Chapter 10

Services Sector

India's services sector that remained resilient even during and immediately after the global financial crisis buckled under the pressure of continued global and domestic slowdown, resulting in sub-normal growth in the last two years. However, early shoots of revival are visible in 2014-15 with signs of improvement in world GDP growth and trade also reflected in pick-up in some key services like IT, aviation, transport logistics, and retail trading. Different indices and estimates also indicate an expansion in India's services business.

10.2 The services sector with an around 57 per cent contribution to the gross domestic product (GDP), has made rapid strides in the last few years and emerged as the largest and fastest-growing sector of the economy. Besides being the dominant sector in India's GDP, it has also contributed substantially to foreign investment flows, exports, and employment. India's services sector covers a wide variety of activities that have different features and dimensions. Some services like IT and telecommunications are very sophisticated, involving high technology and expertise, while some are simple like those of barbers and plumbers. Some services like transport have high linkages with the industrial sector and some like tourism have high employment linkages. Some services like railways and port fall under the definition of infrastructure, while some like construction fall under the definition of industry. Thus there are many borderline inclusions and exclusions. This chapter not only focuses on different aspects of services but also covers many important services.

Services Sector : International Comparison

World Services GDP

10.3 There was a sudden pick-up in world services GDP in 2012 compared to 2011 with increase in growth from 2.7 per cent to 3.8 per cent (at constant prices) with a 65.9 per cent share in the US$ 72.7 trillion world GDP (at current prices) in 2012. Like in overall GDP, the US ranks first in services GDP also, with Japan and China a distant second and third. Among the world's top 15 countries in terms of GDP (at current prices), India ranked 10th in terms of overall GDP and 12th in terms of services GDP in 2012. However, India has the second fastest growing services sector with its CAGR (compound annual growth rate) at 9.0 per cent, just below China's 10.9 per cent, during the last 11-year period from 2001 to 2012. Russia at 5.4 per cent is a distant third. Though China at 8.1 per cent followed by India at 7.2 per cent had the highest growth rate in services in 2012 compared to 2011, there was a slight deceleration over 2011 for both. On the contrary, the US services sector grew by 6.5 per cent in 2012 which is more than three times higher than in 2011. There was also a pick-up in services growth in Japan and Russia. Among the top 15 countries in terms of services GDP, only China's share in its total GDP at 44.6 per cent in 2012 is less than 50 per cent (Table 10.1).

Table 10.1 : Performance in Services: International Comparison

	Country	Rank		Services growth rate (per cent)				Share of services					Share of services to total exports in 2013	Services export growth (per cent)			
		Overall GDP	Services GDP	Y-o-Y			CAGR 2001-12	in GDP			in employment			Y-o-Y			CAGR 2001-13
				2001	2011	2012		2001	2011	2012	2001	2012		2001	2012	2013	
1	US	1	1	2.9	1.9	6.5	2.1	77.2	78.9	79.2	75.0	81.2	29.5	-3.6	5.4	5.0	7.7
2	China	2	3	10.3	9.5	8.1	10.9	40.5	43.4	44.6	27.7	35.7	8.6	9.1	8.4	8.7	16.6
3	Japan	3	2	1.8	0.5	2.4	0.6	69.9	72.7	72.3	63.9	69.7	16.8	-6.9	0.0	1.0	7.0
4	Germany	4	4	2.5	2.8	1.4	1.2	69.0	68.5	66.6	64.6	70.2	16.5	5.6	-1.1	8.0	10.8
5	France	5	5	1.8	2.4	0.5	1.4	75.0	79.2	79.2	69.9	74.9	28.7	-0.5	-8.1	8.3	9.4
6	UK	6	6	2.7	1.5	1.4	2.1	73.3	77.9	78.8	73.8	78.9	34.9	-0.8	-1.5	0.6	7.8
7	Brazil	7	8	1.8	2.7	1.7	3.6	67.1	67.0	68.5	59.4	62.7	13.4	-2.7	4.6	-1.7	12.9
8	Russia	8	10	3.3	3.3	4.8	5.4	55.7	58.9	60.1	58.6	62.3	11.1	17.3	6.8	12.7	15.9
9	Italy	9	7	2.6	0.9	-1.5	0.4	69.9	73.3	73.8	63.1	68.5	17.5	2.1	-2.2	5.6	5.6
10	India	10	12	7.5	8.2	7.2	9.0	51.3	55.7	56.9	24.0	28.1	32.8	4.8	5.4	4.8	20.2
11	Canada	11	9	3.5	2.4	1.8	2.6	65.8	71.2	71.1	74.7	76.5	14.5	-3.6	-0.9	0.3	6.2
12	Australia	12	11	3.9	3.3	2.9	3.2	69.6	69.4	69.5	74.2	75.5	17.1	-8.9	2.7	-0.1	9.4
13	Spain	13	13	3.6	1.2	-0.3	2.5	64.8	70.9	71.6	62.0	74.9	31.4	6.0	-3.8	5.5	8.3
14	Mexico	14	14	-0.2	4.6	4.5	3.0	63.3	60.3	60.1	56.1	61.9	4.9	-7.5	3.6	21.3	4.0
15	South Korea	15	15	4.3	2.6	2.5	3.4	58.5	57.5	57.7	62.6	76.4	16.6	-4.9	17.3	1.3	11.8
	World			**2.8**	**2.7**	**3.8**	**2.6**	**68.9**	**65.9**	**65.9**	**39.1**	**44.0**	**19.8**	**0.1**	**2.2**	**5.5**	**9.9**

Source : Computed from UN National Accounts Statistics for GDP, World Bank and ILO database for employment and WTO database for Services Trade (accessed on 1 June 2014.)

Notes : Rank and share are based on current prices (2012); Growth rates are based on constant prices (US$); Construction sector is excluded in services GDP; For employment data in 2012: 2011 data for China, Brazil and Mexico, 2010 for US, Japan, South Korea, 2009 for Russia and Australia, and 2008 for Canada given; India's employment data for 2001 is of 2000. For 2001 data of world employment share is of 2000.

World Services Employment

10.4 Services share in world GDP was 65.9 per cent. But its share in employment was only 44.0 per cent in 2012. However, for the top 15 countries (in terms of services GDP), except India and China, the shares of both services GDP and services employment are high and close to each other. In China, the shares of both services income and services employment are low. In the Indian case the services sector had a high share in income at 56.9 per cent in 2012 with a lower share of 28.1 per cent in employment and the gap between the two widening from 27.3 percentage points in 2001 to 28.8 percentage points in 2012.

World Services Trade

10.5 After growing robustly in the last 12 years from 2001 to 2013 with a CAGR of 9.9 per cent, world services export growth has been seeing a see-saw movement. It was at 0.1 per cent in 2001, reached a high of 21.5 per cent in 2004, fell steeply to a negative 9.4 per cent in 2009, rebounded quickly to 9.8 per cent in 2010 and 12.2 per cent in 2011, but decelerated to 2.2 per cent in 2012. It has again picked up to 5.5 per cent in 2013. Among the leading exporters of services, India with a CAGR of 20.2 per cent had the fastest growth followed by China at 16.6 per cent. In 2013, India's services export growth decelerated to 4.8 per cent from 5.4 per cent in 2012 while that of China improved slightly to 8.7 per cent from 8.4 per cent.

FDI in the World Services Sector

10.6 As per the United Nations Conference on Trade and Development (UNCTAD) World Investment Report 2014, the global foreign direct investment (FDI) flows in 2013 at US$ 1.45 trillion grew by 9 per cent, showing an encouraging trend after a decline in 2012. Developing economies maintained their lead in 2013 receiving US$ 778 billion, or 54 per cent of the total FDI flows. UNCTAD projects that total FDI flows could rise to US$ 1.6 trillion in 2014, US$ 1.7 trillion in 2015, and US$ 1.8 trillion in 2016, with relatively larger increases in developed countries. Fragility in some emerging markets and risks related to policy uncertainty and regional instability may negatively affect the expected upturn in FDI.

10.7 Services continued to account for the largest shares of announced greenfield projects and mergers and acquisition (M&A) deals. In 2013, the value of FDI in greenfield projects in the services sector grew by 20 per cent to US$ 385 billion as compared to a 9 per cent growth in total value of FDI in greenfield projects. However, in cross-border M&A, the services sector declined by 7 per cent to US$ 155 billion in 2013 as compared to 5 per cent growth in total FDI value in M&A.

India's Services Sector

10.8 Services in India are emerging as a prominent sector in terms of contribution to national and states' incomes, trade flows, FDI inflows, and employment.

Services GDP

10.9 Services constitute a major portion of India's GDP with a 57 per cent share in GDP at factor cost (at current prices) in 2013-14 — an increase of 6 percentage points over 2000-01. Including construction, the share is 64.8 per cent. The CAGR of services-sector GDP at 8.5 per cent for the period 2000-01 to 2013-14 has been higher than the 7.1 per cent CAGR of overall GDP during the same period.

The growth of services-sector GDP has been higher than that of overall GDP during 2000-01 to 2013-14. Despite deceleration, services GDP growth at 6.8 per cent was above the 4.7 per cent overall GDP growth in 2013-14.

10.10 In 2013-14 the growth rate of the services sector at 6.8 per cent is marginally lower than in 2012-13. This is due to deceleration in the growth rate of the combined category of trade, hotels, and restaurants and transport, storage, and communications to 3.0 per cent from 5.1 per cent in 2012-13, despite robust growth of financing, insurance, real estate, and business services at 12.9 per cent. Construction, a borderline services inclusion which has not been performing well since 2012-13, grew by only 1.6 per cent in 2013-14.

10.11 Sub-sector-wise, banking and insurance (11.8 per cent) and real estate, ownership of dwelling, and business services (10.0 per cent) were the best performers in terms of growth rate in 2012-13 and the performance of railways (0.3 per cent) followed by hotels and restaurants (0.5 per cent) was the lowest (Table 10.2).

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

	2000-01	2011-12@	2012-13*	2013-14**
Trade, hotels, & restaurants	**14.5 (5.2)**	**17.4 (1.2)**	**17.2 (4.5)**	**24.0 (3.0)#**
Trade	13.2 (5.0)	15.9 (1.0)	15.8 (4.8)	—
Hotels & restaurants	1.3 (7.0)	1.5 (3.8)	1.4 (0.5)	—
Transport, storage, & communication	**7.6 (9.2)**	**7.3 (9.4)**	**7.5 (6.0)**	—
Railways	1.1 (4.1)	0.7 (7.5)	0.8 (0.3)	—
Transport by other means	5.0 (7.7)	5.4 (8.6)	5.6 (6.6)	—
Storage	0.1 (6.1)	0.1 (2.9)	0.1 (8.6)	—
Communication	1.5 (25.0)	1.1 (11.2)	1.1 (6.5)	—
Financing, insurance, real estate, & business services	**14.1 (3.5)**	**16.5 (11.3)**	**17.2 (10.9)**	**18.5 (12.9)**
Banking & insurance	**5.4 (-2.4)**	**5.7 (12.9)**	**5.9 (11.8)**	—
Real estate, ownership of dwellings, & business services	8.7 (7.5)	10.7 (9.9)	11.4 (10.0)	—
Community, social, & personal services	**14.7 (4.6)**	**13.8 (4.9)**	**14.3 (5.3)**	**14.5 (5.6)**
Public administration & defence	6.5 (1.9)	5.9 (4.2)	6.0 (3.4)	—
Other services	8.2 (7.0)	7.8 (5.4)	8.2 (6.8)	—
Construction	**6.0 (6.1)**	**8.2 (10.8)**	**8.1 (1.1)**	**7.8 (1.6)**
Total services	**51.0 (5.1)**	**54.9 (6.6)**	**56.3 (7.0)**	**57.0 (6.8)**
Total services (including construction)	**57.0 (5.2)**	**63.1 (7.1)**	**64.4 (6.2)**	**64.8 (6.2)**
Total GDP	**100.0 (4.1)**	**100.0 (6.7)**	**100.0 (4.5)**	**100.0 (4.7)**

Source: Central Statistics Office (CSO).

Notes : Shares are in current prices and growth in constant prices; Figures in parentheses indicate growth rate;* first revised estimates, @ second revised estimates, ** provisional estimate; # includes the combined share and growth of trade, hotels, & restaurants and transport, storage, & communication for 2013-14.

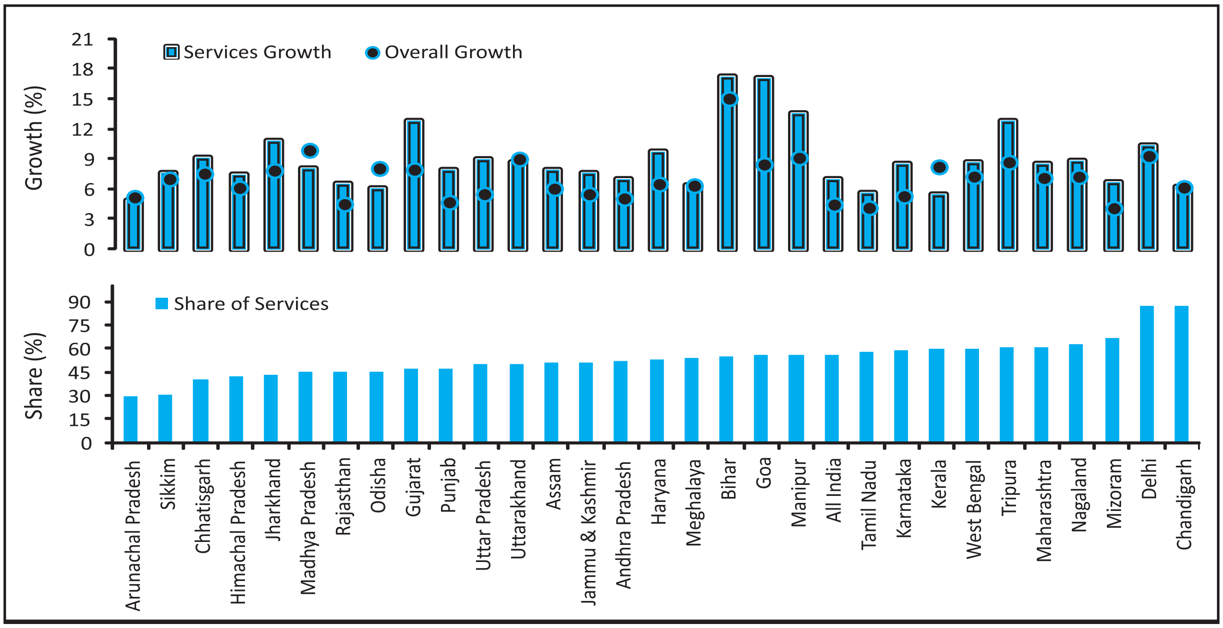
State-wise Comparison of Services

10.12 State-wise comparison of services share in the gross state domestic product (GSDP) of different states and union territories (UTs) in 2012-13 shows that the services sector is the dominant sector in most of the states of India (Figure 10.1). States and UTs such as Chandigarh, Delhi, Kerala, Mizoram, West Bengal, Tamil Nadu, Maharashtra, Nagaland, Tripura, and Karnataka have higher than all-India shares. Chandigarh and Delhi are at the top with an equal share of 86.9 per cent followed by Mizoram with 66.1 per cent. The share of services in the GSDP of all the states/ UTs for which data is available was more than 40 per cent except for Arunachal Pradesh at 29.9 per cent and Sikkim at 30.6 per cent. In 2012-13, Bihar had the highest services growth of 17.2 per cent followed by Goa at 17.1 per cent. Arunachal Pradesh on the other hand had the lowest services growth at 4.8 per cent followed by Kerala at 5.5 per cent. Some states like Goa and Tripura have been consistently showing double-digit growth in the services sector in the last five years. The former is on account of growth in tourism and the latter in banking and insurance.

FDI in the Indian Services Sector

10.13 The growth of the services sector is closely linked to FDI inflows into this sector and the role of transnational firms. In the

Figure 10.1 : Share and Growth of the Services Sector in 2012-13



Source : Computed from CSO data.
Notes : Shares at current prices, growth rate at constant (2004-05) prices.

context of FDI, the ambiguity in classifying the different activities under the services sector continues. However, the combined FDI share of financial and non-financial services, construction development, telecommunications, computer hardware and software, and hotels 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 45 per cent of the cumulative FDI equity inflows during the period April 2000-March 2014. If construction, the borderline inclusion, is excluded, then it falls to 34 per cent. The five services 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$ 39.5 billion during the period April 2000-March 2014. This is followed by other service sectors like construction development (US$ 23.3 billion), telecommunications (US$ 14.2 billion), and computer software and hardware (US$ 12.8 billion). If the shares of some other services or service-related sectors like trading (2.4 per cent), information and broadcasting (1.7 per cent), construction (infrastructure) activities (1.2), consultancy services (1.1 per cent), hospital and diagnostic centres (1.1 per cent), ports (0.8 per cent), agriculture services (0.8 per cent), education (0.4 per cent), air transport including air freight (0.2 per cent), and retail trading (0.1 per cent) are included then the total share of cumulative FDI inflows (2000-01 to 2013-14) to the services sector would increase to 54.7 per cent. In 2013-14, FDI inflows to the services sector (top five sectors including construction) declined sharply by 37.6 per cent to US$ 6.4 billion compared to an overall growth in FDI inflows at 6.1 per cent. As a result the share of the top five services in total FDI fell to nearly one-sixth (Table 10.3).

Table 10.3 : Services Attracting Highest FDI Inflows

Ranks	Sector	Value (in US $ million) 2011-12	2012-13	2013-14	Cumulative inflows (Apr. 2000-Mar. 2014)	Percent age to total	Growth rate 2012-13	2013-14
1	Services sector(financial & non-financial)	5216	4833	2225	39460	18	-7.3	-4.0
2	Construction development #	3141	1332	1226	23306	11	-57.6	-8.0
3	Telecommunications *	1997	304	1307	14163	7	-84.8	29.9
4	Computer software & hardware	796	486	1126	12817	6	-38.9	31.7
5	Hotels & tourism	993	3259	486	7118	3	228.2	-85.1
	Total top five services	**12143**	**10214**	**6370**	**96864**	**45**	**-15.9**	**-37.6**
	Total FDI inflows	**46556**	**34298**	**36396**	**217581**	**100**	**-26.3**	**6.1**

Source: Based on Department of Industrial Policy and Promotion (DIPP) data.

Notes : # indicates township, housing, built-up infrastructure and * indicates radio paging, cellular mobile, basic telephone services.

India's Services Exports

10.14 India's share in world services exports, which increased from 0.6 per cent in 1990 to 1.1 per cent in 2000 and further to 3.3 per cent in 2013, has been increasing faster than its share in world merchandise exports. While the growth rate of services exports of India has been higher than that of the world for all the years since 1996 (except 2009), in 2013 this has been reversed (Figure 10.2).

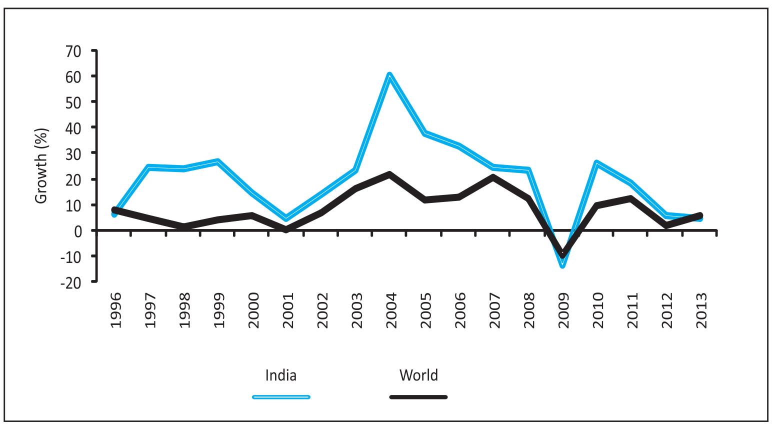


Figure 10.2 : Export Growth of Commercial Services: India and World

Source: Computed from WTO database accessed on 1 June 2014.

10.15 While exports of software services, accounting for 46 per cent of India's total services exports, decelerated to 5.4 per cent in 2013-14 from 5.9 per cent in 2012-13, travel, accounting for a nearly 12 per cent share, witnessed negative growth of 0.4 per cent. However, moving in tandem with global exports of financial services, India's exports of financial services registered a high growth of 34.4 per cent in 2013-14.

India's Services Employment

10.16 The pattern of the sectoral share of employment has changed over the last two decades (Figure 10.3) with the share of agriculture falling from 64.8 per cent in 1993-4 to 48.9 per cent in 2011-12 and of industry rising from 15.6 per cent to 24.3 per cent. The share of the services sector in employment has gone up in the same period from 19.7 per cent to 26.8 per cent.

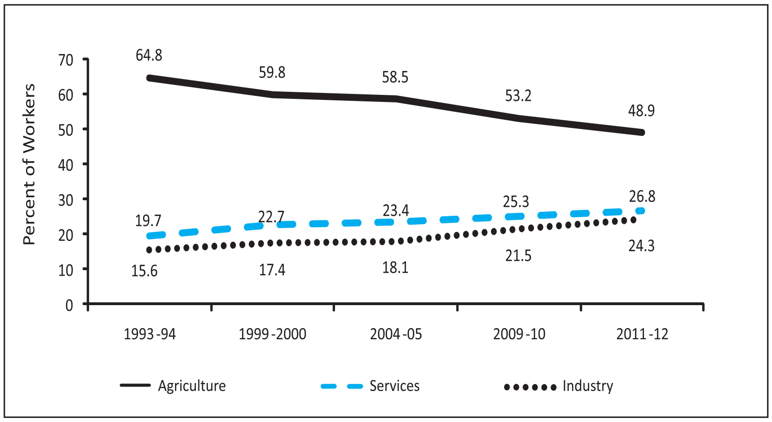


Figure 10.3 : Sectoral Share of Employment (UPSS)

Source: Based on Inputs of Ministry of Labour and Employment which uses National Sample Survey Office (NSSO) data from different rounds.

Note: UPSS- Usual Principal Subsidiary Status.

India's Services Inflation

10.17 Inflation in the services sector is not captured in the usual inflation indicators like the wholesale price index (WPI) and only partially covered in the consumer price index (CPI) where items like medical care, education, recreation and amusement, transport and communication, and housing are included. Recently some efforts were made to strengthen the collection of services data in India and services price indices (SPI) have been developed on experimental basis for railways, postal, telecom, and banking sectors. Railways SPIs include only freight and passenger services as they account for 99 per cent of the traffic revenue earnings with the ratio between freight and passenger earnings at 68.4: 31.6 in the base year. Banking SPIs include both direct services for which banks charge fees, commissions, brokerage, etc., and intermediation services. Postal SPIs are based on data of the Department of Posts and exclude courier services, making them less relevant. Telecom SPIs have been developed only for cellular services on the basis of the Performance Indicators Report of the Telecom Regulatory Authority of India (TRAI). Though these indices are at a preliminary stage, they indicate a fall in inflation in telecom and banking services from 2009-10 and 2010-11 onwards respectively; a

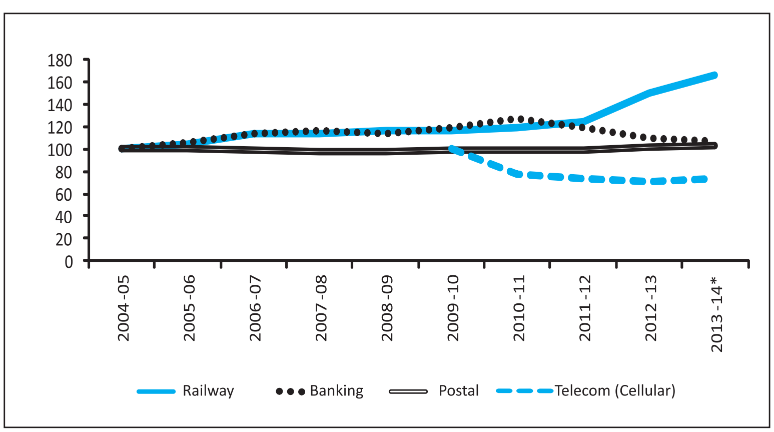


Figure 10.4 : Sevices Price Indices

Source: Based on Inputs from the DIPP.

Note: * Provisional; For 2013-14: Data for railways is up to January 2014, for postal up to June 2013, and telecom up to Dec. 2013.

steep rise in inflation for railway services from 2011-12; and a very mild inflation for postal services from 2008-09. (Figure 10.4)

Major Services : Overall Performance

10.18 Some available indicators of the different services in India for 2013-14 show reasonably good performance of tourism; a pick-up in telecom and aviation after the fall in 2012-13; and poor performance of shipping and railways due to the slowdown in trade and industrial activity (Table 10.4). Estimates of the Centre for Monitoring Indian Economy (CMIE), derived from limited firm-level data, show subdued performance of sectors such as transport logistics, aviation, hotels, and telecom in 2012-13. Some sectors like transport logistics and retail trading are estimated to have performed well in 2013-14. In the coming year most of the sectors are projected to perform better. As per Markit-HSBC's Services PMI (Purchasing Managers Index), India's services sector expanded for the first time in nearly a year during May on a rebound in new business orders, with the index rising to 50.2 in May from 48.5 in April and pointing to the first expansion of output in 11 months. A reading above 50 shows that the sector is expanding, while a reading below 50 shows that output in the sector is contracting.

Table 10.4 : Performance of India's Services Sector : Some Indicators

Sector	Indicators	Unit	Period				
			2009-10	2010-11	2011-12	2012-13	2013-14
Aviation	Airline passengers (domestic and international)*	Million	77.4	88.9	99.6	97.7	103.3
Telecom	Telecom connections (wireline and wireless)[b]	lakh	6212.8	8463.3	9513.5	8980.2	9330.2
Tourism	Foreign tourist arrivals[a]	Million	5.17	5.78	6.31	6.58	6.97
	Foreign exchange earnings from tourist arrivals[a]	US $ million	11136	14193	16564	17737	18133
Shipping	Gross tonnage of Indian shipping[b]	Million GT	9.69	10.45	11.06	10.45	10.49
	No. of ships[b]	Numbers	1003	1071	1122	1158	1213
Ports	Port traffic	Million tonnes	850.0	885.5	911.7	933.7	980.5
Railways	Freight traffic by railways[c]	Million tonnes	887.8	921.7	969.1	1008.1	1050.2
	Net tonne kilometres of railways[c]	Million	600548	625723	667607	691658	651869
Storage	Storage capacity	Lakh MT	106.0	103.5	100.3	102.3	105.6
	No. of warehouses	Numbers	487	479	468	469	471

Sources: TRAI, Ministry of Tourism, Ministry of Shipping, Ministry of Railways, Directorate General of Civil Aviation (DGCA), Central Warehousing Corporation.

Notes: [a]calendar years, for example 2009-10 for 2009; [b]As on 31 March of ensuing financial year; [c]data from 2009-10 to 2012-13 is on carried basis, while that for 2013-14 is on originating basis; * foreign airlines included for international passengers; GT—gross tonnage; MT—metric tonnes.

Major Services: Sector-wise Performance

10.19 Some of 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. Some important services covered in other chapters have been excluded to avoid duplication.

Tourism, including Hotels and Restaurants

10.20 According to the World Travel and Tourism Council, the US$ 6.6 trillion World Travel and Tourism sector contributed 9 per cent of global GDP in 2012 and generated over 260 million jobs (1 in 11 of the world's total jobs). There has been a revival in world tourism growth with international tourist arrivals worldwide growing from 4.1 per cent in 2012 to 5.0 per cent in 2013 as per the United Nations World Tourism Organization (UNWTO) data.

10.21 According to World Travel and Tourism Council estimates, the tourism sector in India contributed around 6.6 per cent of India's GDP in 2012 and supported 39.5 million jobs, which is 7.7 per cent of its total employment. The sector is projected to grow at an annual average rate of 7.9 per cent from 2013 to 2023. India's share in world inbound tourist arrivals increased from 0.4 per cent in 1997 to 0.63 per cent in 2013, with a 6.9 per cent CAGR, which is much higher than the 3.9 per cent CAGR for the world during the same period. The size of domestic tourism has also already crossed an estimated 1.1 billion annual travel visits.

10.22 After a poor performance in 2009 owing to the 2008 global financial crisis, foreign tourist arrivals (FTA) to India and foreign exchange earnings (FEE) in dollar terms quickly rebounded in 2010. However, with the slowdown particularly in the EU, both FTAs and FEEs in dollar terms decelerated, though in 2013 there was a pick-up in growth in the former. While FEEs in rupee terms are a reflection of the exchange rate movements, what is cause for concern is the steep deceleration in FEEs in dollar terms, while the deceleration in FTAs was relatively less (Table 10.5). This indicates a relatively higher inflow of back-packers vis-à-vis high-spending tourists.

10.23 India has not tapped the full potential of its tourism sector. A World Economic Forum 2013 study of tourism competitiveness, rated India at a low of 65 among 140 countries. On its three pillars of competitiveness, India was ranked 21 on tourism natural resources, 67 on ease of business environment, but an abysmal 110 on its regulatory framework for tourism and travel, showing India's inability to convert its comparative natural and economic advantages into competitive advantages for the tourism Industry.

India has not tapped the full potential of its tourism sector and has not been able to convert its comparative natural and economic advantages into competitive advantages.

	Growth rate (per cent) Y-o-Y				
Indicators	2009	2010	2011	2012	2013
FTAs (Numbers)	-2.2	11.8	9.2	4.3	5.9
FEEs (in US $)	-5.9	27.5	16.7	7.1	2.2
FEEs (in Rs)	4.7	20.8	19.6	21.8	12.0

Source: Ministry of Tourism.

Table 10.5 : India's Tourism Performance

Some Transport-related Services

Shipping

10.24 Shipping is an important indicator of both commodity and services trade of any country. It plays an important role in the Indian economy with around 95 per cent of its trade by volume and 68 per cent in terms of value being transported by sea. As on 31 March 2014, India had a fleet strength of 1213 ships with gross tonnage (GT) of 10.49 million, with the public-sector Shipping Corporation of India having the largest share of 31.30 per cent. Of this, 367 ships with 9.31 million GT cater to India's overseas trade and the rest to coastal trade. Despite having one of the largest merchant shipping fleets among developing countries, among the 35 flags of registration with the largest registered dead weight tonnage (DWT), India ranks 18th with a share of only 0.9 per cent in total world DWT as on 1 January 2014 according to the ISL Shipping Statistics and Market Review. Leaving aside flags of convenience, Hong Kong has the highest DWT, with a share of 8.6 per cent, while China's share is 4.4 per cent. In 2012 as per

UNCTAD, India with 9.8 million twenty foot equivalent units of container (TEUs) and with a world share of 1.6 per cent was ranked eighth among developing countries in terms of container ship operations.

10.25 India continues to be a leading ship-breaking destination in the world. India topped the list of ship-recycling countries in 2013 with a world share of 27.9 per cent, scrapping 341 ships of 12.46 million DWT as per the ISL Shipping Statistics and Market Review. India is also a major supplier of seafarers. Ranked third with a 7.5 per cent share in 2010, it supplied 46,497 officers to the global shipping industry. While the shipping sector has been plagued by economic hardships since 2008, the year 2013 was even more of a challenge for Indian shipping companies which continued to face cash flow problems on account of very low charter hire and freight rates in all segments of shipping, as did their international peers. Cash flow problems emanating from the low of the shipping cycle were further compounded by the downturn in the Indian economy. With high domestic interest rates, purchase of new ships went on the back burner. The Baltic Dry Index, the barometer of merchandise trade as well as shipping services, which had peaked at 11,793 on 20 May 2008, has been in the red ever since, reaching a new low of 982 on 13 May 2014.

Given that the share of Indian ships in India's overseas trade has declined sharply from 40 per cent in the late 1980s to 9.1 per cent in 2012-13 and the existing fleet is also ageing, there is urgent need to increase India's shipping fleet.

10.26 There has also 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 9.1 per cent in 2012-13 with a 16.3 per cent share in India's oil imports. As per a National Council of Applied Economic Research (NCAER) study, a 5 per cent increase in the national shipping tonnage saves or earns an additional 17 per cent of the freight bill. With a total freight bill of around US$ 79.2 billion in 2012-13 and given the fact that 90 per cent of India's import and export cargo is carried by foreign shipping companies, India as a nation is estimated to have paid a total freight bill of US$ 71.3 billion which is a net forex outgo.

10.27 Even the existing Indian fleet is ageing, with the average age of the Indian fleet increasing from 15 years in 1999 to 18.1 years as on 31 March 2014 (43.85 per cent of the fleet is over 20 years and 10.66 per cent in the 16-20 age group). Therefore there is urgent need to increase India's shipping fleet to make it at least capable of carrying India's trade volumes.

Port Services

10.28 The performance of shipping services and merchandise trade is closely related to the efficiency of ports. The total capacity of Indian ports has reached approximately 1425 million tonnes as on 31 March 2014. During 2013-14 total traffic handled at all ports at 980.49 million tonnes grew by 5.02 per cent over the previous year. The cargo throughput of major ports grew at 1.78 per cent while the non-major ports registered a growth of 9.57 per cent.

10.29 The Government of India has taken policy initiatives to enhance private investment in ports. New tariff guidelines have been introduced with greater flexibility to public-private partnership

(PPP) operators to fix tariff based on market conditions. The security clearance guidelines for PPP bidders have been streamlined and new guidelines for leasing port lands have been announced. These measures have resulted in substantial investment of around ₹ 20,709.93 crore in port projects during 2013-14. The three ports-related performance indicators showed considerable improvement in 2013-14. The average turnaround time fell to 2.25 days in 2013-14 from 2.58 days in 2012-13. Similarly, average pre-berthing detention time fell from 0.51 day in 2012-13 to 0.29 day in 2013-14. The average output per ship berth day improved by 6.13 per cent to 12,509 in 2013-14. The improvement in turnaround time and pre-berthing detention time could be owing partly to mechanization and systemic improvements in ports and partly to lower volume handled in some ports on account of global downturn. However, the improvement in average output per ship berth day in 2013-14 indicates that the performance parameters of Indian ports are also improving (Table 10.6).

Table 10.6 : Some Performance Indicators of Ports in India

Indicators	Value						Change in 2013-14 over 2012-13
	1990-91	2000-01	2010-11	2011-12	2012-13	2013-14	
Average turnaround time (days)	8.10	4.24	5.29	4.44	2.58	2.25	-0.33
Average pre-berthing detention time (days)	2.16	1.19	2.32	0.46	0.51	0.29	-0.22
Average output per ship berth day (in tonnes)	3372	6961	9140	13073	11786	12509	723.00

Source : Based on Ministry of Shipping data.

Storage Services

10.30 According to CSO estimates, storage services grew by 8.6 per cent in 2012-13 as compared to 2.9 per cent the previous year. Storage services are an integral part of both inbound and outbound logistics as the goods produced have to be stored in different geographical locations before shipping/ dispatch as per demand/ order inflows. In India, the most important component of warehousing is storage for agricultural inputs and produce such as foodgrains, oilseeds, pulses, cotton, fertilizers, and manure. Other components include industrial warehousing for industrial raw materials and finished goods, infrastructure for supporting import and export trade like inland container depots (ICD)/ container freight stations (CFS), cargo terminals of the integrated check posts (ICPs), and special warehouses for perishable goods (cold and temperature-controlled storage).

10.31 The Central Warehousing Corporation (CWC) has added 3.21 lakh MT additional storage capacity in 2013-14 as against 2.02 lakh MT during 2012-13. At state level, the 17 State Warehousing Corporations (SWC) meet the storage requirements and complement the work of the CWC. As on 30 April 2014 these SWCs were operating a network of 1687 warehouses with an aggregate storage capacity of 268.3 lakh MT.

10.32 Major policy initiatives taken recently by the government in this sector include construction of godowns under the 7-years/ 10-years guarantee scheme of the Government of India, most of them being managed by the CWC or SWCs; up to 100 per cent FDI in the construction of warehousing infrastructure; and construction of warehouses under the Grameen Bhandaran Yojana of the National Bank for Agriculture and Rural Development (NABARD) and the Rastriya Krishi Vikas Yojana. In 2007-08, the government enacted the Warehousing (Development & Regulation) Act 2007 to make the warehouse receipt fully negotiable. Recently the government took another major initiative for construction of additional warehousing capacity in the country under its Private Entrepreneurs Guarantee (PEG) Scheme. For boosting the warehousing sector, tax benefit under Section 35 AD of the Income Tax Act 1961 is also being made available where the assessee is allowed a deduction of 150 per cent of the capital expenditure (except cost of land) for setting up and operation of cold chain facility or warehousing facility for storage of agricultural produce.

Some Business Services

10.33 Major business services include computer-related services, research and development (R&D), accounting services, legal services, and renting of machinery. The dynamic business services with a share of 5.6 per cent in India's GDP grew by 14.1 per cent in 2012-13.

IT and ITeS

10.34 The information technology-information technology-enabled services (IT-ITeS) industry has become one of the significant growth catalysts for India. India continues to maintain a leadership position in global sourcing, accounting for above 55 per cent of the total global sourcing market (excluding engineering services and R&D) in 2013 as compared to 52 per cent in 2012. The IT–business process management (BPM) sector (excluding hardware) is estimated to have grown by 10.3 per cent, reaching US$ 105 billion in 2013-14. Of this, exports with a major share of 81.9 per cent grew by 13.0 per cent while domestic revenues fell by 1.0 per cent in dollar terms. Domestic revenue is estimated to have increased by 9.63 per cent in rupee terms. In 2014-15 higher growth is expected in both exports and domestic revenues (Table 10.7).

10.35 A gradual revival in consumer confidence leading to return of discretionary spending and increased demand from the US and Europe is helping drive exports. India continues to lead in cost competitiveness. Flat entry-level salaries, flattening employee pyramid, and fast career growth are helping India stay seven-eight

Table 10.7 : Overall Growth Performance of the IT-BPM Sector

	Value (in US$ billion)					Growth rate (per cent)		
	2008-09	2010-11	2012-13	2013-14E	2014-15 P	2012-13	2013-14E	2014-15 P
IT-BPM service Revenues	**59.9**	**76.3**	**95.2**	**105.0**	**118-123**	**8.6**	**10.3**	**12**
Exports	47.1	59.0	76.1	86.0	97-100	10.6	13.0	13-15
Domestic	12.8	17.3	19.2	19.0	21-23	1.1	-1.0	9-12
Employment (in million)	**2.2**	**2.5**	**3.0**	**3.1**	—	**6.9**	**5.6**	—

Source : NASSCOM.

Note : E—Estimate, P—Projections (revenue is excluding hardware services).

times cheaper than source locations and 30 per cent cheaper than the next nearest low-cost country. However, challenges around protectionism, increased competition, currency volatility, wage inflation, and inconsistent levels of customer confidence have to be addressed.

10.36 This sector is also a big employment generator with direct employment in the IT services and business process outsourcing (BPO)/ITeS segment projected to grow by 5.6 per cent, reaching 3.1 million in 2013-14 with over 166,000 jobs being added during the year (of which 30 per cent are for women). Indirect job creation is projected at 10.0 million. The National Policy on Information Technology (NPIT) envisages revenues of the IT and ITeS industry expanding from US$ 100 billion in 2011-12 to US$ 300 billion by 2020 and exports from US$ 69 billion in 2011-12 to US$ 200 billion by 2020.

R & D Services

10.37 Among business services, R & D occupies second position in India's GDP. Its growth has been consistently high at near 20 per cent in the last few years; in 2012-13 growth has been at 20.8 per cent. The US$ 1.6 trillion global gross expenditure on R&D (GERD) in PPP (purchasing power parity) terms for 2014 projected by Battelle and R&D magazine is a more than US$ 50 billion increase over the previous year. In this enormous activity, India's share is around 3 per cent with GERD projected at US$ 44 billion, which is around five times lower than that of China.

10.38 According to the Global Competitiveness Report 2013-14, India's capacity for innovation has been lower than that of other BRICS countries (Brazil, Russia, India, China, and South Africa) except Russia (Table 10.8). Though India scores better than China, Brazil, and Russia on 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 some other BRICS nations like China and South Africa. Though India scores better than all BRICS nations on availability of scientists and engineers, owing to its large population, the country has one

Table 10.8 : Global Competitiveness Index: R & D Innovation

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	4.0	41	4.5	37	3.6	39	4.0	47	5.0	15	1.4	64
China	4.2	30	4.3	41	4.2	22	4.4	33	4.5	44	9.2	36
South Africa	4.1	33	4.8	35	3.5	43	4.5	29	3.5	108	6.2	42
Brazil	4.0	36	4.3	42	3.6	37	4.0	49	3.4	112	2.9	51
Russia	3.5	64	3.7	65	3.1	69	3.6	64	3.8	90	6.1	43
South Korea	4.5	22	4.9	24	4.6	20	4.7	26	4.6	33	183.4	9
UK	5.2	8	6.2	3	4.7	12	5.6	5	4.8	23	90.6	18
USA	5.6	5	6.0	5	5.4	5	5.7	3	5.3	6	141.1	12

Source: Global Competitiveness Report 2013-14, World Economic Forum.
Note: PCT—Patent Cooperation Treaty.

India's capacity for innovation has been lower than that of other BRICS countries except Russia.

of the lowest ratios of scientists and engineers per million people. Part of this shortage is attributed to lack of quality higher education institutions. Even with a large population base, India is projected to have 25 per cent shortage of engineers in the country by 2025. In terms of patents granted per million population, India fares badly compared to other BRICS countries. In terms of company spending on R & D also India is far below China.

Legal Services

10.39 Legal services have been growing at a steady rate of 8.2 per cent in each of the years from 2005-06 to 2012-13. India is ranked 40, with a score of 4.7, in terms of judicial independence by the Global Competitiveness Report 2013-14, an improvement from 45th rank in 2012-13. As regards efficiency of the legal framework in settling disputes, India is ranked 62nd, with a score of 3.8, a decline of three positions from 59th rank a year before. India is ranked 48th when it comes to the efficiency of the legal framework in challenging regulations, with a score of 3.8, an improvement from 52nd position in the previous year.

10.40 The National Legal Services Authority (NALSA) constituted under the Legal Services Authorities Act 1987 monitors and evaluates implementation of legal aid programmes and lays down policies and principles for making legal services available under the Act. To familiarize law students of the country with the problems faced by the masses ignorant about their rights and remedies under the law, the Legal Services Clinic in University, Law Colleges and other Institutions scheme was started in 2013. During 2013–14 more than 22.23 lakh persons have benefited through legal aid services in the country. Out of them, about 29,000 persons belong to the scheduled castes, 24,844 to the scheduled tribes, more than 58,883 are women, and 8,134 are children. During this period, more than 1,13,838 Lok Adalats have been organized which settled more than 90.14 lakh cases including 1.17 lakh motor accident claim cases.

Real Estate Services and Housing

10.41 Real Estate and ownership of dwellings with a share of 5.9 per cent in India's GDP, grew by 5.6 per cent in 2012-13. Real estate in particular, grew by 26.1 per cent. Housing activities have both forward and backward linkages which not only contribute to capital formation, generation of employment, and income opportunities but also to economic growth. Estimates show that every rupee invested in housing and construction adds 78 paise to the GDP.

10.42 House prices have skyrocketed over the years in many cities and towns as per the National Housing Bank's RESIDEX index of residential prices in India across cities. As compared to 2007 (base year), the prices of residential properties during the period 2007-2013 have witnessed increases in 24 cities with the maximum increase in Chennai (230 per cent) followed by Pune (135 per cent), Bhopal (123 per cent), and Mumbai (122 per cent). Only two cities have witnessed decline in prices with the maximum decrease observed in Kochi (-15 per cent) followed by Hyderabad (-7 per cent). During 2013, out of 20 cities, 13 witnessed increase in prices over 2012 with the maximum increase observed in Jaipur (21 per cent) followed by Bhubaneswar (17 per cent), 7 saw decline in prices over the previous year, with the maximum fall witnessed in Ludhiana (-16 per cent) followed by Vijayawada (-13 per cent).

10.43 A major policy concern for India is the widening gap between demand and supply of housing units and inadequate housing finance solutions. Nearly 30 per cent of the country's population lives in cities and urban areas and this figure is projected to reach 50 per cent in 2030. The present urban housing shortage is 18.78 million units of which 95.6 per cent is in economically weaker sections (EWS) / low income group (LIG) segments and requires huge financial investment. A number of incentives/ initiatives are being taken for promoting affordable housing such as allowing external commercial borrowing (ECB) for low cost affordable housing projects. In the Union Budget 2013-14, for housing loans up to ₹ 25 lakh taken for the first home in FY 2013-14, an additional deduction of interest of up to ₹ 1,00,000 was given for the assessment year 2014-15. An Urban Housing Fund with a corpus of ₹ 2000 crore was also announced. Accordingly, the National Housing Bank (NHB) has formulated a new refinance scheme for channelizing funds into the urban housing sector. The scheme seeks to augment resources and improve credit availability for meeting the housing needs of people in lower income segments residing in urban areas. Till 31 March 2014, the NHB had disbursed ₹ 441.15 crore under this scheme to various primary lending institutions (PLIs). In order to overcome the constraints faced during the pilot phase of implementation of the Interest Subsidy Scheme for Housing the Urban Poor (ISHUP), the government has designed a Revised Interest Subsidy Scheme, renamed the Rajiv RinnYojana (RRY), as an additional instrument for addressing the housing needs of EWS/LIG segments in urban areas. Under the RRY, the amount of loan has been revised upwards to ₹ 5.0 lakh for EWS and ₹ 8.0 lakh for LIG beneficiaries with an interest subsidy up to a maximum of ₹ 5.0 lakh for both categories.

10.44 Institutional credit for housing investment is an important factor. Though it is growing at a CAGR of about 18-20 per cent per annum with mortgages as a percentage of GDP rising from 3.4 per cent in 2001 to 9 per cent in 2012-13, it is well below countries like China, Thailand, and Malaysia. Procedural delays are another major constraint in this sector. According to the World Bank's Doing Business 2014, India ranked 182nd in terms of construction permits, requiring a total of 35 procedures to get permits as compared to an average of 16 in South Asia and 13 in OECD (Organisation for Economic Cooperation and Development) countries. These issues need to be addressed to make housing not only affordable but also easy to own.

Trade

10.45 The trade sector includes wholesale and retail trade in all commodities whether produced domestically, imported, or exported. It covers activities of purchase and selling agents, brokers, and auctioneers. The ₹ 14, 79,787 crore trade sector with a share of 15.8 per cent in GDP, grew by 4.8 per cent in 2012-13. A study in 2008 by the International Council for Research on International Economic Relations (ICRIER) has estimated the employment in retail trade at 35.1 million, constituting 7.3 per cent of the workforce in the country. A large number of small and decentralized traders dominate the Indian retail market. One estimate puts their number at 1.3 crore.

10.46 As per the AT Kearney's Global Retail Development Index (GRDI), India slipped to 14th rank in 2013 from 5th rank in 2012. Its previous low ranking was sixth in the inaugural Index in 2002, and it was in first place as recently as 2009. Same-store sales volume growth slowed in 2012 across retail, particularly for lifestyle and value-based formats. High operating costs, low bargaining power with vendors, and heavy discounting to improve sales have affected profits and expansion plans. Real estate cost and space availability also remain important issues. Many players are actively looking to improve sales productivity, cut operating costs, and reduce store size. However, the long-term fundamentals remain strong, in particular with a large young and increasingly brand- and fashion-conscious population. Retail growth of 14 to 15 per cent per year is expected through 2015.

10.47 In 2012, the government allowed 100 per cent FDI in single-brand retail for the first time. Several single-brand retailers entered India in many sectors: apparel and beauty (e.g. Brooks Brothers, Kenneth Cole, Sephora, and Armani Junior), standalone boutiques (e.g. Roberto Cavalli and Christian Louboutin), and food (e.g. Starbucks and Dunkin' Donuts). In multi-brand retail, the government allowed 51 per cent FDI starting in early 2013 with preconditions about investment, sourcing, store locations, and state government approval. Online shopping is in the early stages, with e-commerce sales at less than 1 per cent of total retail sales, but growth is expected as more people access the Internet. Mobile phones, electronic appliances, apparel, movies, music, and books are the fastest-growing categories.

10.48 Both wholesale and retail trade within the country is governed by many controls, multiple organizations, and a plethora of orders. This has resulted in a fragmented market hindering the free flow of goods within the economy, higher transportation cost, and in general, a lower level of efficiency and productivity. Unfettered flow of goods and services is an essential pre-requisite for building a common national market that will promote growth and trade across regions and also enable specialization and higher levels of economic efficiency.

Media and Entertainment Services

10.49 The Indian media and entertainment industry comprises various segments that include television, print, films, radio, music, animation, gaming and visual effects, and digital advertising. The industry has recorded unprecedented growth over the last two decades, making it one of the fastest growing industries in India. According to a report by FICCI-KPMG, the Indian media and entertainment industry grew by 11.8 per cent to ₹ 918 billion in 2013 from ₹ 821 billion in 2012 and is projected to grow at a CAGR of 14.2 per cent to reach ₹ 1786 billion by 2018. Digital advertising and gaming, which grew by 38.7 per cent and 25.5 per cent respectively in 2013, are projected to drive the growth of this sector in the coming years.

10.50 India has one of the largest broadcasting industries in the world with close to 161 million TV households. There are about 800 satellite television channels, 88 teleports, 245 FM radio channels, and 170 community radio stations operating in India. The Government of India has embarked on an ambitious exercise of digitizing its cable network in four phases leading to complete switch off of analog TV services by 31 December 2014. The first two phases of cable TV digitization have been successfully completed. In phase I, which was completed on 31 October 2012, out of four metro cities, three—Delhi, Mumbai, and Kolkata—have achieved full digitization. Chennai is yet to undergo full transition owing to pending court cases. Phase II was concluded on 31 March 2013 in 36 cities (having population more than 10 lakh) spanning 14 states and 1 UT. Three crore set top boxes (STBs) were installed in the first two phases. It is estimated that state governments and the Government of India stand to gain significantly, as transparency in the subscriber base through digitization would lead to manifold increase in the tax collection. Preliminary data from state governments shows that there is already two- to three-fold increase in entertainment tax collection. There is also good opportunity for local manufacturing of STBs, leading to employment generation. Phase III, covering other urban areas and Phase IV the rest of India, are slated for completion by 30 September 2014 and 31 December 2014 respectively. DTH (direct to home) in India is also growing at a fast pace and as per the FICCI-KPMG Report 2014 it is growing at a rate of about one million per year. HITS (headend in the sky) technology will play a key role in achieving the goal of 100 per cent digital distribution in India. At present 2 HITS operators have been permitted to operate by the Government of India.

10.51 The effect of digitization is being felt in the film sector as well. With about 95 per cent of India's cinema screens already digitized, the industry is poised for buoyant growth in the long run. Piracy remains a challenge to the Indian film industry. The Government of India has approved an anti-piracy plan to put an effective legal mechanism in place for combating piracy and creating public awareness among all the stakeholders through multimedia campaign in PPP mode. So far it has signed co-production agreements with nine countries, namely the UK, Italy, Brazil, Germany, France, New Zealand, Poland, Canada, and Spain. The government has accorded permission to shoot in India to 31 foreign production houses in 2013-14. In order to preserve the rich heritage of multifaceted Indian cinema, construction of the international standard National Museum of Indian Cinema in Mumbai, an ambitious plan of the Government of India, is under implementation. The construction of the first phase has been completed and it will be opened for the general public shortly.

Box 10.1 : Services Sector Reforms: Some Major Issues and Big Ticket Sectors

Many issues both general and sector specific including domestic regulations hinder the growth prospects of the services sector, which if addressed deftly could help the sector and lead to exponential gains for the economy.

General Issues:

Nodal agency and marketing**:** Despite having strong growth potential in various services sub-sectors, there is no single nodal department or agency for services. An inter-ministerial committee for services has been set up under the Department of Commerce. But services activities cover issues beyond trade and a more proactive approach and proper institutional mechanism is needed to weed out unwanted regulations and tap the opportunities in the services sector in a coordinated way. There is also need for promotional activities for service exports like setting up a portal for services, showcasing India's competence also in non-software services in trade exhibitions, and engaging dedicated brand ambassadors and experts.

Disinvestment: There is plenty of scope for disinvestment in services PSUs under both central and state governments. Speeding up disinvestment in some services-sector PSUs could not only provide revenue for the government but also speed up the growth of these services.

Credit related: The issues here include 'collateral free' soft loans to support the sector's cash needs and possibility of considering even export or business orders as collateral for credit-worthy service firms.

Tax and Trade Policy related: These include use of 'net' instead of 'gross' foreign exchange criteria for export benefit schemes, the issue of retrospective amendments of tax laws like amendment to the definition of royalty to include payment of any rights via any medium for use of computer software, tax administrative measures to tackle delay in refunds, introducing VAT (value added tax) refund for foreign tourists, and addressing the issue of bank guarantees based on past performance to avail of export promotion benefits in services.

Sector-wise issues:

Tourism and hospitality sector**:** India's share in world tourist inflows was only 0.64 per cent in 2012 (rank 41), while that of the USA was 6.47 per cent (rank 2) and China 5.57 per cent (rank 3). India's share in world tourism expenditure is relatively higher at 1.65 per cent (rank 16) implying that foreign tourists spend relatively more in India. Singapore, a small country, attracted 11.10 million tourists in 2012, while a large country like India attracted only 6.97 million foreign tourists during 2013. Some suggested measures include creating world class tourism infrastructure even by PPP; addressing multiple taxation issues; skill and etiquettes training to cater to the needs of tourists; special focus on cleanliness at tourist sites and safety of tourists; using the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) for creating permanent assets like tourism infrastructure and facilities; organizing mini India cultural shows on a daily basis at important tourist sites that will not only attract tourists but also generate employment for Indian artists; and implementing urgently visa on arrival and E visa facilities at 9 airports to 180 countries barring 8 'prior reference' countries, a decision on which has already been taken.

Port services**:** India does not have world class ports with the necessary draft. As a result, third-generation ships are not able to enter the harbour and goods have to be offloaded outside in smaller ships, adding to costs. India has made great strides in developing airport infrastructure and laying of metro lines. Its immediate focus should be on building world class ports providing world class services that will also help the trade sector by reducing costs and turnaround time in ports. There are also issues like the many port charges in India and the port charges in India being considerably higher than in many developed countries.

Shipping, shipbuilding, and ship repairs: Given that the share of Indian ships in the carriage of India's overseas cargo has fallen sharply and Indian ships are ageing, there is urgent need to replace our ageing ships with new ones. While the time is opportune for increasing our shipping fleet, with prices falling on account of global slowdown, a special financing mechanism needs to be developed. This also brings to focus the importance of India's shipbuilding industry which has the capacity and expertise but is functioning below capacity. Government-owned shipyards like Visakhapatnam are facing problems like declining orders. With the need to replace many of our old ships and a growing ship repairs business, special attention can be given to utilizing India's shipbuilding and repairs yards and further enhancing their capacity.

Railways: India's FDI policy restricts FDI in rail transport, except in mass rapid transit systems. FDI and privatization in the railways could be the next big ticket reforms. A proposal has been initiated by Indian Railways, for making suitable changes in the existing FDI policy in order to allow FDI in railways, to foster creation of world class rail infrastructure. The proposal envisages allowing FDI in all areas of the rail sector except railway operations. Even in railway operations, FDI is proposed in PPP projects, for suburban corridors, high speed train systems, and dedicated freight lines. While privatization of railways has been successful in some countries like Japan, it has failed in some others like the UK. So this proposal needs to be examined carefully and quickly to allow privatization/ FDI in areas where it is feasible.

Source : Based on Dr H.A.C. Prasad, Dr R. Sathish, and Salam Shyamsunder Singh (2014), working paper 1/2014-DEA on 'Emerging Global Economic Situation: Opportunities and Policy Issues for Services Sector' and updates from some ministries and institutions.

Challenges and Outlook

Challenges

10.52 India's growth story with a services-led growth has been unique for a developing country. The immediate challenge in this sector is revival of growth. While this could be achieved through reforms and speeding up of the policy decision making, a targeted approach with focus on big ticket services as mentioned in Box 10.1 could lead to a rebounding of services-sector growth for India. Some services like software and telecom were big ticket items that gave India a brand image in services. While further focus on these services is needed to retain and further our lead, the time has come to focus on some other high potential big ticket items that have high manufacturing-sector and employment linkages (Box 10.1).

Some services like software and telecom were big ticket items that gave India a brand image in services. The time has come to focus on some other high potential big ticket items that have high manufacturing-sector and employment linkages.

Outlook

10.53 India's services sector which was growing at a steady rate of over 10 per cent since 2005-06 has shown subdued performance in the last three years. The resilience of services growth witnessed even during and in the aftermath of the 2008 global recession has started waning, though services sector growth is still higher than that of other sectors. While the slowdown in the manufacturing and mining sectors directly affected some services like railways, shipping, ports, and other related services on account of the strong linkage effect, other services were affected by the income effect with slowdown in growth of both global and domestic incomes.

10.54 There was also lacklustre performance of community and social services, which had shown robust growth in 2008-09 and 2009-10 owing to the payment of arrears to government employees as per the sixth pay commission recommendations resulting in high growth in the public administration and defence category. However, the good performance by some important sectors like financing, insurance, real estate and other business services, and community social and personal services other than public administration and defence helped pull up services growth rate to modest levels of 7 or near 7 per cent in the last three years.

There are signs of services-sector revival in 2014-15. Some quick reforms and removal of barriers and obsolete regulations could further help this revival.

10.55 Going forward, the year 2014-15 seems to augur well for the services sector with expansion in business activity in India as also indicated by some indices. There are also signs of revival in growth of the aviation sector with the announcement of new players like Air Asia and Tata-SIA Airline after a turbulent period of withdrawals and losses by some airlines. Indications of revival in world GDP and trade growth in general and of developed countries in particular, could help in revival of the tourism and shipping sectors. With a stable government in place and growing optimism which could translate into investment and growth, some quick reforms and removal of some barriers and obsolete regulations in the services sector could help. The downside risk however is the fragile global situation.