, and Mango are actively scouting locations to open more stores across the country. The luxury retail sector saw 20 per cent growth last year, with luxury malls becoming entrenched in Delhi, Mumbai, and Bangalore.

10.24 Since 2006, India allowed FDI in single-brand retail to the extent of 51 per cent. In January 2012, the government removed restrictions on FDI in the single-brand retail sector, allowing 100 per cent FDI and from September 2012. FDI in multibrand retail has been allowed up to 51 per cent under the government route and subject to specified conditions (Box 10.2). While agricultural products could get vastly improved access to markets with the growth of modern retail trade, the revenue to the government could also increase, as at present the retail sector is largely unorganized and has low tax compliance.

Box 10.2 : FDI in Multibrand Retail Trading

FDI in multibrand retail trading has been permitted subject to specified conditions like the following:

- Fresh agricultural produce, including fruits, vegetables, flowers, grains, pulses, fresh poultry, fishery, and meat products, may be unbranded; ·
- Minimum amount to be brought in as FDI by the foreign investor, would be US $ 100 million;
- At least 50 per cent of total FDI brought in shall be invested in 'backend infrastructure' within three years of the first tranche of FDI;
- At least 30 per cent of the value of procurement of manufactured/ processed products purchased shall be sourced from Indian 'small industries' which have a total investment in plant and machinery not exceeding US $ 1million;
- Retail sales outlets may be set up only in cities with a population of more than 10 lakh as per Census 2011and may also cover an area of 10 km around the municipal/urban agglomeration limits of such cities;
- Government will have the first right to procurement of agricultural products.

State governments/UTs would be free to take their own decisions in regard to implementation of the policy as retail trade is a state subject. Eleven states/UTs, viz. Andhra Pradesh, Assam, Delhi, Haryana, Jammu and Kashmir, Maharashtra, Manipur, Rajasthan, Uttarakhand, Daman and Diu, and Dadra and Nagar Haveli have agreed to permit establishment of retail outlets under this policy. Constitution of a high-level group under the Minister of Consumer Affairs has also been announced to look into various aspects relating to internal trade and to make recommendations on internal trade reforms to the government, whenever required. FDI in multibrand retail trade would benefit stakeholders across the entire span of the supply chain. Farmers stand to benefit from the significant reduction in post-harvest losses expected to result from the strengthening of the backend infrastructure, which would enable the farmers to obtain a remunerative price for their produce. Small manufacturers will benefit from the conditionality requiring at least 30 per cent procurement from Indian small industries, as this would enable them to get integrated with global retail chains. This in turn will enhance their capacity to export products from India. As far as small retailers are concerned, organized retail already coexists with small traders and the unorganized retail sector. Studies indicate that there has been a strong competitive response from the traditional retailers to these organized retailers, through improved business practices and technological upgradation. Global experience also indicates that organized and unorganized retail coexist and grow. Consumers stand to gain the most, first, from the lowering of prices that would result from supply-chain efficiencies and secondly, through improvement in product quality due to the combined effect of technological upgradation, efficient grading, sorting and packaging, testing and quality control, and product standardization. Implementation of the policy is also likely to lead to greater FDI inflows, quality employment, and adoption of global best practices.

Source: **Based on Inputs from the Department of Industrial Policy and Promotion (DIPP)**

Tourism, including hotels and restaurants

10.25 Tourism accounts for around 6-7 per cent of global employment (direct and indirect) and 5 per cent of global income as per the United Nations World Tourism Organization (UNWTO), Tourism Highlights 2012 edition. It is one of the largest generators of employment across the world and women account for 70 per cent of the workforce in the travel and tourism industry. Hence it generates more inclusive growth than other sectors. According to the UNWTO, international tourist arrivals surpassed the 1 billion mark for the first time in history in 2012, reaching a figure of 1.04 billion from 996 million in 2011 with 4 per cent growth despite the volatility around the globe, particularly in Europe which accounts for over half of international tourist arrivals worldwide. Emerging economies, with 4.1 per cent growth regained the lead over advanced economies with 3.6 per cent growth, with Asia and Pacific showing the strongest growth at 7 per cent. In 2013 growth is expected to decelerate slightly and fall in the range of 3-4 per cent with prospects stronger for Asia and Pacific (5-6 per cent). In 2011 international tourism receipts grew by 11 per cent (3.9 per cent in real terms) to an estimated US$ 1030 billion, setting new records in most destinations despite economic challenges in many source markets. Available data on international tourism receipts and expenditure for 2012 covering at least the first nine months of the year confirm the positive trend in arrivals. In a significant number of destinations including India (22 per cent) receipts from international tourism increased by 15 per cent or more. According to the UNWTO, the number of international tourist arrivals worldwide is expected to increase by 3.3 per cent a year on an average from 2010 to 2030, resulting in around 43 million more arrivals every year, to reach a total of 1.8 billion arrivals by 2030. As in the past, emerging economy destinations are set to grow faster than advanced economy destinations. As a result, the market share of emerging economies which has increased from 30 per cent in 1980 to 47 per cent in 2011 is expected to reach 57 per cent by 2030, equivalent to over one billion international tourist arrivals.

10.26 As per Tourism Satellite Account (TSA) data 2009-10, the contribution of tourism to India's GDP was 6.8 per cent (3.7 per cent direct and 3.1 per cent indirect) and its contribution to total employment generation was 10.2 per cent (direct 4.4 per cent and indirect 5.8 per cent). As per the Twelfth Five Year Plan approach paper, India's travel and tourism sector is estimated to create 78 jobs per million rupees of investment compared to 45 jobs per million rupees in the manufacturing sector. Foreign tourist arrivals (FTAs) in India grew by 9.2 per cent in 2011. However, due to the Euro-zone crisis and global slowdown, FTA growth moderated to 5.4 per cent to reach 66.48 lakh arrivals in 2012. As a result, foreign exchange earnings (FEEs) growth in dollar terms that was 16.7 per cent in 2011 moderated to 7.1 per cent to reach US $ 17.74 billion in 2012. The share of India in international tourist arrivals was just 0.64 per cent (rank 38) in 2011. India's share in the international tourism receipts was relatively higher at 1.61 per cent in 2011 (rank 17), though it is very low compared to countries like the US (11.3 per cent) and even China (4.7 per cent).

10.27 Domestic tourism is also an important contributor to the growth of this sector with a 14.34 per cent CAGR of domestic tourist visits from 1991 to 2011. During 2011, there were 851 million domestic tourists, with the top five states, Uttar Pradesh, Andhra Pradesh, Tamil Nadu, Karnataka, and Maharashtra, cumulatively accounting for around 69 per cent of the total domestic tourist visits in the country. The hotels and restaurants sector with a 1.5 per cent share in India's GDP in 2011-12 is also an important sub-component of the tourism sector. There are also many new tourism products that hold significant potential for India like wellness tourism, golf tourism and adventure tourism.

10.28 To promote tourism, the government has taken many policy initiatives including a five-year tax holiday for 2, 3, and 4 star category hotels located around all United Nations Educational, Scientific, and Cultural Organization (UNESCO) World Heritage sites (except Delhi and Mumbai) for hotels which start operating w.e.f. 1 April 2008 to 31March 2013; an investment-linked deduction under Section 35 AD of the Income Tax Act extended to new hotels of 2 star category and above anywhere in India, allowing 100 per cent deduction in respect of the whole or any expenditure of capital nature excluding land, goodwill, and financial instruments incurred during the year; and inclusion of 3 star or higher category classified hotels located outside cities with population of more than 10 lakh in the harmonized list of the infrastructure subsector. The Government of India has also taken the initiative of identifying, diversifying, developing, and promoting the nascent/upcoming niche products of the tourism industry to overcome the 'seasonality' aspect and promote India as a 365 days destination, attract tourists with specific interests, and ensure repeat visits for products in which India has comparative advantage. A committee has been constituted for promotion of golf tourism and wellness tourism and specific guidelines have been formulated to support golf, polo, and wellness tourism. The government has also formulated a set of guidelines on safety and quality norms for adventure tourism. A scheme of Approval of Adventure Tour Operators which is a voluntary scheme open to all bonafide adventure-tour operators has been announced. To attract foreign tourists coming to India for medical treatment, a new 'medical visa' category has been introduced. The government has also formulated guidelines to address various issues governing wellness centres, covering the entire spectrum of the Indian systems of medicine.

10.29 The Economic Surveys 2010-11 and 2011-12 have highlighted various challenges that need to be addressed to develop this sector. Some of the challenges still remain as hindrances to the growth of this sector. One of them is the multiple taxes on hospitality- and tourism-related activities which make the tourism product expensive in the form of high hotel rates and high fares; another is the luxury tax which is imposed by state governments leading to high tariffs and low occupancy in hotels. Luxury tax on hotels in some states is very high and varies from 5 per cent to 12.5 per cent and in some cases it is applicable on printed room rates whereas the actual hotel rates offered to guests are much lower. Tourism infrastructure is another area which needs immediate attention where there is plenty of scope for public private partnerships (PPP). User fees could be levied if monuments or tourist sites are developed by the private sector or through PPP. Thus significant opportunities still remain relatively untapped and for faster, sustainable, and more inclusive growth, as envisaged in the Twelfth Five Year Plan, the tourism sector holds a lot of promise.

Some Transport-related Services

Shipping

10.30 Shipping plays an important role in merchandise trade. The fortunes of the former depend on the growth of the latter and the prospects of the latter depend on the efficiency of the former. About 95 per cent of India's trade by volume and 68 per cent in terms of value is transported by sea. As on 31 January 2013, India had a fleet strength of 1158 ships with GT of 10.45 million, with the public-sector Shipping Corporation of India having the largest share of 32.60 per cent. Of this, 356 ships with 9.37 million GT cater to India's overseas trade and the rest to coastal trade. The gross foreign exchange earnings/savings of Indian ships in 2011-12 were ₹ 10,666.45 crore. Despite one the largest merchant shipping fleets among developing countries, India ranks 18th among the 35 flags of registration with the largest registered dead weight tonnage (DWT) with a share of only 1.05 per cent in total world DWT as on 1 January 2012. Leaving aside flags of convenience, Hong Kong has the highest DWT, with a share of 7.6 per cent, while China's share is 3.79 per cent. In 2011 as per UNCTAD, India was ranked 8th among developing countries in terms of container ship operations with 9.95 million twenty foot equivalent units of container (TEUs), with a world share of 1.74 per cent. India is one of the major ship-breaking destinations. In 2011, with a world share of 28.7 per cent (in terms of DWT), it topped the list of ship-scrapping nations, scrapping 203 ships of 13.87 million DWT as per ISL Shipping Statistics and Market Review September/October 2012. India is also one of the major countries supplying seafarers.

10.31 As a result of the global slowdown, the turbulence experienced by the global shipping industry continued in 2012. The Baltic Dry Index, the barometer of merchandise trade as well as shipping services, has been in the red since the global crisis of 2008, though there were small upswings at the lower end of the index (Also see Chapter 7: 'International Trade'). Like shipping companies worldwide, Indian shipping companies also faced problems of restricted cash inflows due to very low charter hire and freight rates in all segments of shipping. Going by the rough assimilation of various Very Large Crude Carrier (VLCC) fixtures, the average rate tumbled from US$ 13,605 a day in the first quarter of FY 2012-13 to US$ 835, US$ 776, and US$ 1296 in the next three months.

10.32 There has been a sharp decline in the share of Indian ships in the carriage of India's overseas trade from about 40 per cent in the late 1980s to 10.4 per cent in 2011-12 with 17.05 per cent share in India's oil imports. Given the relatively low participation of Indian ships in India's trade and given the fact that Indian ships are ageing, with the average age of the Indian fleet increasing from 15 years in 1999 to 16.83 years as on 31 December 2012 (with 41.59 per cent of the fleet over 20 years and 11 per cent in the age group 16-20 years), there is urgent need to increase the shipping fleet so that it is adequate atleast to meet India's trade volumes. This is also an opportune time to increase our depleting shipping fleet to reasonable size as ship prices which had peaked in the middle of 2007-8 have dropped to historical lows in the subsequent years and the trend is continuing even now as on December 2012. A large and modernized shipping fleet will not only lead to higher growth, employment and higher earning/ saving of foreign exchange, but also increase our bargaining power with foreign liners who carry Indian cargo as per their schedule and also discriminate in the rates.

Port Services

10.33 Port services are closely connected to shipping services and merchandise trade. The performance of the latter two is also dependent on the efficiency of ports. The total capacity of Indian ports has reached approximately 1245.3 million tonnes as on 31st March 2012. During 2011-12, total traffic handled at all ports at 911.7 million tonnes, grew by 3 per cent over the previous year. Though there was a decline in traffic at major ports, which accounted for more than 60 per cent of total traffic, the 11.5 per cent growth achieved by non-major ports contributed to the overall traffic growth handled by all ports. In the first half of 2012-13 (April-September), traffic handled by Indian ports grew by 1.8 per cent over the corresponding period of the previous year, with the growth of non-major ports (10.3 per cent) compensating for the decline in growth of major ports.

10.34 As per the World Shipping Council, Shanghai port ranked at the top in terms of total cargo volume handled with 31.74 million TEUs in 2011. Singapore with 29.94 million TEUs was in second position. The Jawaharlal Nehru Port Trust (JNPT) is ranked 30th in terms of total cargo volume handled with 4.53 million TEUs in 2011. The three port-related performance indicators show improvement in both 2011-12 and April-September 2012 over corresponding previous period. The average output per ship-berth-day improved to 13,374 tonnes for all major ports during 2012-13 (April-September) compared to 12,825 tonnes in corresponding period of 2011-12.The average turnaround time at major Indian ports improved to 4.15 days in 2012-13 (April-September) compared to 5.29 and 5.05 in 2010-11 and 2011-12 respectively and ranged between 1.54 days at Cochin Port to 6.27 days at Kandla Port. The average pre-berthing detention time (PBDT) for all major ports declined from 2.32 days in 2010-11 to 2.04 in 2011-12. While at first sight this indicates greater efficiency of ports, it could also be due to the lower volumes handled by ports with the global downturn. Even the average turnaround time has been higher in 2011-12 compared to 2008-09. Thus except for average output per ship berth day, the other two indicators have not shown much improvement over the years. Thus efficiency of our ports needs to be improved further (Table 10.4).

Table 10.4 : Some Performance Indicators of Ports in India

Indicators	1990-91	2000-01	2008-09	2009-10	2010-11	2011-12P	April to September 2011-12	April to September 2012-13	Change in 2011-12 over 2008-09	Change in 2012-13 (Apr.-Sept.) over previous Year
Average turnaround Time (days)	8.10	4.24	4.20	4.63	5.29	5.05	4.80	4.15	0.85	-0.65
Average pre- berthing detention time (days)	2.16	1.19	1.63	2.16	2.32	2.04	-	-	0.41	-
Average output per ship-berth-day (in tonnes)	3372	6961	9669	9215	9140	13073	12825	13374	3404	549

Source : Transport Research Wing, Ministry of Shipping based on data of Major Ports/Indian Port Association(IPA).

P stands for provisional

10.35 The government has been following the strategy of increasing investment in infrastructure through a combination of public investment and PPP. The Twelfth Five Year Plan with an outlay of ₹ 3,057.47crore (gross budgetary support) for the port sector envisages an increase in capacity of major ports to 1229.29 million tonnes by the end of 2016-17 from the pre-Plan base level of 696.5 million tonnes with 12 per cent average annual growth in capacity addition. While efforts are being made to improve port infrastructure, there is need to upgrade the facilities at existing ports with regard to cargo handling, stevedoring, pilotage services, bunker services, and warehousing facilities; increase the drafts to facilitate trans-shipment of Indian cargo which otherwise takes place outside the country; and rationalize the different port charges to make them comparable with best practice levels. The Maritime Agenda 2010-20 covers some of these issues like full mechanization of cargo handling and movements, having draft of not less than 14 m in major ports and 17 m in hub ports, and shifting of trans-shipment of Indian containers from foreign ports to Indian ports.

Real Estate Services and Housing

10.36 Real estate and dwellings has a share of 5.9 per cent in India's GDP and a growth of 7.2 per cent in 2011-12. The growth of the real estate services in particular has been impressive consistently at over 25 per cent since 2005-6 with 26.3 per cent growth in 2011-12. Housing is a basic necessity for human life and is the second largest generator of employment, next only to agriculture. Housing activities have both forward and backward linkages in nearly 300 sub-sectors such as manufacturing (steel, cement, and builders' hardware), transport, electricity, gas and water supply, trade, financial services, and construction which contribute to capital formation, income opportunities, and generation of employment.

10.37 In 2012-13 property prices have moderated. As per the National Housing Bank (NHB) RESIDEX index for the quarter July-September 2012 compared to April-June 2012 (covering 20 cities, with 2007 as base year), there is a general decline in prices of residential properties in some smaller towns, while the increase in other cities is mostly marginal. In view of increased urbanization, the housing requirements in urban areas have been witnessing increases over the years. The Eleventh Five Year Plan (2007-12) estimated housing requirement of 24.7 million units in urban areas of which 99 per cent was in the economically weaker sections/lower income groups (EWS/LIG) segment. As per the estimation of the Task Force on Housing Requirements in Urban Areas during the Twelfth Five Year Plan Period (2012-17), the housing requirement in urban areas is 18.7 million units of which 18.5 million are for the EWS/LIG segment. As per a McKinsey Report, the demand for affordable housing will be 38 million by 2030.

10.38 To support the growth of the housing and real estate sector, many institutions have been set up especially for financing. While these institutions largely cater to the formal sector, access to finance by the informal market segment largely remains untapped. As this untapped market segment is significant and growing, the Government of India has announced various measures like the Interest Subsidy Scheme for Housing for the Urban Poor and setting up of the Credit Risk Guarantee Fund Trust for Low Income Housing. With support from lending institutions, housing credit has grown substantially over the years, resulting in increased market penetration. The housing loan portfolio of scheduled commercial banks and housing finance companies – the major institutional players – stood at ₹ 6.10 lakh crore as in end-March 2012. However, due to limited housing finance solutions, the gap between housing demand and supply is widening. Besides the mortgage market in India is also underdeveloped. Though mortgages as a percentage of GDP have risen from 3.4 per cent in 2001 to 9 per cent in 2011-12, the share is relatively lower than in many other countries – such as China (12 per cent), Thailand (17 per cent), Malaysia (29 per cent), Hong Kong (40 per cent), and the USA (65 per cent).

10.39 While advanced countries like the US were rattled by the sub-prime crisis, Indian banks have demonstrated a great amount of maturity in their lending for the housing sector. The government has also taken many policy measures for this sector. In Union Budget 2012-13, a number of incentives were given for promoting affordable housing like allowing external commercial borrowings (ECB) for low cost affordable housing projects, increase in investment-linked deduction of capital expenditure incurred in the affordable housing projects, exemption from service tax payments for construction services related to residential dwellings, and low cost mass housing up to an area of 60 sq. m under the Scheme of Affordable Housing in Partnership. A Credit Risk Guarantee Fund Trust has been established since 1 May 2012, which will be managed by the NHB, and provide default guarantee for housing loans up to ₹ 5 lakh sanctioned and disbursed by the lending institutions without any collateral security or third-party guarantees and for new borrowers in the EWS/ LIG category in urban areas. The NHB has also floated a joint-venture mortgage guarantee company – the India Mortgage Guarantee Corporation Pvt. Ltd—which will offer mortgage guarantees against borrower defaults on housing loans from mortgage lenders which will help expand access to housing in India. Renting of residential units has been included in the negative list of services that are exempt from payment of service tax. In order to develop strategic policy intervention to promote rental housing as a viable alternative for addressing the housing shortage, the Government of India has also set up a task force for rental housing. The Rajiv Awas Yojana (RAY), also provides support to states for creation of affordable housing stock and assigning property rights to slum dwellers.

10.40 India's housing and real estate sector faces many challenges. While India is among the top countries in terms of housing and workspace needs, it ranks 182nd in construction permission processes according to the World Bank's Doing Business 2013 report. There are 34 procedures and the average time taken is 196 days, which increases the sale value by 40 per cent. Rapid increase in land prices, absence of a long-term funding and lending market at fixed rates, limited developer finance, the Urban Land Ceiling Regulations Act (ULCRA) continuing in some states, existing lower floor area ratio in cities, high stamp duties and difficulties in land acquisition are some other issues which need to be addressed. 'Affordable Housing for All' is another challenge as the demand for housing by the EWS/LIG segment has increased.

Some Business Services

10.41 Business services include services like computer-related services, R&D, accounting services and legal services, and renting of machinery in order of importance (shares) as per India's National Accounts. The share of business services in India's GDP, has risen over the years, and these are also the dynamic services with a combined growth rate of 13.5 per cent in 2011-12. They grew at around 20 per cent during 2005-6, 2006-7 and 2008-9 but growth decelerated in the next two years due to the global economic situation.

IT and ITeS

10.42 India's IT and ITeS services with exponential growth are a unique export-led success story which has put India on the global map. While India has achieved a brand identity in this sector, other developing countries are trying to emulate India's example. Besides its impact on growth (both direct and indirect), it is also a provider of skilled employment both in India and abroad, generating direct employment for nearly 2.8 million persons and indirect employment of around 8.9 million in 2011-12. The IT-ITeS industry has four major sub-components: IT services, business process outsourcing (BPO), engineering services and R&D, and software products.

10.43 The global slowdown has impacted the revenues of the IT-Business Process Management (BPM) sector, the growth of which decelerated from 15 percent in 2011-12 to an estimated 8.4 percent reaching US$95.2 billion in 2012-13 as per NASSCOM. The deceleration in growth of the

Table 10.5 : Overall Growth Performance of the IT-BPM Sector

Year	Value (US $ Billion)							Growth rate (per cent)		
	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13E	2013-14P	2011-12	2012-13E	2013-14P
Total IT-BPM Services Revenue	52.1	59.9	64.0	76.3	87.7	95.2	106-111	15.0	8.4	13-15
Exports	40.4	47.1	49.7	59.0	68.8	75.8	84-87	16.5	10.2	12-14
Domestic	11.7	12.8	14.3	17.3	19.0	19.3	22-24	9.7	1.9	13-15

Source **: NASSCOM**

Note : **Data excludes Hardware; E: Estimates; P: Projections**

dominant export sector (80 percent share) was from 16.5 percent in 2011-12 to 10.2 percent in 2012-13, while domestic revenue growth decelerated from 9.7 percent to a 1.9 per cent (due to currency effect) during these years. In Indian rupee terms domestic revenues have grown at 14.1 per cent in 2012-13 compared to 16.6 per cent in 2011-12. NASSCOM estimate of growth for 2013-14 are 13-15 percent for total IT-BPM revenue, 12-14 percent for exports and 13-15 percent for domestic sector. As a proportion of national GDP, IT and Business Process Management (BPM) sector revenues have grown from 1.2 per cent in 1997-98 to an estimated nearly 8 per cent in 2012-13. (Table 10.5)

10.44 While the global slowdown, increasing competition from new countries, and rising protectionist measures in the wake of job losses in developed countries have slightly dimmed the prospects for exports of IT and ITeS services, a great opportunity is waiting in India's domestic market with increasing technology adoption within the government sector and the small and medium business (SMB) sector. The Twelfth Five Year Plan aims to harness the potential of the software and services sector to contribute to the country's development and growth, particularly in terms of investment, exports, employment generation, and contribution to GDP and to retain India's leadership position as a global IT-BPO destination, consolidate and grow in both mature and emerging markets. The government has also announced the National Policy on Information Technology 2012 which aims to maximally leverage the power of ICT to help address the economic and developmental challenges the country faces. Under the National e-Governance Plan (NeGP), the government focuses on making critical public services available electronically and promoting rural entrepreneurship. Of the 31 Mission Mode Projects (MMP), 24 have been approved by the Government of India (with 22 MMPs having gone live). At central level these are: MCA 21,a complete e-governance project of Ministry of Corporate Affairs, pensions, income tax, central excise and customs, banking, insurance, passport, e-Office, National Population Register (NPR) and UID, India Post, immigration visa, and foreigners' registration and tracking. Some of the issues and challenges related to this sector are the growing competition from developing countries with lower costs, rising protectionist sentiments in developed countries, and transfer pricing issues (See Box 10.3).

Box 10.3 : Growing competition to India's IT and ITeS Services

The IT and ITeS sector has started facing competition from many developing countries. While the EU has the highest share in computer and information services exports, followed by India and the USA, many new competitors like China, Israel and the Philippines have emerged in recent years. Between 2005 and 2011, the annual average growth of computer services was 69 per cent in the Philippines, 28 per cent in Sri Lanka, 59 per cent in Ukraine, 27 per cent in the Russian Federation, 37 per cent in Argentina and 35 per cent in Costa Rica. Even if in some cases the export values are relatively low, the average annual growth of computer services in these economies is well above the average of the top exporters. In the BPO sector, countries such as the Philippines, Malaysia and China in the Asian continent; Egypt and Morocco in North Africa; Brazil, Mexico, Chile and Columbia in Latin America; and Poland and Ireland in Europe are emerging as attractive destinations for voice contracts, posing a significant threat to Indian firms. According to NASSCOM, in the last five years, India has lost about 10 per cent market share to the rest of the world in the world BPO space, most of which is in the voice contract segment.

Though China faces challenges, such as language proficiency, the country is spending large amounts in mission mode to increase English proficiency, and thus may eventually emerge as a threat to India. Though the Philippines, the second largest destination for outsourcing, is currently facing the challenge of appreciating currency, it is a serious competitor having developed both the hardware and software segments of IT. Outsourcing has also become a national issue in several developed countries, like the USA and the UK, who are supporting the local BPO industry through various means. According to industry sources, the BPO industry in the UK employs 800,000 British workers and is emerging as a vital part of the economy.

In such a situation, the Indian BPO industry needs to gear up to address the challenges. Information campaigns to dispel the myths and fears about outsourcing needs to be undertaken by the industry in the developed economies. India should also move up the value chain in software services. Equally important is the need to focus on the large domestic sector where there is a huge opportunity which, if tapped could also lead to lower costs due to scale economies. To address the rising wages in the urban BPO space, there is a need to move more towards rural areas, for which skill development, and English language training with American and different European accents is necessary.

Source : **Based on WTO Report and inputs of NASSCOM and EXIM Bank of India.**

R&D Services

10.45 Among business services, R & D occupies the second position in India's GDP with growth being consistently high at near 20 per cent in the last few years with growth in 2011-12 at 20.5 per cent. Until recently, the competitive advantage in R&D was almost exclusively with the developed economies. Of late, emerging countries are increasingly involved in R&D and innovation, with active involvement of both public and private sectors. Factors such as low cost, access to new markets, availability of knowledge-oriented manpower, favourable regulatory environment, and fiscal benefits play a major role in driving R&D investments towards emerging economies. These countries are also encouraging innovation through legal, regulatory, and policy support.

10.46 The US $ 1.5 trillion global gross expenditure on R&D (GERD) for 2013 projected by Battelle and R&D magazine is expected to grow by more than US$ 50 billion over the previous year. In this enormous activity, India's share is 3 per cent with GERD in PPP (purchasing power parity) terms projected at US $ 45.2 billion which is around five times lower than that of China. As a percentage of GDP also it is low at 0.9 per cent. This is partly because the size of the R&D base and absorption capacity is not commensurate with requirements. As per the report, the share of basic research in India's R&D is estimated to be 26 per cent, applied research 36 per cent, development research 32 per cent, and other research 6 per cent. Government funding of R&D accounts for two-thirds of the total funding. Industry contribution to R&D has been steadily increasing over the years but is still less than a third of the total. Government support for R&D in India tends to focus on classical objectives for public R&D funding such as nuclear energy, defence, space, health, and agriculture.

10.47 India is ranked 64th in the global innovation index (GII) in 2012 according to a joint report published by the Institut Européen d'Administration des Affaires i(INSEAD) and World Intellectual Property Organization (WIPO). Though India is ranked better in terms of market sophistication, knowledge and technology outputs, and creative outputs, the country has scored relatively poorly in terms of institutional support, human capital and research, infrastructure and business sophistication for innovation. According to the Global Competitiveness Report 2012-13, India's capacity for innovation has been lower than that of other BRICS countries except Russia. Though India scores better than China, Brazil, and Russia on the quality of scientific research institutions, the research undertaken in such institutions is not percolating down for commercial usage. This is exhibited through its poor score on university–industry collaboration on R&D as compared to other BRICS nations except Russia. Though India scores better than all BRICS nations on availability of scientists and engineers, as compared to the population, the country has one

Table 10.6 : Global Competitiveness Index : Innovation Capacity

Country	Capacity for innovation		Quality of scientific research institutions		Company spending on R&D		University – Industry collaboration on R&D		Availability of scientists and engineers		PCT patents granted/ million population	
	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank
India	3.5	42	4.4	39	3.5	37	3.8	51	5.0	16	1.2	63
China	4.1	23	4.2	44	4.1	24	4.4	35	4.4	46	6.5	38
South Africa	3.5	41	4.6	34	3.5	39	4.5	30	3.4	122	6.8	37
Brazil	3.7	34	4.1	46	3.6	33	4.1	44	3.5	113	2.8	48
Russia	3.3	56	3.6	70	3.0	79	3.4	85	3.8	90	5.4	44
South Korea	4.5	19	4.9	24	4.9	11	4.7	25	4.9	23	161.1	9
UK	5.0	12	6.2	3	4.8	12	5.8	2	5.1	12	93.0	18
USA	5.2	7	5.8	6	5.3	7	5.6	3	5.4	5	137.9	12

Source **: Global Competitiveness Report 2012-13, World Economic Forum.**
Note **: PCT—Patent Cooperation Treaty.**

of the lowest ratios of scientists and engineers per million people. Part of this shortage is attributed to the lack of quality higher education institutions. The Report estimates that even with large population base, India is estimated to have 25 per cent shortage of engineers in the country by 2025 (Table 10.6).

10.48 In Budget 2012-13, the government has extended the weighted deduction of 200 per cent for R&D expenditure in an in-house facility beyond 31 March 2012 for a period of five years to promote investment in R&D. In this Budget a sum of ₹ 200 crore has been set aside for incentivizing agricultural research with awards. India has declared 2010-20 as the 'decade of innovation'. The government has stressed the need to enunciate a policy for synergizing science, technology, and innovation and has also established the National Innovation Council. A Science, Technology, and Innovation Policy 2013 has been announced in furtherance of these pronouncements. Increasing GERD to 2 per cent of GDP, from the present level of less than 1 per cent has been set as a national goal.

Legal Services

10.49 Legal services have been growing at a steady rate of 8.2 per cent in each of the years from 2005-6 to 2011-12. The Indian legal profession today consists of approximately 1.2 million registered advocates, around 950 law schools, and approximately 4 to 5 lakh law students across the country. Every year, approximately 60,000–70,000 law graduates join the legal profession in India. India is ranked 45, with a score of 4.5, in terms of judicial independence by the Global Competitiveness Report 2012-13, an improvement from 51st rank in 2011-12. As regards efficiency of the legal framework in settling disputes, India is ranked 59, with a score of 3.8, an improvement from 64th rank a year before. India is ranked at 52nd position when it comes to the efficiency of the legal framework in challenging regulations, with a score of 3.9, a marginal declined from 51st position in the previous year. Though India's rankings are better than most of the South Asian and some South East Asian countries in all the three parameters, there is a need for further improvement particularly in speeding up disposal of cases. The economic growth in our country has inevitably led to complex laws and regulations and it is important that lawyers across India have access to the necessary tools to keep pace with the change.

10.50 The practice of law has however changed drastically in the past few decades due to liberalization and associated economic growth in India. With industrialization and FDI inflows, the corporate legal sector in India has been witnessing tremendous growth, as also legal process outsourcing (LPO). In India the practice of law is governed by the Advocates Act of 1961. Under this Act, foreign law firms are not allowed to engage in practice of law in India. Many foreign legal firms have set up liaison offices (currently permitted under the law), while a few have established referral relationships with Indian firms. Given that India has benefited from opening up to foreign competition in many other areas, and given that Indian lawyers are offering services across the world (see below), India should explore allowing foreign law firms greater access to the Indian market.

10.51 The global financial crisis has not only increased recession-related litigations in developed countries but also encouraged legal outsourcing to cut down costs. India is regarded as one of the best LPO destinations in view of the low cost of legal professionals (50 per cent to 80 per cent more cost competitive than that of the USA and UK), geographical advantage (Indian time zone is distinct from that of the USA and Britain, allowing it to offer legal services round the clock), language proficiency (emphasis on English education), and the legal system (which is inspired by the legal systems of the USA and UK). Technologically too, the Indian LPO industry has made rapid strides as Indian service providers can make use of advanced means of communication technology. Indian legal service providers offer legal support in the form of research document reviews, drafting of documents, making applications for patents, and various paralegal and administrative tasks.

10.52 The National Legal Services Authority (NALSA) has been constituted under the Legal Services Authorities Act 1987 to monitor and evaluate implementation of legal aid programmes and to lay down policies and principles for making legal services available under the Act. Free legal services include payment of court fee, process fees and other charges incurred in legal proceedings, services of lawyers, obtaining and supply of certified copies of orders and other documents in legal proceedings and preparation of appeal, paper book, etc. During the period from 1 April 2012 to 31 October 2012, more than 7.82 lakh persons have benefited through legal aid services in the country. Of them, there were more than 23,000 persons belonging to the scheduled castes and about 20,000 persons from the scheduled tribes. More than 37,000 women and about 5900 children also benefited. During this period more than 54 thousand Lok Adalats have been organized and these Lok Adalats settled more than 17.30 lakh cases. A Para-Legal Volunteers (PLVs) project has been developed by NALSA for the purpose of imparting legal awareness to various target groups. As on 31 December 2012, 73,555 PLVs have been trained in the country and have started functioning, bridging the gap between common people and legal services institutions.

Accounting and Audit Services

10.53 Accounting, auditing, and book-keeping services are a part of 'business services'. Accounting services have been growing at around 6-7 per cent since 2005-6 with 7.1 per cent growth in 2011-12. The accounting profession in India is highly developed with the potential to play a greater role internationally. As per WTO data, in the US $ 44.5 billion 'other business services' exports of India in 2010, the legal, accounting, management, and public relations services with a value US$ 8.6 billion had a share of 19.3 per cent. This is around five times less than the US exports of US $ 39.1 billion and three times less than China's exports of US$22.8 billion.

10.54 The accountancy service providers in India are self-regulated through a combination of statutory bodies like the Institute of Chartered Accountants of India (ICAI), the Institute of Cost and Work Accountants of India, and the Institute of Company Secretaries of India (ICSI). There are 53,197 active CA firms as of 27 December 2012. Indian accounting firms are increasingly getting integrated and are providing associated services such as management consultancy, corporate finance, and advisory services in addition to their core business of accounting, auditing, and tax services. Given the high potential for accounting and audit services both domestically and in exports through the outsourcing mode, there is need to revamp the professional development framework to expand the talent pool, deepen the expertise, and enhance the flow of high quality accountancy professionals. Tapping the outsourcing market of the US and other developing countries in niche areas like actuarial and accountancy services would depend on the availability of high-quality experts in tax, insurance, and pension laws of the US and other countries and encouraging setting up of back offices of foreign firms in India. Tie-ups of domestic firms with foreign firms can help gain expertise and markets which would otherwise not be individually available for small domestic accountancy firms. This would also need relaxation in some domestic regulations and obtaining due recognition to Indian qualifications through mutual recognition agreements (MRAs). As with legal services, FDI in accounting services will help improve the competitiveness of the Indian market, and link it better to global markets.

Communication Services

Telecom and Related Services

10.55 Telecom services is another sunrise sector in which India has made a mark with the second largest telephone network in the world, after only China. Teledensity, which is an important indicator of telecom penetration, increased from 18.22 per cent in March 2007 to 73.34 per cent as on 31 December 2012, with urban teledensity at 149.55 per cent and rural at 39.90 per cent. (See Chapter 11 for further details.)

Postal Services

10.56 Postal services, a traditional mode of communications all over the world, have also been a popular mode in India, especially rural India. Department of Posts has the largest postal network in the world with 1,54,822 post offices in the country as on 31March 2012. Of these, 1,39,086 are in rural areas and 15,736 in urban. In order to expand the network and further improve people's access to postal services, India Post is also adopting the franchisee model. It has so far opened 1,670 franchisee outlets in areas where it was not possible to open post offices. The Department of Posts has launched 'Project Arrow' as a quality improvement initiative to transform India Post into a vibrant and responsive organization.

10.57 With tough competition from courier services offered by the private sector, and emergence of alternate modes of communications such as telecom and information technology, the postal service is diversifying into new areas like e-commerce, B to C address/addresse verification, M to M money transfer, web-based money transfer, social security disbursement and some other social sector-related

Box 10.4 : An Indicative list of domestic restrictions and regulations in some services in India

One major issue in services is the domestic barriers and regulations. Domestic regulations in strict WTO terms include licensing requirements, licensing procedures, qualification requirements, qualification procedures, and technical standards but here other restrictions and barriers are also considered. While there are many domestic regulations in our major markets which deny market access to us and therefore need to be negotiated at multilateral and bilateral levels, there are also many domestic regulations in India which hinder the growth of this sector. Since domestic regulations perform the role of tariffs in regulating services, there is need to list the domestic regulations in India which need to be curbed to help growth of the sector and its exports, while retaining those which are necessary for regulating the sector at this stage. An indicative list of some important domestic regulations in India which need to be examined for suitable policy reforms in the services sector is as follows:

Trade and Transport services: Some constraints in these sectors include restrictions on inter-state movement of goods which could ease with the adoption of the model Agriculture Produce and Marketing Committee (APMC) Act by many states; the Multimodal Transportation of Goods Act 1993 which needs revision to ease the existing restrictions on transportation and documentation through different modes of transport, particularly restrictions in the Customs Act which do not allow seamless movement of goods; and restrictions on free movement of cargo between Inland Container Depots (ICDs), Container Freight Stations (CFSs) and Ports.

Construction: In construction, bottlenecks result from continuation of restrictions under the Urban Land Ceiling and Regulation Act (ULCRA) in some states namely Andhra Pradesh, Assam, Bihar, and West Bengal which have not yet repealed it and the confusion in the process required for clearance of buildings even after the repeal of ULCRA by passing of the Urban Land(Ceiling and Regulations) Repeal Act 1999 by the other states. There is also lack of clarity on the role of states as facilitators in the land acquisition policy resulting in increasing number of court litigations adding to risk profile of builders/projects thereby restricting lenders from extending finance to such builders/ projects. There are also restrictions on floor area ratio (FAR) in many states; and other restrictions like the application of bye laws/regulations and its exemptions e.g. increase in FAR which varies from project to project and is sometimes discriminatory. Obtaining environment clearance is another major hindrance.

Accountancy services: While the accountancy professionals were hitherto allowed to operate either as a partnership firm or as a sole proprietorship firm or in their own name since the Indian regulations do not permit exceeding 20 professionals under one firm, the emergence of Limited Liability Partnership (LLP) structure is likely to address this impediment. However, the number of statutory audits of companies per partner is restricted to 20. FDI is also not allowed in this sector and foreign service providers are not allowed to undertake statutory audit of companies as per the provisions of the laws in India. There are also domestic regulations like prohibition on the use of individual logos for partnership and single proprietorship accounting firms. These regulations need to be relaxed and streamlined to facilitate tie-ups and penetrate foreign markets given the potential for exporting these services by the outsourcing mode.

Legal services: In legal services FDI is not permitted and international law firms are not authorized to advertise and open offices in India. Foreign service providers can neither be appointed as partners nor sign legal documents and represent clients. The Bar Council is opposed to entry of foreign lawyers/law firms in any manner. Indian advocates are not permitted to enter into profit-sharing arrangements with persons other than Indian advocates.

Education Services: These come under the concurrent list with multiple controls and regulations by central and state governments and statutory bodies. Regulations of minimum of 25 acres of land to establish a medical college restricts the setting up of medical colleges in cities like Delhi. Patient load factor regulations related to establishment of new medical colleges also need to be in tune with present day equipment-intensive patient care and modern practices and procedures of medical education.

Source **: Based on Dr H.A.C. Prasad and R. Sathish (2010), working paper No. 1/2010-DEA on 'Policy for India's Services Sector' with updates from concerned Departments and Institutions.**

activities. Besides the already existing instant money order, the Department of Posts launched mobile money remittance services on 15 November 2012 in 18 selected post offices in each of four circles, viz. Kerala, Bihar, Delhi, and Punjab. The Department of Posts has also been given the responsibility of disbursing wages to Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) beneficiaries through post office savings bank accounts. At present, MGNREGS wages are disbursed through 5.55 crore NREGS accounts in 96,895 post offices. During the current financial year

(April-November 2012) wages to the tune of ₹ 9,812 crore have been disbursed. Post offices also have a significant role in disbursement of benefits under various schemes such as pensions and conditional cash transfers to women. The wide reach of post offices is also being utilized for collection of data to compute the rural consumer price index every month in rural areas. While the postal sector is entering into new areas of activity, it has not only to shed its role in some of the traditional activities and areas, but also trim its size and release the resources both physical and human for use in other areas.

Challenges and Outlook

Outlook

10.58 The growth of the steadily growing services sector did not fall even during the post 2008 crisis period This was primarily due to higher government spending with the high weighted community, social, and personal services at 19.8 per cent and 17.6 per cent in 2008-09 and 2009-10 respectively, which is more than the rate in 2007-08 and around eight to ten times the rate of 2006-07. This was supported by the good growth in the other two major sectors, 'financial, insurance, real estate, and business services' and 'transport, storage, and communication'. While these two sectors along with 'trade, hotels, and restaurants' were the major contributors to growth before the crisis, during the crisis years of 2008-9 and 2009-10, 'community, social and personal services' assumed a greater role in stabilizing the growth of the services sector. However, the growth of these services decelerated in 2010-11 and was low in 2011-12 due to deceleration in growth of public administration and defence. This, coupled with the lower growth of trade (internal and external) reflected in fall in growth of transport and related activities, led to a relatively lower growth of the services sector and even construction sector. In 2011-12, among the broad services sub-sectors, the highest point contribution to total GDP growth at 34.0 per cent was that of 'financing, insurance, real estate, and business services' followed by 'trade, hotels, and restaurants' (16.9 per cent). In 2012-13, with growth of even 'trade, hotels & restaurants' and 'financing, insurance, real estate and business services' decelerating, overall services growth has also decelerated.

10.59 Moving forward in the coming years, the shipping sector continues to be in the red with fall in external trade and the aviation sector has been rattled by sudden eruption of problems in some airlines. Following the growth moderation in FTAs and the resultant FEEs, growth in tourism and related services like hotels is expected to be moderate. On the other hand with the recent announcement of reform measures at regular intervals including mild relaxation in the monetary and credit policy, sectors like retail, construction, and telecom are expected to perform better. With the slight improvement in the global economic situation, software, financial, and fair-weather business services are also expected to perform better. With no major cuts in community and social expenditure expected, services sector growth could recover, the downside risks, however, being any downswings in the global economic situation.

Challenges

10.60 The immediate challenge for the services sector covering myriad activities and areas is growth revival. India's growth has been basically a services-led growth pulling up overall growth of the economy. While this could be through a business-as-usual approach, a more targeted approach with focus on big-ticket services could lead to exponential gains for the economy. While software and telecom services have led by example, there are some other important services like tourism including medical tourism and shipping and logistics. Tourism is a big-ticket item which can not only lead to higher growth but also more inclusive growth. With world tourist arrivals expected to increase by 43 million every year on an average from 2010 to 2030 and FTAs in emerging countries expected to grow faster than in advanced economies, a goldmine of opportunity in tourism is waiting for India which at present has a paltry share of 0.64 per cent in world tourist arrivals. India has an assorted list of destinations having different types of weather and catering to different types of tourists. However, an image change for Indian tourism is needed with higher investment in tourism infrastructure including through PPP mode. Even user charges could be levied if monuments or tourist sites are developed by the private sector or through PPP. There is urgent need to address issues like high luxury taxes on hotels by states and ensure greater cleanliness and safety for tourists which can help in giving a big boost to this sector. Refunding VAT as done in countries like Thailand and Singapore can also help the tourism sector with ripple effects on sectors like textiles and leather manufacturing, as it can lead to high purchase of these items in which India is price competitive. Shipping services is another major area where the growth impact can be high. With the share of shipping services in India's overseas cargo falling from 40 per cent in the 1980s to just 10.4 per cent in 2011-12, measures to augment the ageing shipping fleet of India are necessary. With global prices at an all-time low, the time is opportune for such purchases which can help in greater foreign exchange earnings/savings in the future through shipping services which have forward linkage effect even in the export sector and also increase our bargaining power with the foreign liners. Super specialty healthcare is another potential sector with India being one of the cheapest destinations offering quality services.

10.61 The other major challenge is to retain and expand our competitive advantage in those services where we have already made a mark. The present advantage in services may not continue forever, with new competitors from other developing countries making rapid strides even in areas where we had the initial advantage as in the case of software services. Further expansion of established services like software and telecom into new markets and greater usage of these services domestically can not only increase services growth but also propel growth in other sectors with greater efficiency in these sectors using knowledge- and technology-based services.

10.62 Removing or easing domestic regulations is the third challenge. While removal of market barriers in the form of domestic regulations in other countries depends on multilateral and bilateral negotiations, the myriad restrictions and regulations in the different services domestically as indicated in Box 10.4 need immediate attention. Removing or easing them can lead to dynamic gains for the Indian economy.

10.63 The services sector is an uncharted sea throwing up many daunting challenges as well as opening up many exciting opportunities. While many hitherto non-tradable services including those in the government and social sectors are becoming domestically tradable, many services hitherto confined within national borders (like telemedicine) have become internationally tradable. Addressing the challenges of the diverse services sectors and seizing the new opportunities can lead to multiple gains for the services sector and the economy.