CHAPTER 10

SERVICES SECTOR

*India's dynamic services sector has grown rapidly in the last decade with almost 72.4 per cent of the growth in India's GDP in 2014–15 coming from this sector. Unlike other developing economies, the Indian growth story has been led by services-sector growth which is now in double digits.**

In This Chapter...

* Ministry of Finance, Economic Survey 2014–15, Vol. 2 (New Delhi: Government of India, 2015), p. 106.

INTRODUCTION

India's services sector has not only outperformed other sectors of the Indian economy, but has also played an important role in India's integration with world trade and capital markets. India's liberalisation of services has been a challenging process in several sub-sectors, but clearly those services where integration through trade and FDI has gone further are also the ones that have exhibited more rapid growth along with positive spillovers on the rest of the economy.

There is, however, a concern[1] about the *sustainability* of a services-led growth process which largely stems from exports of skill-based services. The prevailing view is that for services growth to be sustained, the sector cannot remain dependent on external demand. It must also be driven by internal demand. More broad-based growth within the services is also required to ensure balanced, equitable and employment-oriented growth, with backward and forward linkages to the rest of the economy. In this regard further infrastructural and regulatory reforms and FDI liberalisation in services can help diversify the sources of growth withing India's services sector and provide the required momentum.

In recent years, there has been a debate in the country regarding the selection of the sector which can lead the growth process in the country. This debate originated from the fact that the services sector contributed over 62 per cent in the GDP during the decade 2001–12. But the debate has been somewhat solved by the newly published *Economic Survey 2014–15* in favour of the *manufacturing sector*. The Survey has gone to quote several empirical studies of recent times linking both services and manufacturing sectors to a great many real issues—potential to create employment, need of skilled and unskilled labour force, formality anf informality of the sector, etc. For this, the idea of 'Make in India' has acclaimed timely action from the government. Again, the importance of expanding the Railways and enhancing public investment in it have also been pointed out.[2] These findings are also in line with several other studies of the recent times.[3]

INDIA AND GLOBAL SERVICES

Services sector have been hit hard after the Great Recession among the western developed economies. Rather during 2017 there was a strong signal of recovery reported from this part of the world which had a positive impact on the services-oriented countries. *Latest features* about the services sector at global and India levels are as given below:

- As per the latest data[4], India's ranking improved from **14th** position in 2006 to **7th** position in 2016, among the world's 15 largest economies in terms of overall GDP. Among these top 15 economies, China (9.8 pp) recorded the highest increase in *services share* to Gross Value Added (GVA) during 2006-16, followed by India (7.1 pp) and Spain (7.0 pp).
- In 2016, services GVA growth rate (at constant prices), was highest in India at 7.8 per cent followed by China at 7.4 per cent. As per the ILO's estimates, among the top 15 economies, the services sector accounted for more than two thirds of total employment in 2016 in most of them except India and China, with India's

1. Rupa Chanda, in Kaushik Basu and Annemie Maertens (eds) 'Services-led Growth' ***The New Oxford Companion to Economics in India***, Vol. II (New Delhi: Oxford University Press, 2012), pp. 624–32.

2. For a detailed description See Ministry of Finance, ***Economic Survey 2014–15***, Vol. 1. Though, the theme of the analysis has been included in this book itself, in the Chapter-9 **'Industry and Infrastructure'**.
3. ***India Development Report 2015***, Oxford University Press, N. Delhi, 2015..
4. ***National Accounts Statistics***, UNO, New York, USA, 2017.

share of 30.6 per cent being the lowest. While China had the highest increase in the share of services employment (10.2 pp) during the period 2006 to 2016, increase in India was 5.2 pp.

- Services export growth, both for World and India, which had dipped to negative territory in 2015 after an interregnum of six years from 2009, returned to positive territory in 2016.
- As per the latest *WTO data* for 2017 (first half) world's services export growth was 4.3 per cent while it was 9.9 per cent for India (0.2 per cent for China and the highest 18.4 per cent for Russia).

SERVICES PERFORMANCE OF INDIA

As per the CSO (1st Advance Estimates of national income for 2017-18), *services sector growth* (GVA at constant prices) is estimated to be **8.3** per cent (against 7.7 per cent of the preceding year). *Major feature* of India's services performance[5] are as given below:

- Out of the 32 States and UTs, it is the dominant sector, contributing over 50 per cent of the gross state value added (GSVA) in 15 states and UTs. The major services in most of the states are trade, hotels and restaurants, followed by real estate, ownership of dwellings and business services.
- The GVSAs show wide variation in terms of share and growth of services—Delhi and Chandigarh are at the top with over 80 per cent share, while Sikkim is at the bottom with 31.7 per cent share.
- In terms of services GSVA growth, Bihar is at the top and Uttar Pradesh at the bottom with 14.5 per cent and 7.0 per cent growth respectively in 2016-17.

5. ***Economic Survey 2017-18***, Vol. 2, Ministry of Finance, GoI, N. Delhi, pp. 153-157.

FDI IN SERVICES SECTOR

Though there is ambiguity in the classification of FDI in services, it is the combined FDI share of the top 10 service sectors such as financial and non-financial services falling under the Department of Industrial Policy and Promotion (DIPP)'s services sector definition; as well as telecommunications; trading; computer hardware and software; construction; hotels and tourism; hospital and diagnostic centres; consultancy services; sea transport; and information and broadcasting that can be taken as the *best estimate* of services FDI. However, these could include some non-service elements. The share of these services is 56.6 per cent of the cumulative FDI inflows during the period April 2000-October 2017 and 65.8 per cent of FDI equity inflows during 2017-18 (upto October). If the shares of another five services or service-related sectors like retail trading, agriculture services, education, book printing and air transport are included, then the total share of FDI equity inflows to the services sector would increase to 58.5 per cent and 69.6 per cent respectively for the above two periods. In 2016-17, FDI equity inflows to the services sector (top 10 sectors including construction) declined by 0.9 per cent to US$ 26.4 billion, though the overall FDI equity inflows grew by 8.7 per cent. However, during 2017-18 (April-October), the FDI equity inflows to these services sector grew by 15.0 per cent, as compared to 0.8 per cent growth in total FDI equity inflows, mainly due to higher FDI in two sectors i.e., Telecommunications and Computer Software and Hardware.

In the last three years (2014-2017), the Government has undertaken a number of reforms to ensure that India remains an increasingly attractive investment destination, which include—

- Announcement of National Intellectual Property Rights (IPR) policy,
- Implementation of GST,

- Reforms for ease of doing business that resulted in improving India's ranking by 30 position.

The scale of reforms can be gauged from the fact that during this period, 25 sectors also including services activities and covering 100 areas of FDI policy have undergone reforms. FDI policy provisions were *radically overhauled* across sectors such as—construction development, broadcasting, retail trading, air transport, insurance and pension.

At present, more than 90 per cent of FDI successful implementation of the *e-filing* and *online processing* of FDI applications by the Foreign Investment Promotion Board (FIPB), the Government announced to phase out the FIPB in the Union Budget 2017-18. Recently, on 10th January 2018, Union Cabinet approved amendments in FDI policy allowing 100 per cent FDI under automatic route for Single Brand Retail Trading. Foreign airlines also have been allowed to invest up to 49 per cent in Air India.

SERVICES TRADE

After a downturn, services trade of India has come in the positive territory during 2016-17. The latest situation (as per the latest *Economic Survey 2017-18*) of India's services trade is given below:

- India remained the **8th** largest exporter of commercial services in the world in 2016 *(WTO, 2017)* with a share of 3.4 per cent, which is double the share of India's merchandise exports in the world at 1.7 percent.
- The ratio of services exports to merchandise exports increased from 35.8 per cent in 2000-01 to 58.2 per cent in 2016-17 indicating the growing importance of the services sector in India's exports. While, India's services exports registered a compound annual growth rate (CAGR) of 8.3 per cent during 2006-07 to 2016-17, in 2015-16 it registered *negative* growth of (–)2.4 per cent. Though, it returned to positive territory with 5.7 per cent growth rate in 2016-17.
- Services exports recorded a robust growth of 16.2 per cent during April-September 2017-18, with a turnaround in some major sectors like travel and software services. With significant rise in foreign tourist arrivals, travel receipts, witnessed a robust growth of 27.7 per cent in the first half 2017-18 as compared to a growth of 7.6 per cent in the corresponding period of the previous year. Notwithstanding the pricing pressure on traditional services and a challenging global business environment facing domestic software companies, software services exports increased by 2.3 per cent, a mild improvement over the previous period.
- Lower growth in services exports than in imports led to a decline in net services receipts in 2015- 16 and 2016-17. Net services receipts rose by 14.6 per cent during April-September of 2017-18. Net surplus in services financed about 49 per cent of India's merchandise deficit in 2017-18 H1 and cushioned the current account deficit.

To boost services exports, the Government in its mid-term Review of Foreign Trade Policy 2015-2020 increased incentives under Services Exports from India Scheme (SEIS) by 2 per cent, leading to an additional annual incentive of Rs. 1,140 crore which could help services exports including Hotel and Restaurant, Hospital, Educational Services, etc. Although world trade volume of goods and services is projected to accelerate in 2018, enhanced global *uncertainty, protectionism* and *stricter migration rules* would be key factors in shaping India's services exports.

CONSULTANCY SERVICES

Consultancy services are emerging as one of the fastest growing service segments in India, 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. 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. The GoI has taken many ***initiatives*** to help the industry –

(i) Marketing Development Assistance and Market Access Initiative schemes;

(ii) Guidelines on broad policies and procedures for selection, contracting and monitoring of consultants; and

(iii) Initiatives aimed towards capacity development of domestic consultants and sensitisation of client organisations.

Recent initiatives taken by the GoI 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.

The *key areas with enormous potential* for Indian consultancy firms are: building of urban and transport infrastructure, power generation, renewable energy, electricity transmission and distribution, roads and bridges, water supply and sewerage, IT and 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.

RESEARCH AND DEVELOPMENT (R&D) SERVICES

At present, there is no separate head[6] for Research and Development (R&D) and it is now a part of the professional scientific and technical activities. The major features of India's R&D services are as given below:

- The sector grew by 17.5 per cent and 41.1 per cent in 2014-15 and 2015-16 respectively. India- based R&D services companies, which account for almost 22 per cent of the global market, grew at 12.7 per cent.
- India's gross expenditure on R&D has been low at around **1** per cent of GDP. India currently ranks **60th** out of 127 on the *Global Innovation Index* (GII) 2017, though this ranking has improved from 66th rank in 2016. Among the BRICS countries only South Africa is behind India in R&D expenditure ranking.
- As per the global rankings of service providers in the Engineering R&D segment for 2016, the R&D spend by global top 500 R&D spenders is growing

6. This has been done in 2017-18 by the CSO under its new method, as per the ***Economic Survey 2017-18***, Vol. 2, Ministry of Finance, GoI, N. Delhi, pp. 163-165.

consistently at 1.5 per cent over the last two years with focus on building ***digital first*** R&D organizations. The total R&D Globalization and Services opportunity in 2016 was estimated at US$ 232 billion, and is projected to reach US$ 289 billion by 2021.

- Embedded and Software engineering constitute 76 per cent of the R&D outsourcing market. On the geographical spread, India, Western Europe and North America capture 75 per cent of the global Engineering R&D Services market. India's Engineering R&D (ER&D) globalization and services market, which currently stands at about US$ 22 billion, is expected to reach US$ 38 billion by 2020.
- As per the latest *Global Competitiveness Report 2017-18*, India's capacity for innovation has been lower than that of many countries like the USA, the UK, South Korea, but better than China's.
- In terms of university–industry collaboration on R&D, India ranks better than all other BRICS countries and in terms of availability of scientists and engineers, it ranks better than other BRICS countries except China.
- In terms of *patents applications* per million population, India significantly lags behind other BRICS countries and in terms of company spending on R&D, India ranks marginally below China.

The Government has taken many *initiatives* in recent times to promote the R&D sector in India—

- Atal Innovation Mission (AIM) has been established in the NITI Aayog.
- Indo-Israel agreement has been signed to enhance new R&D projects in the areas of big data analytics in *healthcare* and *cyber security*.
- Ministry of Environment, Forest and Climate Change (MoEFCC) is promoting development of new generation of refrigerants as alternatives to the presently used hydro-fluro-carbons (aimed at protecting ozone layer and climate).

With the active support of the Government the R&D sector in India is all set to witness robust growth in the coming years. According to a study *(Economic Survey 2017-18)* by management consulting firm *Zinnov*, engineering R&D market in India is estimated to grow at a compound annual growth rate (CAGR) of 14 per cent to reach US$ 42 billion by 2020.

SPACE SERVICES

India's space programme contributes to the development of the economy in several ways. Satellite based *mapping* and *launching* services are the two areas in which India is making a mark and has huge potential for the future. Major features (as per the *Economic Survey 2017-18*) of India's space services are as given below:

- In Satellite Mapping, there has been a decline in the foreign exchange earnings in recent years, primarily due to free and open data policy adopted by many space agencies. India is negotiating with the customers for renewal of contracts.
- ISRO is pursuing a project to support ASEAN Member states including Myanmar to receive and process data from Indian remote sensing satellites (Resourcesat-2 and Oceansat-2) and also to provide training in space science, technology and applications for the benefit of the ASEAN member countries.
- Antrix (the marketing arm of the ISRO) is currently enables (exports) direct reception and processing of data from

Indian Remote Sensing (IRS) Satellites (namely Resourcesat-2, Oceansat-2 and Cartosat-1) to the world community (through the International Ground Station). During 2017-18, Antrix has been working with various *resellers* across the globe for distribution of IRS data, including Europe, USA, Latin America, Africa and South Eastern Countries.

- By March 2017, PSLV had successfully launched 254 satellites. This includes 37 National Satellites, eight student satellites built by universities/academic institutions, one re-entry mission and 209 foreign satellites from 29 countries.
- Foreign exchange earnings of India from export of satellite launch services increased noticeably in 2015-16 and 2016-17 to Rs 394 crore. Consequently, India's share in global satellite launch services revenue has also increased to **1.1** per cent in 2015-16 (it was 0.3 per cent in the preceding year).

MANUFACTURING VS. SERVICES

All the focus being on the manufacturing exports in India has distracted attention from what might be a no less noteworthy development[7]. In past few years, it is India's exports of services that has changed in the most significant, and perhaps alarming, way. One can see the problem looking at market shares. India's share of world exports of services, after surging in the mid-2000s, has flattened out.

What makes this development puzzling is that in recent years the composition of Indian exports of services is more favourable than that of Indian exports of manufactured goods. More of the former goes to the United States, and more of the latter to Asia. Since Asia has slowed down more rapidly, India's exports of manufactures should have been more affected. Furthermore, in 2015, the rupee has depreciated strongly against the dollar which should have helped India's exports of services.

These developments have longer-term implications. Realising India's medium-term growth potential of 8-10 per cent will require rapid growth of exports. How rapid this should be is suggested by comparing India's export performance in services with China's performance in manufacturing at a comparable stage of the growth surge.

China's global market share in manufacturing exports beginning in 1991 and India's global market share beginning in 2003 were roughly similar. The magnitude of the challenge becomes evident when examining China's trajectory over the last fifteen years.

To achieve a similar trajectory, India's competitiveness will have to improve so that its services exports, currently about **3** per cent of world exports, capture nearly **15** per cent of world market share. That is a sizeable challenge, and recent trends suggest that a major effort at improving competitiveness will be necessary to meet it.

GLOBAL NEGOTIATIONS

India aims to position itself as a key player in world services trade. To promote services exports, the government has taken a number of policy initiatives – SEIS (Service Exports from India Scheme) for increasing exports of notified services from India; organising GES (Global Exhibitions on Services); and SCs (Services Conclaves). Besides, some initiatives in sectors like tourism and shipping have also been taken in this regard. Given the potential of India's services exports, services-sector negotiations both at multilateral and bilateral and regional levels are

7. ***Economic Survey 2015-16***, Vol. 2, pp. 167-68, Ministry of Finance, GoI, N. Delhi.

of vital importance to India. Some of the recent negotiations[8] are as given below.

WTO Negotiations

Though, the 11th Ministerial Conference (MC) of the WTO ended without a Ministerial Declaration or any substantive outcome, India saw certain favourable outcome from the 10th MC of the multi-lateral trade body *(Economic Survey 2017-18)*:

(i) Implementation of preferential treatment in favour of services and service suppliers of least developed countries (LDC) and increasing LDC participation in services trade;

(ii) To maintain the current practice of not imposing customs duties on electronic transmissions (e-Commerce) until the next Ministerial Conference to be held in 2017.

(iii) India, together with 20 other members have notified preferential treatment to LDCs in services trade. India has offered this in respect of:

   (a) Market access

   (b) Technical assistance and capacity building; and

   (c) Waiver of visa fees for LDC applicants for business and employment.

Before the 11th MC of the WTO India made a presentation a proposal to the WTO for a global pact to boost services trade. The proposal—Trade Facilitation in Services (TFS)—is mainly aimed at 'ensuring'—easier norms for movement of foreign skilled workers/professionals across borders for short-term work; portability of social security contributions; reasonable fees for immigration; cross-border insurance coverage; boosting medical tourism; and publication availability of relevant information for cross-border supply of services. *World Bank* data shows the growing share of services in the world economy, the sources said, adding, however, that global trade flows in services remain subject to numerous border and behind-the-border barriers *(Ministry of Commerce and Industry).*

Bilateral Agreements

The bilateral agreements signed by India in recent times are:

(i) Comprehensive bilateral trade agreements signed, 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) effective since mid-2015.

(ii) India has joined the **RCEP** (Regional Comprehensive Economic Partnership) pluri- lateral negotiations. The proposed FTA 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.

(iii) India is also engaged in bilateral **FTA** negotiations including trade in services with Canada, Israel, Thailand, the EU, the EFTA (European Free Trade Association), 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 JMC (Joint Ministerial Commission), with China under the India-China Working-Group on Services, and with Brazil under the India-Brazil Trade Monitoring Mechanism (TMM).

8. ***Economic Survey 2017-18***, Vol. 2 & *Economic Survey 2016-17,* Vol. 2, Ministry of Finance, GoI, N. Delhi.

RESTRICTIONS AND REGULATIONS

One major issue in services is the domestic barriers and regulations. Domestic regulations, in strict WTO terms, include licensing requirements, licensing procedures, qualification requirements, qualification procedures, and technical standards but here other restrictions and barriers are also considered. While there are many domestic regulations in our major markets, which deny market access to us and therefore need to be negotiated at multilateral and bilateral levels, there are also many domestic regulations in India which hinder the growth of this sector.

Since domestic regulations perform the role of tariffs in regulating services, there is need to list the domestic regulations in India which need to be curbed to help growth of the sector and its exports, while retaining those which are necessary for regulating the sector at this stage. An indicative list of some important domestic regulations in India which need to be examined for suitable policy reforms[9] in the services sector is as follows:

TRADE AND TRANSPORT SERVICES

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

CONSTRUCTION DEVELOPMENT

In this sector, bottlenecks result from continuation of restrictions under the *Urban Land Ceiling and Regulation Act (ULCRA)* in some states namely Andhra Pradesh, Assam, Bihar, and West Bengal, which have not yet repealed it and the confusion in the process required for clearance of buildings even after the repeal of ULCRA by passing of the Urban Land(Ceiling and Regulations) Repeal Act 1999 by the other states.

There is also lack of clarity on the role of states as facilitators in the *land acquisition* policy resulting in increasing number of court litigations adding to risk profile of builders/projects thereby restricting lenders from extending finance to such builders/ projects.

There are also restrictions on floor area ratio (FAR) in many states; and other restrictions like the application of bye laws/regulations and its exemptions, e.g., increase in FAR which varies from project to project and is sometimes discriminatory. Obtaining environment clearance is another major hindrance.

ACCOUNTANCY SERVICES

While the accountancy professionals were hitherto allowed to operate either as a partnership firm or as a sole proprietorship firm or in their own name since the Indian regulations do not permit exceeding 20 professionals under one firm, the emergence of *Limited Liability Partnership (LLP)* structure is likely to address this impediment. However, the number of statutory audits of companies per partner is restricted to 20.

FDI is also not allowed in this sector and foreign service providers are not allowed to undertake statutory audit of companies as per the provisions of the laws in India. There are also domestic regulations like prohibition on

9. H.A.C. Prasad and R. Sathish, Working Paper No. 1/2010-DEA on 'Policy of India's Services Sector, 2010' with updates from concerned Departments and Institutions, as quoted in, Ministry of Finance, (New Delhi: Government of India, ***Economic Survey 2013-14,*** p. 228).

the use of individual *logos* for partnership and single proprietorship accounting firms. These regulations need to be relaxed and streamlined to facilitate tie-ups and penetrate foreign markets given the potential for exporting these services by the outsourcing mode.

LEGAL SERVICES

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

EDUCATION SERVICES

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

THE NEED FOR REFORMS

Indian services sector have the potential to garner higher economic benefits to the country. But there are many issues both general and sector specific including domestic regulations hinder the growth prospects of the services sector. If these issues are addressed deftly the sector could lead to exponential gains for the economy. The need of policy reforms[10] in this regards are outlined in the following way:

GENERAL ISSUES

There are some general issues related to the policy framework which hamper the healthy growth and expansion of the services sector in the country. They are broadly related to the following areas:

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 to look into this. 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,

(i) setting up a portal for services,
(ii) showcasing India's competence also in non-software services in trade exhibitions,
(iii) 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

10. H.A.C. Prasad, 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, as quoted in, Ministry of Finance, ***Economic Survey 2013–14*** (New Delhi: Government of India, 2017), p. 190.

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,

(i) amendment to the definition of royalty to include payment of any rights via any medium for use of computer software,

(ii) tax administrative measures to tackle delay in refunds,

(iii) introducing VAT (value added tax) refund for foreign tourists, and

(iv) addressing the issue of bank guarantees based on past performance to avail of export promotion benef its in services.

SECTORAL ISSUES

Area-specific policy hurdles to the services sector are also there. Together with the general issues, these area-sepcific bottlenecks do not allow the sector to realise its real potential. The major ones in this area are being outlined below.

Tourism and hospitality sector: As per the latest data of world tourism, India's tourism has not been competitive enough to attract tourist due to several reasons, such as,

(i) 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).

(ii) 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.

(iii) 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 in this area, as per the *Economic Survey 2014–15,* are:

(i) creating world class tourism infrastructure even by PPP;

(ii) addressing multiple taxation issues;

(iii) skill and etiquettes training to cater to the needs of tourists;

(iv) special focus on cleanliness at tourist sites and safety of tourists;

(v) using the MGNREGA for creating permanent assets like tourism infrastructure and facilities;

(vi) organising 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

(vii) implementing urgently visa on arrival and E visa facilities at 9 airports to 180 countries barring 8 'prior reference' countries (this decision has already been taken).

Port services: Indian ports are not world-class ports and lack 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. If India can develop world-class airport infrastructure and metros, there is every reason to attend the concerns of the port services. Its immediate focus should be on—

(i) building world class ports providing world class services that will also help the trade sector by reducing costs and turnaround time in ports, and

(ii) reducing port charges which are considerably higher.

Shipping, shipbuilding and ship repairs: Indian ships in the carriage of India's overseas cargo has fallen sharply and Indian ships are ageing, too. Government-owned shipyards like Visakhapatnam are facing problems like declining orders. India's shipbuilding industry has the capacity and expertise but is functioning below capacity. Some of the suggested steps to boost the sector are:

(i) need to replace our ageing ships with new ones,
(ii) increasing shipping fleet (with prices falling on account of global slowdown),
(iii) a special financing mechanism needs to be developed.
(iv) utilising India's shipbuilding and repairs yards and enhancing their capacity (as India needs to replace many old ships and growing ship repairs business in the world).

Railways: The FDI policy of Railways sector restricts FDI in rail transport, except in mass rapid transit systems. FDI and privatisation 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—

(i) allowing FDI in all areas of the rail sector except railway operations.
(ii) even in railway operations, FDI is proposed in PPP projects, for suburban corridors, high speed train systems, and dedicated freight lines.

While privatisation 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 privatisation and inflows of FDI in areas where it is feasible.

OUTLINING FUTURE

With plenty of opportunities, the services sector is like an uncharted sea. As yet, its potential has not been tapped fully by India. 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. The future actions in the sector can be outlined as given below[11]:

(i) 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.
(ii) In future, government's focus on the following are expected to provide impetus to logistics services—
  (a) infrastructure development,
  (b) favourable regulatory policies like liberalisation of FDI norms,
  (c) increasing number of multimodal logistics service providers,
  (d) growing trend of outsourcing logistics to third party service providers, and
  (e) entry of global players.
(iii) 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, containerisation of export and import cargo and modernisation of ports with private sector participation, recovery of the shipping and port services sector can be expected.
(iv) The prospects for Indian ***aviation*** services have improved following—
  (a) the fall in prices of aviation fuel, which accounts for nearly 40 per cent of the operating expenses of airlines in India;

11. Ministry of Finance, ***Economic Survey 2015–16, Economic Survery 2016-17*** and ***Economic Survey 2017-18.***

(b) liberalisation of FDI policies in civil aviation; and

(c) strong growth in passenger traffic – expected to continue in the near future.

(v) The outlook for the ***retail*** industry remains positive as India continues to remain an attractive long-term retail destination despite the various challenges faced by the sector. Following initiatives are expected to give a fillip to the sector—

(a) allocation of Rs. 1000 crore to technology and start-up sectors,

(b) promotion of cashless transactions via *RUPay* debit cards, and

(c) growth of e-commerce.

(vi) 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.

(vii) 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, such as, IT services, BPM, ER&D, internet and mobility and software products.

(viii) In the ***telecom*** sector, the introduction of *4G* which could be a game changer and inclusion of *fibre 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.

Several relevant and contemporary suggestions have been articulated by a Working Paper of the Ministry of Finance by late February 2016. Dealing with the sectors like tourism, shipping and port, IT and software the advices are deeper and effective[12].

As per the **Economic Survey 2017-18**, services are expected to have better performance during 2017-18 over the preceding year. This improvement is also reflected in the Nikkei/IHS Markit Services **Purchasing Manager's Index** (PMI) which improved in December 2017 to 50.9 (from 48.5 in November 2017). The prospects look bright across the spectrum of services such as tourism, aviation, and telecom. Trade in services are also supposed to be robust with major services like *software* returning to positive territory. Though, the risk related to external environment is there for software and business services.

12. A working paper by H.A.C. Prasad and S.S. Singh: '**India's Services Sector: Performance, Some Issues and Suggestions',** Department of Economic Affairs, Ministry of Finance (New Delhi: Government of India, 2016).