# Services Sector

07

CHAPTER

*The services sector has emerged as the most dynamic sector of the world economy, contributing almost one-third of world gross value added, half of world employment, one-fifth of global trade and more than half of the world foreign direct investment flows. It remains the key driver of India's economic growth, contributing almost 66.1 per cent of its gross value added growth in 2015-16, important net foreign exchange earner and the most attractive sector for foreign direct investment inflows. However, the global slowdown has cast a shadow even on this promising sector.*

## International Comparison

### World Services GVA

7.2 In the US$ 74.0 trillion world gross value added (GVA) in 2014, the share of services (at current prices), and growth rate (at constant prices), improved marginally to 66.0 per cent and 2.5 per cent respectively over 2013. But in the last thirteen years, the share of services in world GVA has declined by 2.7 percentage points (pp). Among the world's top 15 countries in terms of gross domestic product (GDP), the US ranks first in both services GVA and overall GDP, followed by China in second and Japan in third position. India ranked ninth in terms of overall GDP and tenth in terms of services GVA in 2014, climbing one rung in both rankings. However, among these top 15 nations, in the period 2001-13, the maximum increase in services share to GVA was recorded by Spain (9.7 pp), followed by India (7.8 pp) and China (6.8 pp).

7.3 As in the case of overall GDP, services GVA also did not fully recover from the impact of the 2008 global financial crisis with a general slowdown trend in the growth rate of services for the world and across nations (except Brazil) in the post crisis period (2010-14) compared to the pre-crisis period (2001-8). Brazil was an exception, showing good growth in services in 2012 and 2013, which in turn was due to very high growth in the wholesale, retail trade, restaurants and hotels category. The compound annual growth rate (CAGR) of world services in the post crisis period (2010-14) at 2.5 per cent was lower than the 3.0 per cent in the pre-crisis period (2001-8). Despite the slowdown in the post crisis period, India showed the fastest service sector growth with a CAGR of 8.6 per cent, followed by China at 8.4 per cent. In 2014 India's service sector growth at 10.3 per cent was noticeably higher than that of China at 8.0 per cent (Table 7.1).

7.4 Latest GDP estimates available for some countries show positive signs for the services sector in China, India and the US. In China, there was a rise in the growth rate of the sector to 8.3 per cent in 2015, while industrial growth slowed down. In the US, real GDP growth in 2015 was 2.4 per cent, the same as in 2014, but growth of personal consumption expenditure on services accelerated to 2.8 per cent from 2.4 per cent in 2014. In India, the growth rate in the sector was at 10.3 per cent in 2014. It continued to be high though there was slight deceleration at 9.2 per cent in 2015-16. However, in the case of Brazil, in line with the fall in overall growth by 4.5 per cent in the third quarter (Q3) of 2015, services growth also fell by 2.9 per cent, mainly due to a 9.9 per cent drop in internal trade and a 7.7 per cent fall in transportation and communication. In both the first and second quarters (Q1 and Q2) of 2015, services growth in Brazil fell by 0.7 per cent.

## World Services Employment

7.5 As per the World Bank, the share of services in global employment has increased by 15 pp from 35.9 per cent in 2001 to 50.9 per cent in 2010. Among the top 15 services producer countries, the share of services in employment is high, contributing more than two-thirds of total employment in 2014 in most of them except India and China, where the shares are low. India has the lowest share of 28.7 per cent. Of the 15 countries, in the last 13-year period between 2001 and 2014, China had the highest increase in the share of services employment (34.3 pp), followed by Brazil (17.2 pp) and Spain (14.3 pp). For India, the increase was by only 4.7 pp (Figure 7.1).

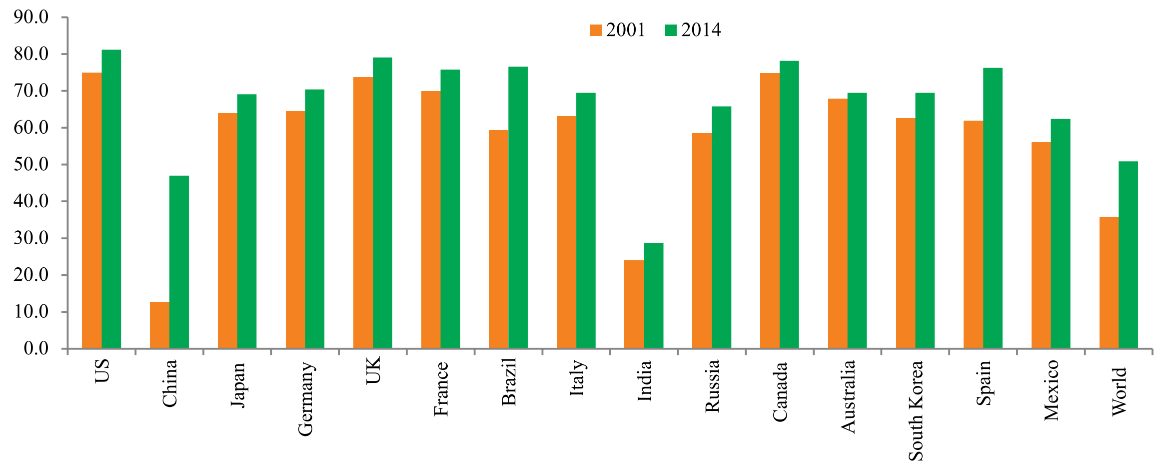
**Table 7.1: Performance in Services: International Comparison**

| Country | Rank in | | Services growth rate | | | | | | Share of services in | | | | | | Services export growth | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | ( per cent) Y-o-Y | | | | | | GVA | | employ-ment | | total exports | | ( per cent) Y-o-Y | | | | | |
| | Overall GDP | Services GVA | 2001 | 2009 | 2013 | 2014 | CAGR 2001-08 | CAGR 2010-14 | 2001 | 2014 | 2001* | 2014* | 2001 | 2014 | 2001 | 2009 | 2013 | 2014 | CAGR 2001-08 | CAGR 2010-14 |
| US | 1 | 1 | 2.0 | -2.0 | 0.9 | 2.3 | 2.2 | 1.8 | 77.4 | 78.4 | 75.0 | 81.2 | 27.2 | 29.8 | -3.6 | -4.2 | 5.1 | 3.7 | 9.5 | 6.1 |
| China | 2 | 2 | 10.2 | 11.1 | 8.2 | 8.0 | 11.7 | 8.4 | 40.9 | 47.7 | 12.7 | 47.0 | 11.0 | 9.0 | 9.1 | -13.4 | -3.9 | 12.4 | 25.9 | 7.9 |
| Japan | 3 | 3 | 1.3 | -3.1 | 1.3 | 0.1 | 0.9 | 0.9 | 69.0 | 72.0 | 63.9 | 69.1 | 13.6 | 18.8 | -6.9 | -14.6 | 1.2 | 19.2 | 11.8 | 5.2 |
| Germany | 4 | 4 | 3.1 | -3.0 | 0.4 | 1.3 | 1.4 | 1.3 | 68.7 | 69.0 | 64.6 | 70.4 | 12.8 | 15.0 | 5.6 | -8.5 | 8.4 | 4.3 | 15.8 | 4.9 |
| UK | 5 | 5 | 3.5 | -2.6 | 2.8 | 2.8 | 2.9 | 2.6 | 73.6 | 78.4 | 73.7 | 79.1 | 30.1 | 40.0 | -0.8 | -13.8 | 2.3 | 7.9 | 14.5 | 5.8 |
| France | 6 | 6 | 1.9 | -2.0 | 0.8 | 0.7 | 1.8 | 1.2 | 74.7 | 78.9 | 69.9 | 75.8 | 19.8 | 31.4 | -0.5 | -13.6 | 7.4 | 5.3 | 15.8 | 7.4 |
| Brazil | 7 | 8 | 2.3 | 2.1 | 11.9 | 1.1 | 3.9 | 6.9 | 68.2 | 71.0 | 59.4 | 76.6 | 13.0 | 14.8 | -2.7 | -8.9 | -1.7 | 4.7 | 18.6 | 6.8 |
| Italy | 8 | 7 | 2.3 | -2.7 | -1.1 | 0.0 | 0.8 | -0.6 | 70.5 | 74.3 | 63.1 | 69.5 | 18.9 | 18.0 | 2.1 | -16.3 | 4.8 | 3.6 | 10.5 | 3.8 |
| India | 9 | 10 | 7.2 | 10.7 | 8.9 | 10.3 | 9.3 | 8.6 | 45.2 | 53.0 | 24.0 | 28.7 | 27.9 | 32.6 | 4.8 | -12.5 | 2.2 | 5.0 | 30.1 | 7.5 |
| Russia | 10 | 12 | 3.3 | -5.1 | 2.2 | 1.0 | 7.6 | 2.6 | 55.9 | 60.0 | 58.6 | 65.8 | 9.9 | 11.5 | 17.3 | -19.8 | 12.4 | -6.1 | 26.0 | 7.5 |
| Canada | 11 | 9 | 3.5 | 1.2 | 1.9 | 2.4 | 2.9 | 2.3 | 65.9 | 69.9 | 74.8 | 78.2 | 12.7 | 15.2 | -3.6 | -8.7 | -0.1 | -4.0 | 9.9 | 3.0 |
| Australia | 12 | 11 | 3.8 | 1.8 | 2.8 | 2.6 | 3.4 | 2.8 | 69.9 | 70.1 | 67.9 | 69.5 | 21.8 | 18.1 | -8.9 | -7.6 | -0.8 | 1.5 | 13.3 | 3.9 |
| S. Korea | 13 | 14 | 4.9 | 1.4 | 2.9 | 3.1 | 4.2 | 3.0 | 59.0 | 59.4 | 62.6 | 69.5 | 16.3 | 15.6 | -4.9 | -20.5 | 0.2 | 3.1 | 17.4 | 6.6 |
| Spain | 14 | 13 | 4.0 | -0.9 | -0.8 | 1.1 | 3.9 | 0.4 | 65.3 | 75.1 | 62.0 | 76.3 | 32.2 | 29.2 | 6.0 | -14.8 | 5.0 | 4.3 | 13.2 | 4.6 |
| Mexico | 15 | 15 | 1.1 | -3.7 | 2.3 | 2.0 | 3.6 | 3.4 | 57.6 | 59.0 | 56.1 | 62.4 | 7.2 | 5.0 | -7.5 | -16.1 | 24.6 | 4.6 | 5.3 | 8.4 |
| **World** | | | **2.6** | **-0.8** | **2.2** | **2.5** | **3.0** | **2.5** | **68.7** | **66.0** | **35.9** | **50.9** | **19.4** | **20.6** | **19.9** | **-10.9** | **5.4** | **4.9** | **15.0** | **6.4** |

***Source:*** **Computed from UN National Accounts Statistics for GDP/GVA, World Bank database for employment and World Trade Organization (WTO) database for services trade.**

***Notes*: Rank and share are based on current prices (2014); growth rates are based on constant prices (US$); construction sector is excluded in services GDP; * for employment data in 2001 and 2014, the available data of nearest preceding years is used.**

**Figure 7.1: Share of Services Employment: 2001 and 2014**




*Source:* **Based on World Bank data**

As per the International Labour Organization's (ILO) Report on 'Global Employment and Social Outlook: Trends 2015', job creation in the coming years will be mainly in the services sector.

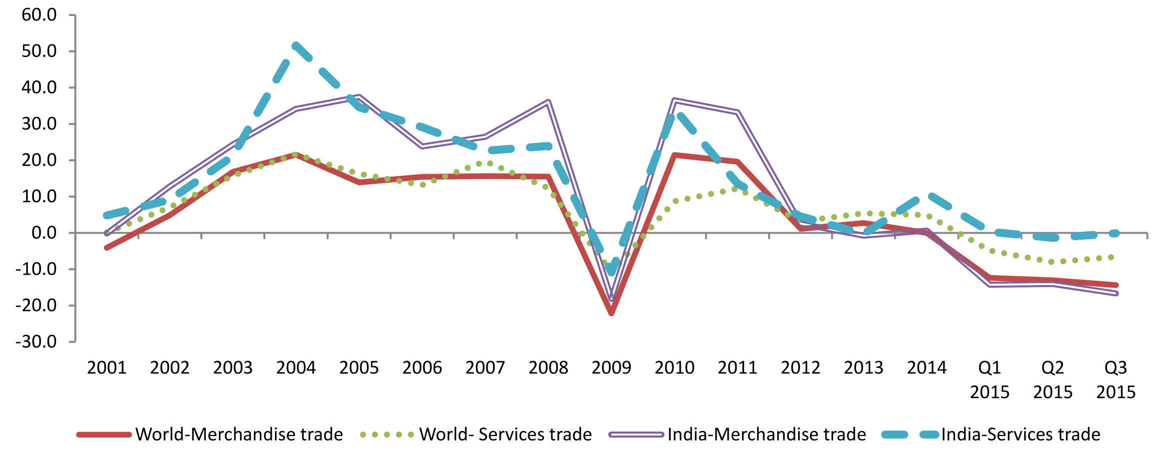
## World Services Trade

7.6 The impact of the global financial crisis was more pronounced in services trade than services GVA, with the CAGR of world commercial services exports during the post-crisis period decelerating to 6.4 per cent compared to the 15.0 per cent during the pre-crisis period. In the pre-crisis period, among the top 15 services producer countries, the services exports CAGR of India was the fastest at 30.1 per cent, followed by China at 25.9 per cent. However, during the post crisis period, it decelerated in both India and China, with Mexico registering the highest growth at 8.4 per cent, followed by China at 7.9 per cent and India at 7.5 per cent.

7.7 In 2014, the growth of the US$ 4.9 trillion world commercial services exports contributing almost one-fifth of total trade, decelerated to 4.9 per cent from 5.4 per cent in 2013. While, services exports of the United States, the largest exporter of commercial services, decelerated to 3.7 per cent in 2014, those of Japan, China, and the UK, accelerated to 19.2 per cent, 12.4 per cent and 7.9 per cent respectively, due to base effect. India's services exports also accelerated to 5.0 per cent.

7.8 As per the latest World Trade Organization (WTO) data for 2015, services trade growth is in negative territory from Q1 to Q3 for the world and in Q2 and Q3 for India. The situation is similar in many important services trading countries. Merchandise trade growth figures show a steeper fall than services trade growth in Q1 to Q3 of 2015 as in 2009 for both the world and India. In the first three quarters of 2015, there was negative growth in world commercial services exports at - 4.9 per cent, - 8.1 per cent and - 6.6 per cent respectively. During these periods, services export growth of the US was positive for two quarters and negative for one quarter at 3.4 per cent, -0.8 per cent and 1.3 per cent respectively, whereas for the EU, it was highly negative at -10.1 per cent, -12.3 per cent and -9.4 per cent respectively. Significant declines in exports and imports of EU in 2015 are due two depreciation of the euro against the US dollar. India's services trade growth was negative at - 1.4 per cent and - 0.1 per cent in Q2 and Q3 of 2015, but services export growth, though low, was positive at 2.3 per cent, 0.4 per cent and 1.0 per cent in Q1, Q2 and Q3 of 2015 respectively (Figure 7.2).

**Figure 7.2: Growth of Merchandise and Services Trade: World and India**




***Source:*** **Based on WTO data.**

## Foreign Direct Investment in World Services Sector

7.9 According to the Global Investment Trend Monitor January 2016 Edition of the United Nations Conference on Trade and Development (UNCTAD), global foreign direct investment (FDI) flows jumped 36 per cent in 2015 to an estimated US$1.7 trillion, which is the highest since the global economic and financial crisis of 2008-9. However, the growth was largely due to cross-border mergers and acquisitions (M&A), with only a limited contribution from greenfield investment projects in productive assets. Moreover, a part of the FDI flows was related to corporate reconfigurations involving large values in the financial account of the balance of payments, with little movement in actual resources. As per the World Investment Report 2015, the shift towards services FDI has continued over the past 10 years in response to increasing liberalization in the sector, the increasing tradability of services and the growth of global value chains in which services play an important role. In 2014, services accounted for 51 per cent of global FDI projects. Globally, the services sector recorded a high growth in the value of cross-border M&As (37 per cent), against a decrease in the value of greenfield projects (-15 per cent). FDI in China and India at US$129 billion and US$34 billion, increased by 4 per cent and 22 per cent respectively over 2013, mainly due to increase in FDI in the services sector.

## India's Services Sector

7.10 The services sector in India remained the most vibrant sector in terms of contribution to national and state incomes, trade flows, FDI inflows, and employment. India's services sector covers a wide variety of activities such as trade, hotel and restaurants, transport, storage and communication, financing, insurance, real estate, business services, community, social and personal services, and services associated with construction.

### Services GVA and Gross Capital Formation

7.11 As per the first revised estimates (RE) of real gross value added (GVA) released by the Central Statistical Office (CSO) for the year 2014-15, i.e. GVA at constant (2011-12) basic prices, services sector growth accelerated to 10.3 per cent from 7.8 per cent in the previous year. This growth acceleration was mainly due to higher growth in sub-sectors like trade, repair, hotels & restaurants (10.7 per cent), financial services (7.9 per cent), public administration and defence (9.8 per cent) and other services (11.4 per cent) (Table 7.2).

7.12 In 2015-16, as per the advance estimates (AE), the services sector accounting for 53.3 per cent of India's GVA at basic prices (current prices), grew by 9.2 per cent (constant prices), marginally lower than in 2014-15. The slight slowing down was mainly due to the deceleration in growth of the combined category of public administration, defence and other services to 6.9 per cent from 10.7 per cent in 2014-15.

7.13 As in the case of total gross capital formation (GCF) to GVA, the rate of GCF to GVA at current (2011-12) prices in the services sector also declined marginally from 40.1 per cent in 2013-14 to 39.3 per cent in 2014-15. However, the share of the services sector in the GCF has increased consistently over the last four years from 53.3 per cent in 2011-12 to reach 58.3 per cent in 2014-15, with services GCF growing at 8.7 per cent in 2014-15 compared to total GCF growth of 5.6 per cent.

### State-wise Comparison of Services

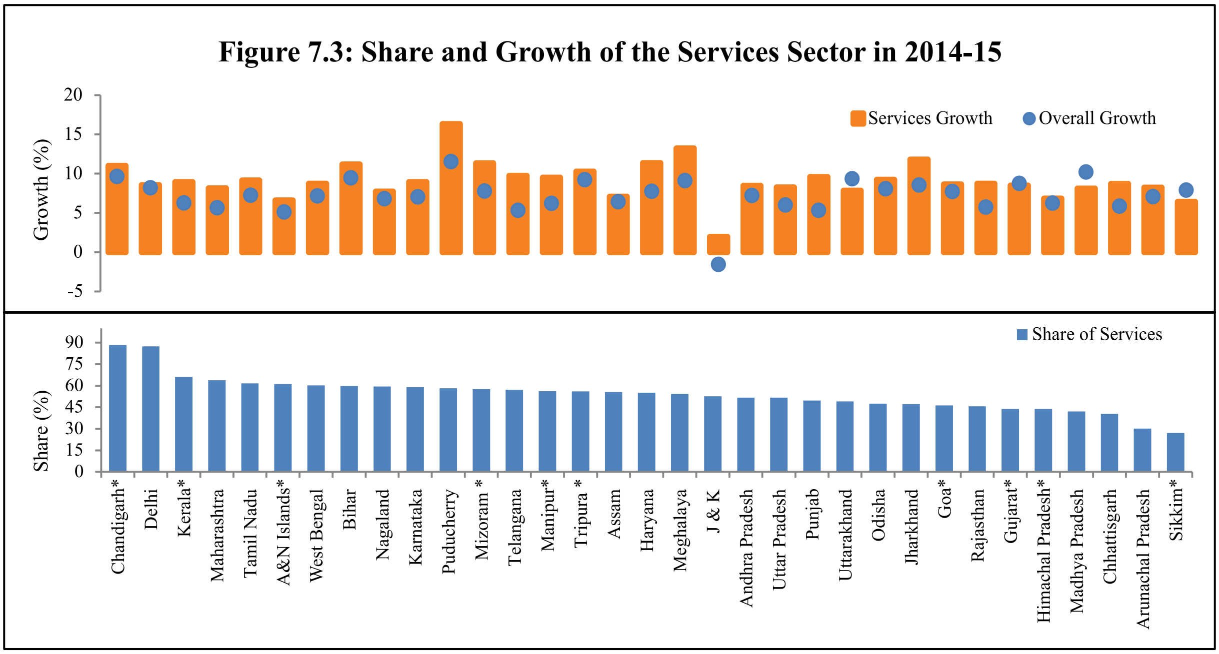
7.14 Out of the 33 states and union territories(UT) for which data is available, the services sector is the dominant sector contributing more than half of the gross state domestic products (GSDP) in 21 states and UTs and more than 40 per cent in all states except Sikkim and Arunachal Pradesh. The major services in most of the states are trade, hotels and restaurants, followed by real estate, ownership of dwellings and business services.

**Table 7.2: Share and Growth of India's Services Sector (GVA at basic price)**

| | **GVA** ( per cent) | | | **GCF** ( per cent) | |
|---|---|---|---|---|---|
| | **2013-14** | **2014-15®** | **2015-16#** | **2013-14** | **2014-15®** |
| **Total Services** | **50.9(7.8)** | **52.6(10.3)** | **53.3 (9.2)** | **56.5(5.1)** | **58.3(8.7)** |
| Trade, repair, hotels and restaurants | 11.5(7.2) | 11.8(10.7) | 18.6 (9.5)* | 7.4(-26.9) | 8.9(25.0) |
| *Trade & repair services* | 10.5(7.7) | 10.7(10.8) | NA | 6.7(-28.4) | 7.5(18.9) |
| *Hotels & restaurants* | 1.0(2.4) | 1.1(9.5) | NA | 0.8(-10.6) | 1.3(77.2) |
| Transport, storage, communication & services related to broadcasting | 6.7(8.7) | 6.9(8.4) | NA | 8.9(24.2) | 8.9(4.8) |
| *Railways* | 0.8(6.0) | 0.8(7.7) | NA | 1.2(6.9) | 1.4(22.4) |
| *Road transport* | 3.2(6.2) | 3.2(6.3) | NA | 1.8(-46.4) | 0.8(-50.4) |
| *Air transport* | 0.1(8.7) | 0.2(12.8) | NA | 0.1(-16.1) | 0.2(94.1) |
| Financial services | 5.8(4.8) | 5.7(7.9) | 20.6(10.3)^ | 0.9(-3.4) | 1.2(35.3) |
| Real estate, ownership of dwelling & professional services | 14.3(12.5) | 14.9(11.8) | NA | 25.3(7.2) | 23.8 (-1.0) |
| Public administration and defence | 5.9(3.2) | 6.2(9.8) | 14.1 (6.9)@ | 8.6(14.9) | 9.9(21.2) |
| Other services | 6.7(5.6) | 7.2(11.4) | NA | 5.3(19.0) | 5.7(14.0) |
| Construction | 9.0(4.6) | 8.8(4.4) | 8.2 (3.7) | 5.4(-28) | 5.4(4.6) |
| Total services (+ construction) | 59.8(7.3) | 61.4(9.4) | 61.5 (8.4) | 62.0(1.0) | 63.7(8.4) |
| **TOTAL (All Sectors)** | **100.0(6.3)** | **100.0(7.1)** | **100.0 (7.3)** | **100(2.1)** | **100(5.6)** |
| **GDP (market price constant 2011-12)** | **(6.6)** | **(7.2)** | **(7.6)** | | |

***Source:*** **Computed from CSO data.**

**Notes: Shares are in current prices and growth in constant 2011-12 prices; Figures in parentheses indicate growth rate; ®First RE; #AE for 2015-16; * Also includes transport, storage, communication & services related to broadcasting; ^ Also includes real estate and professional services; @ Also includes other services.**




***Source:*** **Computed from CSO data.**

***Note:*** **Share at current prices, growth rate at constant (2004-5) prices; * indicates 2013-14 data.**

Out of the 23 states and UTs for which data is available for 2014-15, Delhi is at the top in services GSDP with a share of 87.5 per cent followed by Maharashtra at 63.8 per cent, with growth rates of 8.2 per cent and 5.7 per cent respectively. Puducherry had the highest services growth at 16.3 per cent followed by Meghalaya at 13.2 per cent, owing to increase in growth rate of high weighted sectors like trade, hotels and restaurants and real estate and business services in the case of the former and other services in the case of the latter. Jammu and Kashmir had the lowest services growth at 2.0 per cent, mainly due to low and negative growth in most of the sectors except public administration. Bihar's services sector growth was among the fastest with a consistent double-digit growth in the last seven years due to high growth in the high weighted sectors like trade, hotels and restaurants, and real estate and business services besides transport by other means (Figure 7.3).

## FDI in India's Services Sector

7.15 There has been a significant growth in FDI inflows in 2014-15 and 2015-16 (Apr-Oct) in general and to the services sector in particular. Though there is ambiguity in the classification of FDI in services, the combined FDI share of the top 10 service sectors such as financial and non-financial services under services sector, telecommunications, trading, computer hardware and software, construction, hotels and tourism, hospital and diagnostic centres, consultancy services, sea transport, information and broadcasting can be taken as the best estimate of services FDI, though it could include some non-service elements. This share is 53.3 per cent of the cumulative FDI equity inflows during the period April 2000-October 2015 and 53 per cent during 2014-15. If the shares of some other services or service-related sectors like retail trading, ports, agriculture services, education, and air transport are included, then the total share of cumulative FDI inflows to the services sector would increase to 55.6 per cent and 54.5 per cent respectively for the above two periods (Table 7.3).

7.16 In 2014-15, while total FDI equity inflows grew by 27.3 per cent to US$ 30.9 billion, FDI equity inflows to the services sector (top 10 services including construction) grew by a whopping 70.4 per cent to US$16.4 billion. This rising trend is continuing in the first seven months of 2015-16 with the FDI equity inflows in the services sector growing by 74.7 per cent to US$14.8 billion, while total FDI equity inflows grew by 26.1 per cent to US$27.1 billion. The high growth in services FDI inflows is mainly due to higher growth of three major categories, namely computer software and hardware; services sector category which itself consists of a basket of items like financial, banking, insurance, non-financial, outsourcing and R&D; and trading. This was in spite of the high negative growth at - 61.6 per cent in FDI equity inflows in telecommunications.

7.17 The government has made significant changes in the FDI policy regime in recent times, to ensure that India remains an increasingly attractive investment destination. In order to provide simplicity to the FDI policy and bring clarity on application of conditionalities and approval requirements across various sectors, different kinds of foreign investments have been made fungible under one composite cap. Significant FDI-related liberalization has taken place in a number of sectors/ areas of the economy including some services and service-related sectors like construction development, broadcasting, civil aviation, cash and carry wholesale trading, wholesale trading (including sourcing from micro and small enterprises [MSE]), single brand retail trading and duty free shops, private sector banking, and credit information companies.

### India's Services Trade

7.18 Services exports have been a dynamic element of India's trade and globalization in recent years. WTO data shows that India's services exports grew from US$16.8 billion in 2001 to US$155.6 billion - which constitutes 7.5 per cent of the GDP - in 2014, making the country the eighth largest services exporter in the world. The share of India's services exports in global services exports at 3.2 per cent in 2014, is nearly double its share of merchandise exports in global merchandise exports at 1.7 per cent. The overall openness

**Table 7.3: FDI Equity Inflows in the Services Sector**

| Sr | Sub-Sectors | Value (in US$ million) | | | Percentage to total | | Growth rate (%) | |
|---|---|---|---|---|---|---|---|---|
| | | 2014-15 | 2015-16 (Apr to Oct) | April 2000 to Oct 2015 | 2014-15 | April 2000 to Oct 2015 | 2014-15 | 2015-16 (Apr to Oct) |
| 1 | Services sector* | 4443.3 | 3874.1 | 46586.8 | 14.4 | 17.2 | 99.7 | 134.5 |
| 2 | Telecommunications | 2894.9 | 949.6 | 18007.7 | 9.4 | 6.7 | 121.5 | -61.6 |
| 3 | Trading | 2728.0 | 2372.1 | 10432.5 | 8.8 | 3.9 | 103.1 | 52.5 |
| 4 | Computer software & hardware | 2296.0 | 4122.5 | 19139.8 | 7.4 | 7.1 | 103.9 | 530.9 |
| 5 | Construction # | 1639.4 | 1151.0 | 28649.5 | 5.3 | 10.6 | -4.2 | 33.6 |
| 6 | Hotel & tourism | 777.0 | 714.6 | 8631.0 | 2.5 | 3.2 | 59.8 | 46.0 |
| 7 | Hospital & diagnostic centres | 567.9 | 377.2 | 3322.4 | 1.8 | 1.2 | -17.1 | 67.2 |
| 8 | Consultancy services | 458.1 | 384.8 | 3194.1 | 1.5 | 1.2 | 60.3 | 11.2 |
| 9 | Sea transport | 333.2 | 295.7 | 1841.6 | 1.1 | 0.7 | 1526.3 | 119.9 |
| 10 | Information & broadcasting | 255.0 | 515.1 | 4484.5 | 0.8 | 1.7 | -40.5 | 813.7 |
| **Top 10 service categories (1-10)** | | **16392.8** | **14756.9** | **144289.9** | **53.0** | **53.3** | **70.4** | **74.7** |
| **Total FDI equity** | | **30930.5** | **21873.7** | **270506.8** | **100.0** | **100.0** | **27.3** | **26.1** |

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

***Note:*** *** Financial, banking, insurance, non-financial business, outsourcing, R&D, courier, technology testing and analysis, other; #Combined with infrastructure activities and townships, housing, built-up infrastructure and construction-development projects.**

of the economy reflected by total trade including services as a percentage of GDP shows a higher degree of openness at 50 per cent in 2014-15 compared to 38 per cent in 2004-5. The openness indicator based only on merchandise trade stood at 38 per cent in 2014-15 compared to 28 per cent in 2004-5.

7.19 However, the recovery of India's services trade in the aftermath of the 2008 global financial crisis has been tepid, with the CAGR of services exports in the post crisis period at just 7.5 per cent compared to 30.1 per cent in the pre-crisis period. In the case of services imports, the CAGR fell from 23.6 per cent in the pre-crisis period to just 6.5 per cent in the post crisis period. With uncertain global conditions and weak external demand continuing to hamper India's services exports, they grew marginally in 2014-15 to 4.1 per cent from 4.0 per cent in the previous year. The sluggishness in services exports is much more discernible since the second half (H2) of 2014-15 with a 3.7 per cent growth which decelerated further to 0.7 per cent in the first half (H1) of 2015-16. The impact of the global slowdown on services exports is evident.

7.20 Sector-wise performance of services exports in 2014-15 and H1 of 2015-16 has been uneven, with some sectors exhibiting a turnaround and higher growth while others registered considerable decline. With significant moderation in foreign tourist arrivals (FTAs), travel receipts with a 12.9 per cent share in services exports in 2014-15, witnessed a decelerated growth of 4.1 per cent in H1 of 2015-16 compared to 13.5 per cent in 2014-15 and 18.0 per cent in H1 of 2014-15. Transportation services export growth was negative at - 17.0 per cent in H1 of 2015-16 as against a growth of 0.6 per cent in 2014-15 and 7.6 per cent in H1 of 2014-15, reflecting the slowdown in international trade. Growth in computer services, accounting for around 46.4 per cent of total services exports in 2014-15, improved marginally to 5.8 per cent in H1 of 2015-16 from 5.3 per cent in 2014-15 and 5.1 per cent in H1 of 2014-15. Other business services, another major services export segment with a share of 18.0 per cent in 2014-15, posted modest growth of 6.3 per cent in H1 of 2015-16 compared to negative growth of - 0.2 per cent in 2014-15 and - 3.9 per cent in H1 of 2014-15. Of this, growth in professional and management services clocked up to 9.4 per cent in H1 of 2015-16 from negative growth of - 6.9 per cent in 2014-15 and - 6.7 per cent in H1 of 2014-15, while export of technical, trade-related and other business services grew by a paltry 1.1 per cent in H1 of 2015-16 compared to 7.5 per cent in 2014-15 and - 1.4 per cent in H1 of 2014-15 (Table 7. 4).

7.21 India's services imports at 81.1 billion grew by 3.3 per cent in 2014-15. They grew by 4.2 per cent in H1 of 2015-16, which is lower than in the corresponding period of the previous year. Growth of net services, a major source of financing India's trade deficit in recent years, decelerated to 5.0 per cent in 2014-15 from 12.4 per cent in 2013-14 and turned negative at -3.1 per cent in H1 of 2015-16. While surplus on account of services trade at US$76.6 billion in 2014-15 financed 52.8 per cent of merchandise trade deficit, in H1 of 2015-16, net services exports at US$35.3 billion financed only 49.4 per cent of merchandise trade deficit.

7.22 The government has taken a number of policy initiatives to promote services exports which include the Service Exports from India Scheme (SEIS) for increasing exports of notified services from India; organizing Global Exhibitions on Services (GES) and services conclaves to augment exports of various services and position India as a key player in world services trade; besides some initiatives in sectors like tourism and shipping. Given the potential of India's services exports, services-sector negotiations both at multilateral and bilateral/regional levels are of vital importance to India (See Box 7.1).

**Table 7.4: Export Performance of Major Services**

| | Value (US$ Billion) 2014-15 | Share (per cent) 2014-15 | Growth rate (per cent) | | | |
|---|---|---|---|---|---|---|
| | | | 2013-14 | 2014-15 | 2014-15 H1 | 2015-16 H1 |
| **Total services exports** | **157.70** | **100.0** | **4.0** | **4.1** | **4.5** | **0.7** |
| Transport | 17.49 | 11.1 | 0.3 | 0.6 | 7.6 | -17.0 |
| Travel | 20.33 | 12.9 | -0.4 | 13.5 | 18.0 | 4.1 |
| Financial, insurance & pension services | 7.9 | 5.0 | 22.2 | -10.3 | -12.0 | -0.9 |
| Telecommunications services | 2.00 | 1.3 | 43.0 | -17.1 | -22.2 | 15.4 |
| Computer services | 73.11 | 46.4 | 5.4 | 5.3 | 5.1 | 5.8 |
| Other business services | 28.42 | 18.0 | 0.1 | -0.2 | -3.9 | 6.3 |
| *R&D services* | 1.26 | 0.8 | 24.0 | 9.7 | 6.2 | 22.9 |
| *Professional and management consulting services* | 14.43 | 9.1 | 10.4 | -6.9 | -6.7 | 9.4 |
| *Technical, trade-related, and others* | 12.73 | 8.1 | -12.2 | 7.5 | -1.4 | 1.1 |
| **Total services imports** | **81.11** | **100.0** | **-2.8** | **3.3** | **5.4** | **4.2** |
| **Net services** | **76.59** | **-** | **12.4** | **5.0** | **3.5** | **-3.1** |

***Source:*** **Based on Reserve Bank of India's (RBI) balance of payments (BoP) data (BPM-6).**

## Box 7.1: WTO Services Negotiations and Bilateral Negotiations including Services Trade

**WTO negotiations**

- The 10th session of the WTO Ministerial Conference was held in Nairobi, Kenya, from 15 to 18 December 2015. In the area of services trade, the conference took decisions such as implementation of preferential treatment in favour of services and service suppliers of least developed countries (LDC) and increasing LDC participation in services trade; and moratorium on payment of customs duties on electronic transmissions until 2017.
- Preferential treatment for LDCs: So far, 21 members, including India, have notified preferential treatment to LDCs in services trade. India has offered this in respect of: (i) article XVI of the General Agreement on Trade in Services (GATS) (Market Access); (ii) technical assistance and capacity building; and (iii) waiver of visa fees for LDC applicants applying for Indian business and employment visas. The fee waiver will be valid until 31 December 2030. India is the only member which has offered waiver of visa fees. This is a unique and almost path-breaking offer by India. So far, visa issues have remained untouched in the WTO/free trade agreements (FTA). India's offer should give significant advantage to service suppliers from LDCs vis-à-vis service suppliers from any other country.
- E-commerce: The WTO Members agreed to maintain the current practice of not imposing customs duties on electronic transmissions until the next Ministerial Conference which will be held in 2017.

**Bilateral agreements:**

- India has signed comprehensive bilateral trade agreements, including trade in services, with the governments of Singapore, South Korea, Japan and Malaysia. An FTA in services and investment was signed with the Association of South East Asian Nations (ASEAN) in September 2014, which came into effect from 1 July 2015.
- India has joined the Regional Comprehensive Economic Partnership (RCEP) plurilateral negotiations. The RCEP is a proposed FTA which includes the 10 ASEAN countries and its six FTA partners, viz. Australia, China, India, Japan, South Korea and New Zealand. The RCEP is the only mega-regional FTA of which India is a part.
- India is also engaged in bilateral FTA negotiations including trade in services with Canada, Israel, Thailand, the EU, the European Free Trade Association (EFTA), Australia and New Zealand. Dialogue is under way with the US under the India-US Trade Policy Forum (TPF), with Australia under the India-Australia Joint Ministerial Commission (JMC), with China under the India-China Working-Group on Services, and with Brazil under the India-Brazil Trade Monitoring Mechanism (TMM).

***Source:*** **Based on inputs from the Department of Commerce, Government of India.**

## Major Services: Overall Performance

7.23 The services sector has shown subdued performance in recent years with the slowdown in the global economy, though certain segments of the sector remain key drivers of economic growth. Analysis of the sector-wise performance of services activities based on firm-level data indicates a healthy rise in sales of the health services segment in the Q1 and Q2 of 2015-16, though profits declined on account of expense heads like professional fees to doctors and rent. The performance of the Indian aviation industry has improved following a fall in prices of aviation fuel, which accounts for nearly 40 per cent of the operating expenses of airlines in India. The telecom industry registered a healthy profit in Q1 of the year. However, muted order inflows and a stretched financial position impacted the execution capacity of many construction companies, while lower margins in the infrastructure sector impacted their profit margins. Some available indicators of the different services in India for 2015-16 show reasonably good performance in telecom, aviation and port services and information technology-business process management (IT-BPM) although the last is slightly muted compared to earlier years (Table 7.5).

## Major Services: Sector-Wise Performance and some Recent Policies

7.24 This section covers some of the important commercial services for India based on their significance in terms of

**Table 7.5: Performance of India's Services Sector: Some Indicators**

| Sector | Indicators | Unit | Period | | | |
|---|---|---|---|---|---|---|
| | | | 2009-10 | 2013-14 | 2014-15 | 2015-16 |
| IT-BPM^ | IT-BPM service revenues | US $ billion | 64 | 106 | 119 | 130 |
| | Exports | US $ billion | 50 | 87 | 98 | 108 |
| | Domestic | US $ billion | 14 | 19 | 21 | 22 |
| Aviation | Airline passengers (domestic and international)* | Million | 77.4 | 103.7 | 115.8 | (85.3)98.8[@] |
| Telecom | Telecom connections (wireline and wireless)[b] | Million | 621.3 | 933.0 | 996.1 | (964.2)1035.2[#] |
| Tourism | Foreign tourist arrivals[a] | Million | 5.2 | 7.0 | 7.7 | 8.0 |
| | Foreign exchange earnings from tourism[a] | US $ billion | 11.1 | 18.4 | 20.2 | 19.7 |
| Shipping | Gross tonnage of Indian shipping[b] | Million GT | 9.7 | 10.5 | 10.5 | 10.5[@] |
| | No. of ships[b] | Numbers | 998 | 1209 | 1210 | 1251[@] |
| Ports | Port traffic | Million tonnes | 850.0 | 972.5 | 1052.5 | (515.8)525.5[α] |
| Railways | Freight traffic of railways[c] | Million tonnes | 887.8 | 1051.6 | 1095.3 | (806.4)814.7[@] |
| | Net tonne kilometres of railways[c] | Billion | 600.6 | 665.8 | 681.7 | (506.9)491.6[@] |
| Storage | Storage capacity | Lakh MT | 107.2 | 105.6 | 106.2 | 113.1 |
| | No. of warehouses | Numbers | 487 | 471 | 464 | 470 |

**Sources: Compiled from Telecom Regulatory Authority of India (TRAI), Ministry of Tourism, Ministry of Shipping, Ministry of Railways, Directorate General of Civil Aviation, Central Warehousing Corporation, and NASSCOM data.**

**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 to 2015-16 is on originating basis; *foreign airlines included for international passenger; α data is up to September 2015; # data is up to November 2015; @ data is up to December 2015; data in parentheses is for same period of 2014-15. GT=gross tonnage; MT=metric tonnes, ^ Excluding hardware and e-commerce.**

GDP/GVA, employment, exports and future prospects. Some important services covered in other chapters have been excluded to avoid duplication.

**Tourism including Medical Tourism**

7.25 Tourism is a major engine of economic growth, an important source of foreign exchange earnings and a generator of employment of diverse kinds in many countries including India. According to the World Travel and Tourism Council (WTTC), the total contribution of travel and tourism to world GDP was US$7.6 trillion (9.8 per cent of GDP) in 2014, and is forecast to rise by 3.7 per cent in 2015, and by 3.8 per cent per annum to US$11.4 trillion (10.5 per cent of GDP) in 2025. In 2014, the total contribution of this sector to employment, including jobs indirectly supported by the industry, was 9.4 per cent of total employment (276,845,000 jobs). This is expected to rise by 2.6 per cent in 2015 and by 2.3 per cent per annum in 2025 to reach 356,911,000 jobs (10.7 per cent of total jobs). The latest World Tourism Barometer of the United Nation's World Tourism Organization (UNWTO) (January, 2016 edition) also shows that international tourist arrivals reached 1.2 billion in 2015, a 4.4 per cent increase over the previous year and for 2016 the forecast is a 3.5-4.5 per cent increase. France has the highest share in international tourist arrivals (ITA) and the US in International tourism receipts (ITR) in 2014. India's share in ITAs is a paltry 0.7 per cent compared to 7.4 per cent of France, 6.6 per cent of the US, 5.7 per cent of Spain and 4.9 per cent of China. Even Vietnam and Indonesia have higher shares of ITAs than India. However, in terms of ITRs, India's share at 1.6 per cent is better than those of Vietnam and Indonesia though it is lower than that of China at 4.6 per cent and way below that of the US at 14.2 per cent (Table 7.6).

7.26 India's tourism growth which was in double digits at 10.2 per cent in terms of foreign tourist arrivals (FTA) and nearly so at 9.7 per cent in terms of foreign exchange earnings (FEE), in US $ terms, in 2014, decelerated to 4.5 per cent in terms of FTAs and fell by 2.8 per cent in terms of FEEs in 2015. With this FTAs stood at 8.0 million and FEEs at US$ 19.7 billion in 2015. The lower

**Table 7.6: Tourism Performance: International Comparison 2014**

| Country | ITAs | | | | ITRs | | | |
|---|---|---|---|---|---|---|---|---|
| | Numbers ( in million) | | Share (%) | Growth (%) | Value (US$ billion) | | Share (%) | Growth (%) |
| | 2013 | 2014 | 2014 | 2014 | 2013 | 2014 | 2014 | 2014 |
| France | 83.6 | 83.8 | 7.39 | 0.1 | 56.6 | 57.4 | 4.45 | -2.3 |
| US | 70.0 | 75.0 | 6.60 | 6.8 | 172.9 | 177.2 | 14.24 | 2.5 |
| Spain | 60.7 | 65.0 | 5.74 | 7.1 | 62.6 | 65.2 | 5.24 | 4.2 |
| China | 55.7 | 55.6 | 4.91 | -0.1 | 51.7 | 56.9 | 4.57 | 10.2 |
| Turkey | 37.8 | 39.8 | 3.51 | 5.3 | 28.0 | 29.6 | 2.37 | 5.6 |
| Malaysia | 25.7 | 27.4 | 2.42 | 6.7 | 21.5 | 22.6 | 1.75 | 1.5 |
| Thailand | 26.5 | 24.8 | 2.19 | -6.7 | 41.8 | 38.4 | 3.09 | -8.0 |
| Singapore | 11.9 | 11.9 | 1.05 | -0.3 | 19.3 | 19.2 | 1.54 | -0.5 |
| Indonesia | 8.8 | 9.4 | 0.83 | 7.2 | 9.1 | 10.3 | 0.79 | 8.0 |
| Vietnam | 7.6 | 7.9 | 0.69 | 4.0 | 7.3 | 7.3 | 0.59 | 1.1 |
| India | 7.0 | 7.7 | 0.68 | 10.5 | 18.4 | 19.7 | 1.58 | 7.1 |
| **World** | **1088** | **1134** | **100.00** | **4.2** | **1199** | **1250** | **100.00** | **4.0** |

***Source:*** **Based on UNWTO data (January, 2016).**

growth in FTAs and fall in FEEs in 2015 is due to negative or low growth in FTAs from high spending tourists originating from European countries like France, (-6.2 per cent) Germany (3.9 per cent), and the UK (3.4 per cent), besides Japan ( -5.5 per cent). There was also a high negative growth in FTAs from Russia at - 36.1 per cent. Though there was a high positive growth in FTAs from the second top source country, Bangladesh (20.3 per cent), it is a low spending tourist source country. India's tourism imports partly reflected in the numbers of departures of Indian nationals from India was 18.3 million in 2014, showing a growth of 10.3 per cent over 2013.

7.27 Domestic tourism continues to be an important contributor to the sector, providing much needed resilience. There has been a continuous increase in domestic tourist visits, with the CAGR of domestic tourist visits to all states/union territories (UT) from 1991 to 2014 being 13.75 per cent. In 2014, it grew by 12.9 per cent to reach 1290.11 million visits. The top five states in domestic tourist visits in 2014 were Tamil Nadu (327.6 million), Uttar Pradesh (182.8 million), Karnataka (118.3 million), Maharashtra (94.1 million) and Andhra Pradesh (93.3 million).

Various initiatives taken by the government in the tourism sector include the introduction of e–tourist visa (e-TV) facility for the citizens of 113 countries at 16 airports. Another initiative is the revision of visa fees, on the principle of reciprocity, which was uniform earlier for all countries at US$60 and bank charges of US$2, into four slabs of 0, US$25, US$48 and US$60 from 3 November 2015. Bank charges have also been reduced from US$2 to 2.5 per cent of the e-TV fee. During 2014 and 2015 (January to December) a total of 39,046 and 4,45,300 e-TV holders visited India, registering a growth of 92.4 per cent and 1040.4 per cent respectively.

7.28 In 2014-15, the government has launched two schemes for thematic development of tourism. These are Swadesh Darshan for development of theme-based tourist circuits in a way that caters to both mass and niche tourism in a holistic manner and the National Mission on Pilgrimage Rejuvenation and Spiritual Augmentation Drive (PRASAD) for the development and beautification of pilgrimage sites. The latter aims to tap the growth of domestic tourists driven by religious sentiments and to augment tourism infrastructure at places of pilgrimage to facilitate pilgrims/tourists.

7.29 To promote medical tourism, the Government of India has launched India's Healthcare Portal and Advantage Health Care India. India's Healthcare Portal is a comprehensive one-point information source and covers hospital-related and travel-related information on India. Presently, it covers 143 accredited medical facilities which include 99 medical centers, 28 ayurveda and 16 wellness and rejuvenation centers (including 1 special category centre) spread across tier I and tier II cities. An international summit on medical value travel, Advantage Health Care India (AHCI) 2015, was held from 5 to 7 October 2015 at Pragati Maidan, New Delhi, to showcase India and its immense pool of medical capabilities as well as create opportunities for health-care collaboration between participating countries. The second edition of AHCI is scheduled to be held from 19 to 21 September 2016 at New Delhi.

**Shipping**

7.30 Around 95 per cent of India's trade by volume and 68 per cent in terms of value is transported by sea. As on 30 November 2015, India had a fleet strength of 1246 ships with dead weight tonnage (DWT) of 15.37 million (10.45 million GT) including Indian controlled tonnage, with the public sector Shipping Corporation of India (SCI) having the largest share of around 36 per cent. Of this, around 369 ships with 13.65 million DWT (8.94 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, India's share in total world DWT is only 0.9 per cent as on 1 July 2015. As per UNCTAD, India with 11.7 million twenty-foot equivalent units of container (TEUs) and a world share of 1.7 per cent, ranked ninth in 2014 among developing countries in terms of container-ship operations.

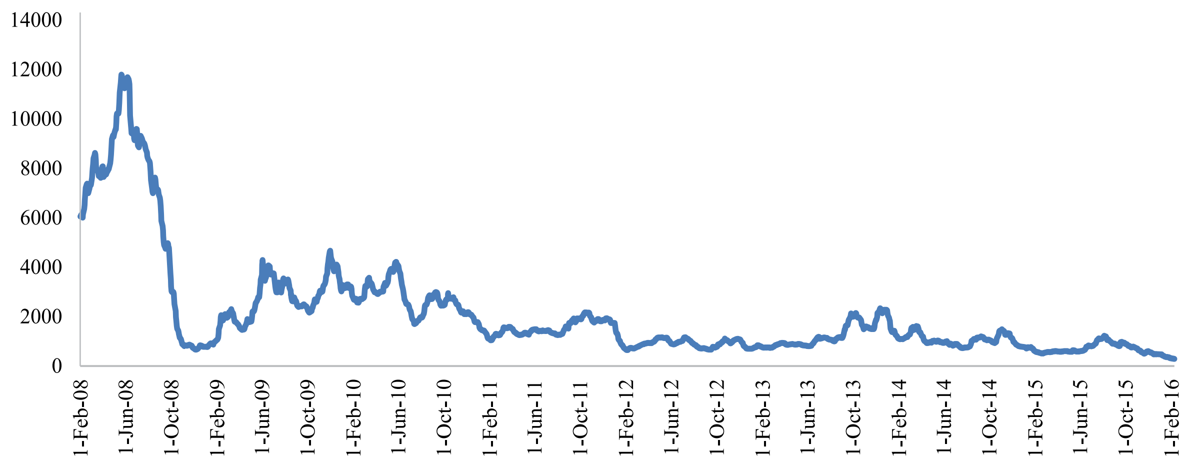
7.31 The shipping sector has been passing through stormy waters in recent years. The Baltic Dry Index, a freight index and a good proxy for the robustness of trade as well as an indicator of demand for shipping services had fallen from a peak of 11,793 on 20 May 2008 to a low of 663 on 8 December 2008. Though it picked up slightly in the following years, it has been in the lower range since then and is now in the red at 290 as on 10 February 2016, which is even lower than the lows of 2008. This, coupled with the fact that world and Indian services and merchandise trade growth was in negative territory in 2015 as in 2009, is a clear signal of the fragile international trade and shipping situation (Figure 7.4).

7.32 In this situation, the world order book position of 290.1 million DWT as on 1 July 2015 remains worrisome as these deliveries in 2016 will affect freight rates, and complying with the International Maritime Organization's (IMO) initiatives for green and sustainable shipping will raise costs further for Indian shipping.

7.33 Meanwhile, 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 7.45 per cent in 2014-15. The existing Indian fleet is also ageing, with the average age increasing from 15 years in 1999 to 17.89 years as on 31 December 2015 (42.42 per cent of the fleet is over 20 years old and 12.43 per cent in the 15-19 age group). Therefore, there is urgent need to increase India's shipping fleet. With asset prices currently being serendipitously low, the time is right to acquire new generation ships to replace ageing ones.

7.34 India continues to be a leading shipbreaking destination. It was in third on the list of ship recycling countries in 2015 (January to June) with a world share of 18.3 per cent, scrapping 105 ships of 4.4 million DWT as per the Institute of Shipping Economics and Logistics's (ISL) Shipping Statistics and Market Review. However, according to the 2015 Shipping Market Outlook of Clarkson Research Services, the shipbreaking sector is in turmoil with the average scrap price

**Figure 7.4: Baltic Dry Index**




***Source:*** **Based on data accessed from http://in.investing.com/indices/baltic-dry**

for tankers and bulkers, which was in the range of US$500/ldt in September 2014, slumping over the last six months to around US$375/ldt for tankers and US$360/ldt for bulk carriers. Import of cheap Chinese steel billets into the major shipbreaking locations is one of the reasons for this, owing to falling demand for scrap ships. Further, the IMO has come up with the Hong Kong Convention on Recycling in 2009 to regulate the entire practice of ship recycling, compliance of which would mean continued business from European owners. The convention will require Indian shipbreaking yards to create facilities in compliance with the upcoming Hong Kong Convention. Though, India has not yet signed the convention, there has already been voluntary compliance by some Indian yards to ensure that business is not lost, though it is hurting their bottom lines .

7.35 Recognizing the need to encourage the growth of Indian tonnage and for higher participation of Indian ships in Indian EXIM trade, the government has implemented several measures which include making fuel tax free for all Indian flag coastal vessels engaged in container trade; giving income tax benefit to Indian seafarers working on Indian ships, thereby making the cost of personnel more competitive for the Indian shipping industry; removing obstacles in the smooth implementation of the India Controlled Tonnage (ICT) scheme which allows Indian companies to directly own ships in foreign flags; and easing many procedural compliance issues like ship registration, procuring chartering permission and payment of chartering fees online.

7.36 A vision for coastal shipping, tourism and regional development has been prepared, with a view to increasing the share of the coastal/inland waterways transport mode from 7 per cent to 10 per cent by 2019-20. The key elements of the initiative include development of coastal shipping as an end-to-end supply chain, integration of inland water transport (IWT) and coastal route, development of regional centres to generate cargo for coastal traffic, development of the domestic cruise industry and promotion of lighthouse tourism. Various actions are being taken to develop IWT infrastructure, particularly the implementation of the Jal Marg Vikas Project.

**Port Services**

7.37 The cargo traffic of Indian ports increased by 8.2 per cent to 1052.21 million tonnes in 2014-15, with traffic at non-major ports increasing at a faster rate than at major ports. During April-September 2015, while cargo traffic at all ports increased by 1.1 per cent, major ports reported an increase of 4.1 per cent and non-major ports a decline of 1.0 per cent as compared to the corresponding period in the previous year. In India's Maritime Agenda, the target for the year 2020 is 3130 million tonnes of port capacity with an investment of approximately ₹2,96,000 crore. More than 50 per cent of this capacity is to be created in the non-major ports. In 2014-15, 10 public private partnership (PPP) projects were awarded at an estimated cost of ₹ 9376.43 crore for capacity addition of 95.11 million tonnes in the major ports, comprising construction of berths and terminals and mechanization of existing berths. Some of the initiatives taken by the government to improve the performance of ports are deepening draft to 18 metres to handle large and modern vessels, establishing dry ports at the Jawaharlal Nehru Port Trust and Kandla and providing financial assistance to help them procure pollution response equipment.

7.38 The three prominent ports-related performance indicators have shown improvement with the average turnaround time and average pre-berthing detention time falling to 2.08 days and 0.17 day respectively and average output per ship berth day improving to 12,570 tonnes in 2015-16 (up to November 2015). Compared to 2000-1,

**Table 7.7: Some Performance Indicators of Ports in India**

| Indicators | 2000-01 | 2012-13 | 2013-14 | 2014-15 | 2015-16 (Apr. to Nov.) |
|---|---|---|---|---|---|
| Average turnaround time (days) | 4.2 | 2.6 (0.0) | 2.3 (-0.3) | 2.1 (-0.1) | 2.08 (-0.17) |
| Average pre-berthing time (days) | 1.2 | 0.5 (0.0) | 0.3 (-0.2) | 0.2 (-0.1) | 0.17 (-0.06) |
| Average output per ship berth day (in tonnes) | 6961 | 11800 (688) | 12468 (668) | 12458 (-10) | 12570 (338) |

*Source* : **Ministry of Shipping.**

*Note:* **Changes from previous years are given in parentheses.**

the improvement in the three indicators is remarkable, though in the case of the first two it could partly be due to lower volumes handled at some ports on account of the global downturn (Table 7.7).

## IT –BPM Services

7.39 India's technology and business services industry is one of the most dynamic in the world. From offering basic IT services when it began in the 1990s, the industry has moved ahead rapidly to offering functional IT later in the 1990s and enterprise resource planning and productivity software in the early 2000s, and has become a crucial component of the Indian economy. The Indian IT-BPM industry consists of IT services, which constitute the largest segment with a share of around 52 per cent, followed by BPM with share of around 20 per cent, software products, engineering research and development (ER&D) and product development, which together account for around 19 per cent share, and hardware with around 10 per cent share. The industry currently employs more than 3.7 million people and is India's largest private sector employer. It is also playing a key role in promoting diversity within the industry, with more than 34 per cent women employees, over 170,000 foreign nationals and a greater share of employees from non-tier I Indian cities.

7.40 The worldwide IT-BPM spend in 2015 was US$2.3 trillion including hardware. But the global technology industry is facing a tumultuous environment with multiple disruptive digital technologies. Over the next decade, 80 per cent of incremental expenditures may be driven by digital technologies, such as platforms, cloud-based applications, big data analytics, mobile systems, social media and cyber security, as well as services needed to integrate these technologies with remaining legacy core technologies. These factors have also impacted global technology spend. Worldwide IT-BPM (excluding hardware) spend in 2015 was clearly impacted by the volatility in global currencies, resulting in a near flat growth of 0.4 per cent (US$1.2 trillion) in 2015.

7.41 Despite turbulent economic conditions including the devastating rains in Tamil Nadu greatly affecting the small and medium sized companies with standalone facilities, India's IT-BPM sector demonstrated flexibility and resolve to adjust and is expected to touch an estimated share of 9.5 per cent in GDP and more than 45 per cent in total services exports in 2015-16 as per NASSCOM. Computer and related services with a share of 3.5 per cent in India's GVA grew by 9.7 per cent in 2014-15 as per the CSO.

7.42 Total revenue (exports plus domestic) of the IT-BPM sector for 2015-16 including and excluding hardware is expected to touch US$143 billion and US $129 billion, with growths of 8.3 per cent and 9.3 per cent over the previous year respectively. Exports including and excluding hardware are both likely to record 10.2 per cent growth to reach US$108 billion and US$107.6 billion respectively. The domestic market including hardware is set to grow at 2.9 per cent over the previous year to reach US$35 billion (excluding e-commerce) and excluding hardware and e-commerce at 4.8 per cent to reach US$ 22 billion. E-commerce is expected to grow at 21.4 per cent in 2015-16 to reach US$17 billion. However, the IT-BPM sector is increasingly being challenged in its global journey, being negatively impacted by the alarming trend of increased protectionism and resulting barriers to free movement of skill and data. This is while India on its part is being urged to open up its markets under various trade agreements. Misconstruing mobility of skilled people as an immigration issue is a deterrent to the growth of this global business.

7.43 The government has been actively supporting the sector, it being the key partner in the various flagship programmes of the government like Digital India, Make in India, Skill India, E-governance and Startup India. The government's Digital India campaign, which envisages a US$ 20 billion investment covering mobile connectivity throughout the country, re-engineering of government process via technology and enabling e-delivery of citizen services, will give a further push to the IT sector. The domestic market offers huge potential that remains to be tapped. Software products with 4.5 per cent year-on-year growth are the fastest-growing segment in the Indian market, expanding on the back of demand for mobile app development, security software, system software and customer analytics products, and increased adoption of software as a service (SAAS) and cloud.

7.44 The Indian technology start-ups landscape has seen tremendous growth to move towards innovative start-ups. India, home to a new breed of young start-ups, has clearly evolved to become the third largest base of technology start-ups in the world. Within one year, the number of start-ups in India has grown by 40 per cent and crossed the 4200 mark, an addition of nearly 1200, creating 80,000-85,000 jobs in 2015. Start-ups in India are spread across the digital (social, mobile, analytics, and cloud), high-tech (augmented reality, internet of things, robotics) and vertical domains (edu-tech, health-tech, fin-tech, ad-tech) that are identifying whitespaces and delivering domain-specific solutions. This emerging sector is set to get a fillip with the Startup India programme.

### Research and Development Services

7.45 The R&D sector grew by 20.8 per cent in 2012-13 and contributed 1.4 per cent of GDP (old method). As per the CSO's new method, there is no separate head for R&D. It is a part of the professional scientific & technical activities including R&D classification which grew at 3.8 per cent and 25.5 per cent respectively in 2013-14 and 2014-15. India's R&D expenditure has been low and the science, technology and innovation (STI) policy 2013 envisages raising it to 2 per cent of GDP with enhanced participation of the private sector.

7.46 The annual 'Global R&D Services Providers (GSPR) Rating and Landscape Study 2015' by Zinnov, put the overall India-based R&D globalisation and R&D services market at US$ 20 billion in 2015, up by 9.9 per cent over 2014. While the R&D services market stood at US$7.76 billion, the R&D globalization market (captives) stood at US$12.25 billion. India's R&D globalization and services market is set to almost double by 2020 to US$38 billion. According to the study, India-based R&D services companies, which account for almost 22 per cent of the global addressed market, grew at 12.67 per cent and India's ER&D services are expected to reach US$15-17 billion by 2020, with North America, contributing to 55 per cent of revenues, continuing to be the largest market.

7.47 However, according to the Global Competitiveness Report 2015-16, India's capacity for innovation has been lower than that of many countries like the USA, the UK, South Korea, and even South Africa (Table 7.8). Even in quality of scientific research institutions, India scores lower than China and South Africa. This is also exhibited through its poor score on university–industry collaboration on R&D as compared to some other BRICS (Brazil, Russia, India, China and South Africa) nations like China and South Africa. 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 ranks below China. Only in terms of availability of scientists and engineers, does India score better or is equal to other BRICS countries.

7.48 The government has taken many initiatives to promote the R&D sector in India, which include the weighted tax deduction of 200 per cent for R&D expenditure and the Budget 2015-16 announcement for establishment of the Atal Innovation Mission (AIM) in the National Institution for Transforming India (NITI) Aayog. This will be an innovation promotion platform involving academics, entrepreneurs, and researchers and draw upon national and international experiences to foster a culture of innovation, R&D and scientific research in India. The platform will also promote a network of world-class innovation hubs. Initially, a sum of ₹150 crore has been earmarked for this purpose. This along with other initiatives like the Self Employment and Talent Utilization (SETU) programme, which aims to set up world class technology business incubators to promote start-up business in India coupled with Start-up-India, Make in India, which aims to make India the manufacturing hub and IMPRINT (Impacting Research Innovation and Technology), a Pan-IIT and IISc joint initiative to develop a roadmap for research to solve major engineering and technology challenges in ten technology domains relevant to India, will help in improving the research and innovation ranking of India in the world.

### Consultancy Services

7.49 As per a 2015 report by Gartner , the leading IT research and advisory company, the worldwide consulting service market grew by 6.1 per cent to US$125.2 billion in 2014, from US$118.1 billion in 2013. Consultancy services are emerging as one of the fastest growing service segments in India,

**Table 7.8: 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 |
| USA | 5.9 | 2 | 6.1 | 4 | 5.6 | 3 | 5.8 | 2 | 5.4 | 4 | 160.3 | 11 |
| UK | 5.4 | 10 | 6.3 | 2 | 4.9 | 17 | 5.7 | 4 | 4.9 | 18 | 89.9 | 18 |
| South Korea | 4.8 | 24 | 4.8 | 27 | 4.6 | 21 | 4.6 | 26 | 4.4 | 40 | 220.7 | 7 |
| South Africa | 4.6 | 32 | 4.7 | 33 | 3.8 | 32 | 4.5 | 31 | 3.4 | 106 | 6.9 | 46 |
| China | 4.2 | 49 | 4.2 | 42 | 4.2 | 23 | 4.4 | 32 | 4.5 | 36 | 13.4 | 32 |
| Brazil | 3.8 | 80 | 3.6 | 80 | 3.3 | 60 | 3.8 | 54 | 3.3 | 115 | 3.5 | 51 |
| India | 4.2 | 50 | 4.1 | 45 | 3.9 | 31 | 3.9 | 50 | 4.2 | 49 | 1.6 | 61 |
| Russia | 3.8 | 84 | 4 | 58 | 3.2 | 75 | 3.6 | 67 | 4.1 | 64 | 7.7 | 41 |

*Source:* **Global Competitiveness Report 2015-16, World Economic Forum.**

*Note:* **PCT- Patent Cooperation Treaty.**

cutting across different sectors with some overlapping. A large number of consultancy firms and individual consultants are operating in India at various levels across the sectors. Technical consulting constitutes about two-thirds of the total consulting market, while management consulting constitutes about one-third. Technical consulting in India, which mainly consists of engineering consulting, is much stronger than management consulting in terms of the number of players, consulting capabilities and size of consulting firms. The Indian management consulting market, on the other hand, is mainly captured by large size foreign multinational consulting firms.

7.50 Though there are huge opportunities for the growth of the Indian consulting industry, there are some key inhibitors like low brand equity, inadequate international experience of Indian consultants working abroad, lack of local presence, lack of strategic tie-ups, low competency image, lack of market intelligence on consulting opportunities abroad and lack of a strong competency framework of consultants that improves quality in delivery of consulting assignments. Addressing these issues may help in increasing the global market share of the Indian consultancy Industry.

7.51 The Government of India has taken many initiatives to help the consulting industry, including the Marketing Development Assistance and Market Access Initiative schemes; coming out with guidelines on broad policies and procedures for selection, contracting and monitoring of consultants; and initiatives aimed towards capacity development of domestic consultants and sensitization of client organizations. Recent initiatives taken by the government such as Make in India, development of smart cities, skill development, along with the focus on improving industrial policies and procedures, have opened up a plethora of opportunities for consultants. Some of the key areas with enormous potential for Indian consultancy firms include building of urban & transport infrastructure, power generation, renewable energy, electricity transmission & distribution, roads & bridges, water supply & sewerage, IT & telecom, health care and manufacturing. Emerging sectors such as bio-technology, nano-technology and other advanced disciplines also offer tremendous opportunities to consultants. Consultancy services can also look forward to deriving revenues from newer services and newer geographies with Big Data, cloud, M2M and Internet of Things becoming a reality.

**Real Estate and Housing**

7.52 Real estate and ownership of dwelling is an important contributor to the Indian economy. It constituted 8.0 per cent of India's GVA in 2014-15 and grew by 9.1 per cent. It also generates significant income and employment owing to large forward and backward linkages through creation of demand in the input sectors and real estate services. The sector has grown at a CAGR of 8.1 per cent since 2011-12. However, the construction sector has witnessed a significant slowdown in last few years, with growth rates of 0.6 per cent in 2012-13, 4.6 per cent in 2013-14, 4.4 per cent in 2014-15 and 3.7 per cent in 2015-16 led by weakening of both domestic and global growth.

7.53 The slowdown in sales in the housing sector has resulted in a sharp increase in the inventory of unsold housing units, especially in the northern and western regions. It is estimated that at the current rate of monthly sale, the unsold housing stock in the northern region would need 65 months to be absorbed. The inventory overhang in the western and southern region is much better at 30 and 22 months. Despite weak sales and rising inventory, the housing prices in many cities and towns have increased in 2015, as per the National Housing Bank's RESIDEX (index of residential prices). In 2015, out of 26 cities, 20 witnessed increase in prices over 2014, with the maximum increase observed in Guwahati (9 per cent) followed by Pune (8 per cent), while five saw decline, with the maximum fall witnessed in Chandigarh (-8 per cent) followed by Delhi (-4 per cent).

7.54 Realty prices are just holding up due to heavy inflow of capital in the sector over the last few years. It is estimated that since the beginning of 2015, about US$10 billion or ₹60,000 crore was invested in the sector by domestic and foreign investors, the highest in the last seven years. Most of these investments have come via structured deals and non-convertible debentures (NCD) together estimated at around US$9.5 billion. These investments, largely in the nature of debts and FDI equity inflows in the construction development sector, have been only to the extent of US$81 million between April and October 2015. High level of debt investment, while providing interim relief to the sector, poses a high refinancing risk if the housing sales continue to remain weak.

7.55 Procedural delay is another major constraint in this sector. According to the World Bank's 'Doing Business 2016', India ranked 183rd (out of 189 economies) in terms of construction permits, requiring on an average of 40 procedures to get permits as compared to an average of 15.1 in South Asia and 12.4 in OECD (Organisation for Economic Co-operation and Development) countries. It is estimated that about 25 per cent of housing projects in India are delayed, largely due to poor project management and delay in regulatory approval. It is estimated that over 40 different kinds of approvals and No Objection Certificates (NoC) are required for a building project, which can take anywhere between two and three years for construction to start.

7.56 Several policy initiatives were taken in 2014-15 to help this sector, including amendment of the FDI policy and removing the minimum floor area and minimum capital requirement provisions. The RBI and the National Housing Bank have also reduced risk weight for individual housing loans of up to ₹75 lakh from 50 per cent to 35 per cent for Banks and Housing Finance Companies, respectively. Further, the loan-to-value ratio has been increased to 90 per cent for loans up to ₹30 lakh. The government also announced plans to build six crore houses by the year 2022 under the Housing for All scheme. Further, the government identified 98 cities to be developed as smart cities and announced 20 cities to be taken up in the first place.

**Internal Trade**

7.57 Internal trade refers to the movement of goods and services across different geographical regions in the country. It includes self-employed and persons engaged in both wholesale and retail trade. Presently internal trade is governed by a diversity of controls, multiple organizations and a plethora of orders. This has resulted in a fragmented market, hindering the free flow of goods within the country, higher transportation costs 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 market that will promote growth, trade across regions and also enable specialization and higher levels of economic efficiency. The ₹12,31,073 crore trade and repair services sector, with a 10.7 per cent share in GVA, grew by 10.8 per cent in 2014-15.

7.58 The retail sector, which is increasingly becoming important, is an important component of internal trade. A 2015 (July) KPMG-FICCI (Federation of Indian Chambers of Commerce and Industry) report, put the overall size of the Indian retail sector at ₹ 40 trillion in 2014 and projected it to reach ₹70 trillion by 2020 at a CAGR of 9.6 per cent. The penetration of modern retail is expected to reach 18 per cent from the current 9.8 per cent in this period, driven by the increasing appeal of modern retail among shoppers as well as changes in shoppers' expectations and behaviour. Retail is a key sector for skill development, with a projected employment of 58 million people by 2022 and accounting for 14 per cent of the incremental human resource and skill requirement from 2013 to 2022. With organized retail penetrating the smaller towns and cities, there would be a need for skilled manpower in this sector.

7.59 As per the AT Kearney's Global Retail Development Index (GRDI) report, India's retail trade ranking has risen to 15 from 20 in 2014, mainly due to solid expansion in retail sales and strong prospects for future GDP growth. India's retail market is expected to grow to US$1.3 trillion by 2020, making India the world's fastest-growing major developing market. Real estate availability could be the biggest barrier to retail expansion in India since it has four times the population of the United States but just one-tenth of the mall space. This market still has a long way to go as online remains just 0.5 per cent of the total retail market, Internet penetration is just 20 per cent of the population, and infrastructure needs to improve significantly.

7.60 According to ASSOCHAM and Deloitte report (April 2015), E-commerce market has grown steadily from US$ 4.4 billion in 2010 to US$ 13.6 billion in 2014. The e-commerce market in India is expected to reach US $16 billion by the end of 2015 on the back of growing internet population and increased online shoppers. Online travel accounts for nearly 61 per cent of e-commerce business while e-tailing constitutes about 29 per cent. Some estimates indicate that companies will spend between US $1 billion and US $2 billion on e-commerce-related infrastructure over the next five years.

7.61 No official data is available on the direct selling/multi-level marketing (MLM) sector. According to a KPMG-FICCI study (December 2015), the direct selling market in India has grown at a CAGR of 16 per cent over the last five years from ₹ 41 billion in 2009-10 to ₹75 billion in 2013-14. Total employment in this sector is around 5.8 million. There is at present no separate legislation for regulation of direct selling activities, hence they come directly under the purview of the Prize Chits & Money Circulation Schemes (Banning) Act 1978, administered by the Department of Financial Services. As it is a banning act, there is no provision for differentiating the genuine direct selling business from banned pyramid/money circulation schemes, and this has resulted in alleged harassment/ criminal action against the industry. An inter-ministerial committee was constituted on 12 November 2014 to examine the need for a separate legislation for this sector. Based on the decision taken in the last meeting, a draft guidelines is under examination and it intends to focus on all aspects linked to the industry, including definition, conditions for the setting up of direct selling business, conduct of direct seller, prohibition of pyramid and money circulation schemes, appointment of monitoring authority, compensation/ commission payments, penalty provision and protection of consumer interests. The committee is actively considering issuing guidelines on direct selling/MLM to state governments/ UTs.

**Media and Entertainment Services**

7.62 The Indian media and entertainment industry consists of various segments, like television, print, films, radio, music, animation, gaming & 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 11.7 per cent to ₹1026 billion in 2014 from ₹ 918 billion in 2013 and it is projected to grow at a CAGR of 13.9 per cent to reach ₹1964 billion by 2019. Digital advertising and gaming, which grew by 44.5 per cent and 22.4 per cent respectively in 2014, are projected to drive the growth of this sector in the coming years.

7.63 India is the world's second largest TV market after China with 168 million TV households, implying a TV penetration of 61 per cent. There are about 847 satellite television channels, 243 FM radio channels and 190 community radio stations operating in India. India's broadcasting distribution network comprises 6000 multi system operators (MSO) and 7 direct to home (DTH) operators. The Government of India has embarked on an ambitious exercise to digitize its cable network in four phases, leading to a complete switch off of analog TV services by 31 December 2016. Digitization, thus achieved, would usher a new era in broadcasting as it would enhance the viewing experience of the users and upgrade the service. As per the preliminary data it is observed that central and state governments have gained significantly, as transparency in the subscriber base through digitization has led to increase in the tax collection. In order to achieve universal digitalization by 2017, the government is implementing the Broadcasting Infrastructure Network Development Scheme for modernization and upgradation of Prasar Bharati - the public broadcaster. India has been experiencing higher volume of content consumption due to increasing per capita consumption, media penetration and use of 3G devices. DTH in India is also 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 two HITS operators have been permitted by the Government of India to operate their set up. The Indian radio industry is expected to grow to ₹33.6 billion by 2018 from ₹8.4 billion in 2008. There exists a large demand for FM radio in many cities which remain untapped by private FM radio broadcasting. The Government of India has taken a decision to allow 839 more private FM radio channels in 294 cities and towns under FM Phase-III in addition to the existing 243.

7.64 India continues to be world's biggest producer of films, with more than 1000 films each year in all languages. The size of the Indian film industry was 12,640 crore in 2014. Domestic theatricals continued to be the main source of revenue for the industry, contributing ₹9,350 crore. The industry is projected to be worth ₹18,630 crores by 2018. Overseas theatricals witnessed a 3.5 per cent increase from ₹8.3 billion in 2013 to ₹8.6 billion in 2014. Digitization of screens has allowed distributors to release films simultaneously across thousands of screens. During 2015-16 (April-December), the government has accorded permission for 25 foreign productions to shoot films in India. It has recently accorded administrative approval for setting up of the Film Facilitation Office (FFO) with a view to promoting and facilitating film shootings by foreign filmmakers in India. The National Film Development Corporation (NFDC) has been designated to operate FFO units at Mumbai, Delhi, Chennai and Kolkata.

7.65 The animation, visual effects, gaming and comics (AVGC) sector is estimated at around ₹4490 crore in 2014, with estimated projected growth of 13 per cent. In order to address the issue of skilling in the animation, gaming and visual effects sector, the government is in the process of setting up a National Centre of Excellence in Animation, Gaming and Visual Effects (NCOE). Towards promoting Indian cinema, the Government of India organizes and participates in various film festivals/markets in India and abroad which includes selection of films for the Indian panorama section of the International Film Festival of India (IFFI) and its organization in Goa.

**Postal Services**

7.66 India Posts is the largest postal network in the world and provides access to affordable postal services to all citizens in the country through its vast network. Out of 1.55 lakh post offices, 1.39 lakh are in rural areas and the remaining 15,736 in urban areas. The Department of Posts plays a crucial role in disbursing wages to Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) beneficiaries. Nearly 6.92 crore MGNREGS accounts have been opened in post offices up to December 2015. Towards financial inclusion, the number of post office savings bank (POSB) accounts has increased from 30.86 crore to 33.97 crore and total deposits in POSB accounts and cash certificates to ₹6.53 lakh crore in the last one year. More than 80 lakh Sukanya Samriddhi Yojna accounts have been opened with a cumulative investment of more than ₹2900 crore since the launch of the scheme on 22 January 2015. More than 1.84 crore kisan vikas patras have been sold, attracting an investment of more than ₹16,429 crore since launch on 18 November 2014. The PM Suraksha Bima Yojna, PM Jeewan Jyoti Yojna and Atal Pension Yojna were rolled out for POSB account holders in core banking solution (CBS) post offices. So far, more than 1,35,000 policies have been sold to POSB customers.

7.67 The IT Modernization Project of the Department of Posts, with a total outlay of ₹4909 crore, involves computerization and networking of all the post offices, mail offices, accounts offices and administrative offices in the country, including approximately 1,30,000 branch post offices in rural areas run by gramin dak sevaks. At present the project is at implementation stage and is likely to be completed by 2017. So far 27,736 departmental post offices, including mail offices and administrative offices, have been networked at a single wide area network (WAN) and connected to a data centre. It is the largest single organization WAN in the country. A data centre has been established at Navi Mumbai and has been functioning since April 2013, while a disaster recovery centre has been operationalized in May 2015. CBS has been rolled out in 16,461 post offices. ATMs have been installed in 430 locations. Core insurance solution (CIS-PLI) has been rolled out in 25,406 post offices. Rural information and communication technology (ICT) project has been launched in three pilot circles, namely Rajasthan, Bihar and Uttar Pradesh, on 28 December 2015.

7.68 The department has so far equipped 926 mail-carrying vehicles with global positioning system (GPS) devices in order to monitor mail transmission and delivery more effectively. In order to ensure safe and secure transmission of speed post articles/ parcels, particularly e-commerce articles, a Plan scheme, Development of Road Transport Network, has been approved for the department and 48 routes have been identified in 16 postal circles which will cover secure transmission of speed post articles, including e-commerce articles, between 107 cities. Containerised movement of mail and parcels is already being done in 11 major routes.

### Conclusion and Suggestions

7.69 The services sector is like an uncharted sea with plenty of opportunities that have not been fully tapped. A targeted policy of removing bottlenecks in major and potential services can result in large dividends in the form of higher services growth and services exports, which in turn can help in pulling up the economy to higher growth levels (Box 7.2).

7.70 India's services sector, which showed resilient growth after the recovery of the global economy following the global financial crisis, has been showing subdued performance in recent times. Despite the slowdown, the prospects continue to be bright for many segments of the sector. Looking ahead, the government's focus on infrastructure development, favourable regulatory policies like liberalization of FDI norms, increasing number of multi-modal logistics service providers, growing

## Box 7.2: Selected Policy Issues and Suggestions for Some Major Services

Some important issues and practical suggestions for three major services sectors that can boost the services sector growth and exports are listed here.

**Tourism including Medical Tourism:**

- Need for improvements in the e-tourist visa and ordinary visa which include extension of the eTV window to 180 days instead of the current 30 days before the tour; need for multiple entry eTV instead of the existing single-entry eTV; extension of duration of stay to 60 days under eTV instead of 30 days; making available biometric facility in major ports to help cruise passengers get eTV; need for proper display at eTV counters; increasing the counters for eTV tourists to avoid delays; extending eTV facility for medical tourists; and streamlining the biometric process in overseas missions by having more biometric locations.
- Tax issues like the place of provision clause in service tax resulting in tourism services not being treated as export of service and being taxed and need for lower goods and services tax (GST) for tourism-related services as in many OECD countries.
- Finance- and investment-related issues which include positioning India as a convention centre by creating a global fund; examining the possibility of giving special incentives like tax-free bonds and income tax exemptions on profits used in reinvestment in the tourism sector; development of tourism infrastructure on PPP basis and by channelizing corporate social responsibility (CSR) spends into India's heritage development; support for SMEs in the tourism sector with the help of venture capital funds and examining the extension of the MUDRA Yojana to SMEs in the tourism sector; setting up India haats in major cities/towns with miniature cultural India by channelizing CSR spending or under PPP mode.
- Issues related to medical tourism include promoting medical tourism in the Brand India Campaign instead of the current fragmented approach, where individual hospitals have been promoting themselves as hospital destinations; rapid immigration clearances for medical tourists; enhanced basic infrastructure for medical tourists at airports; streamlining the medical visa process and extending eTV to medical tourists; promoting geriatric healthcare by leveraging our expertise in ayurveda, yoga and unani; getting international accredition for Indian hospitals; addressing the exchange risk factor for medical tourists; and promoting telemedicine.
- Others like the need for a national cruise strategy; making railways more tourist friendly with cleanliness and hygiene, e-booking with special quotas for foreign visitors; introducing smart cards for e-payments across all tolls in India and national permit for tourist vehicles; considering global parameters while deciding coastal regulation zone (CRZ) norms and organizing India tourism fairs in Indian embassies abroad.

**Shipping and Port Services:**

- Need for cheaper finance and longer tenure for funds in light of the fact that Indian ships are ageing and need to be replaced and asset prices are serendipitously low. At least the issue of longer tenure for loans to the shipping sector could be urgently addressed. An institutional mechanism can also help the shipping sector in acquiring assets at the right time.
- Need to address issues like the high capital costs and need for aiding import of quality machines in maintenance dredging; allowing pre-payment of external commercial borrowings (ECB) to help shipping companies to borrow for the purpose of fresh acquisition of a suitable asset; allowing opening of a joint ESCROW account for purchase of asset which is not permitted at present; making India a bunkering hub by allowing 'nil' duty on bunkers for all segments of coastal shipping and not just for containers as is being done at present; exploring the possibility of creating an Indian production and indemnity (P&I) company; restoring the exemption from withholding taxes on interest payments on ECB loans taken by shipping companies; and the issue of refinancing through ECB funds which is not permitted at present for shipping sector.
- Need to address port infrastructure on a war footing; and the relatively higher prices for port services in India.

**IT including Software:**

- Resolving visa issues like the impact of the Grassley-Durbin Reform Bill (if passed by US Congress) on H1B visas and even L1 visas and US visa fee hikes through bilateral negotiations; focusing on high-end

*Contd....*

software products to be competitive; promoting our own domestic 'Apps'; comprehensive approach to start-ups and entrepreneurship which is presently being done with the Startup India policy; clarity under the proposed GST given the dual levies of value added tax (VAT) and service tax; e-commerce taxation issue; difficulty in getting outstanding payments for government work released; extending the 200 per cent weighted deduction on R&D expenditure to the IT industry on the lines of R&D incentives to the IT sector in the UK and many other countries; extending the Services Exports from India Scheme (SEIS) to the IT sector in the light of proposed phasing out of SEZ (special economic zone) benefits and phased out STPI (software technology parks of India) exemptions; uniformity in exchange rate calculations for different taxes; addressing pending issues related to transfer pricing; and streamlining exit route for STPs.

***Source:*** **Based on working paper, by Dr H.A.C. Prasad and S.S.Singh: *India's Services Sector: Performance, Some Issues and Suggestions*, Department of Economic Affairs, February 2016.**

trend of outsourcing logistics to third party service providers and entry of global players are expected to provide impetus to logistics services. Though shipping services are at a low key at present, with increased imports of POL (petroleum, oil and lubricants) for stocks build up to take advantage of low crude oil prices, containerization of export and import cargo and modernization of ports with private sector participation, recovery of the shipping and port services sector can be expected.

7.71 The prospects for Indian aviation services have improved following the fall in prices of aviation fuel, which accounts for nearly 40 per cent of the operating expenses of airlines in India; liberalization of FDI policies in civil aviation; and strong growth in passenger traffic which is expected to continue in the near future. The outlook for the Indian retail industry remains positive as India continues to remain an attractive long-term retail destination despite the various challenges faced by the sector. Announcements like the allocation of ₹1000 crore to technology and startup sectors, promotion of cashless transactions via RUPay debit cards and growth of e-commerce, could give a fillip to this sector.

7.72 The government's focus on the tourism sector including easing visas by eTV and building tourism infrastructure could help in the recovery of the tourism sector. Despite challenges in the global market, the Indian IT industry is expected to maintain double- or near-double- digit growth as India offers depth and breadth across different segments of this industry - IT services, BPM, ER&D, internet & mobility and software products. In the telecom sector, the introduction of 4G which could be a game changer and inclusion of fiber optic connectivity which will tremendously increase the reach and bandwidth along with greater use of mobiles in government's social sector programmes could give a further boost to this fast growing sector.

7.73 Overall, the growth prospects of the services sector are promising as also indicated by some other estimates like the Nikkei/Markit Services PMI for India which rose to 54.3 in January 2016 from 53.6 in December 2015, the highest figure since June 2014. However, slowing global growth is a dampner.