CHAPTER

10

SERVICE SECTOR

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*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.**

* **Economic Survey 2014-15**, MoF, GoI, N. Delhi, Vol. 2, 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 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]

INTERNATIONAL COMPARISON

The features[4] of the services sector, at the global level, have been going for a kind of shift in more than over one decade. Its contribution in countries GDP, employment, trade together with in area of attracting foreign direct investment (FDI)—all have gone for mixed changes. We will try to see them briefly:

World Services GDP: The services sector scenario in recent years has been as given below:

- In 2013, in the US$ 75.6 trillion world GDP, the share of services improved marginally to 66.0 per cent while growth rate decelerated marginally to 2.1 per cent over 2012 (taken at constant prices).
- In the last twelve years, the share of services in world GDP has declined by 2.8 percentage points (pp).
- The US ranks *first* in services GDP as well as in overall GDP, with China and Japan a distant second and third.

1. Rupa Chanda, *'Services-led Growth'* in Kaushik Basu and Annemie Maertens (eds.) ***The New Oxford Companion to Economics in India***, Vol. II, Oxford University Press, N. Delhi, 2012, pp. 624-632.
2. For detailed description the ***Economic Survey 2014–15***, Vol. 1 may be consulted, though, the theme of the analysis has been included in this book itself, in the Chapter-9 titled **'Industry and Infrastructure'**.
3. ***India Development Report 2012–13***, Oxford University Press, N. Delhi, 2013, pp. 116-131.
4. ***UN National Accounts Statistics-2014***; **ILO** and **WTO Database** for 2014.

- Among the world's top 15 countries in terms of GDP, India ranked **10th** in terms of overall GDP and **11th** in terms of services GDP in 2013.
- Among the top 15 nations, in the period 2001–13, maximum increase in services share to GDP was recorded by Spain (8.6 pp) followed by **India** (5.7 pp) and China (5.6 pp).
- During 2001–13, with a compound annual growth rate (CAGR) of **8.7** per cent, India had the second fastest growing services sector, just below China's 10.7 per cent.
- Among the 15 countries, only China's share of services in its total GDP is less than 50 per cent.

World Services Employment: As per the International Labour Organization's (ILO) *Global Employment Trends 2014*—

- Services accounted for more than half of total global employment growth of 1.4 per cent in 2013 over 2012.
- The share of services in world income declined from 68.8 per cent in 2001 to 66 per cent in 2013, while its share in employment increased from 39.1 per cent to 45.1 per cent.
- For the top 15 countries, except India and China, the shares of both services GDP and services employment are high and close to each other.
- India's services sector has a high share in income and relatively low share in employment, while in China, the shares of both services income and services employment are relatively low. But in both these countries, the shares of services in both GDP and employment have increased in the last twelve years.

World Services Trade: The situation of global trade in services are as given below:

- During 2001–13 the CAGR of world commercial services exports was 10 per cent, with India at the top among the top fifteen largest economies at **20.1** per cent followed by China at 16.5 per cent.
- In 2013, the US$ 4.6 trillion world commercial services exports grew by 5.6 per cent. Services exports of the United States, the *largest exporter* of commercial services, grew by 5 per cent while they decelerated for China to 7.5 per cent and India to 3.6 per cent due to decline in exports of transport services by 3 per cent in both countries.
- Services imports of India fell by 2.7 per cent and China's grew by 17.6 per cent.

FDI in World Services Sector: The FDI in services remained subdued:

- In 2014, global FDI inflows declined by 8 per cent to an estimated US$ 1.3 trillion, due to the fragility of the global economy, policy uncertainty, and geopolitical risks, as per the *United Nations Conference on Trade and Development (UNCTAD).*
- China became the world's *largest recipient* of FDI, with an increase of 3 per cent driven by FDI in the services sector while FDI in manufacturing fell.
- India's FDI rose by around **26** per cent to an estimated US$ 35 billion also due to inflows in the top services sector (as corroborated by the Indian data).

INDIA'S SERVICES SECTOR

Services in India are emerging as a prominent sector in terms of contribution to national and states' incomes, trade flows, FDI inflows, and employment. The *Economic Survey 2014–15* provides the latest information about India's services sector in the following way:

GDP and GCF

As per the new method of India's National Accounts Statistics, the services sector accounting for **51.3** per cent of India's gross value added (GVA) at basic prices (current prices) in 2013–14, grew by 9.1 per cent compared to 6.6 per cent total GVA growth and 6.9 per cent GDP growth at market prices. Including construction, a borderline service, the services share is 59.6 per cent and growth is 8.1 per cent. Some *other features* have been as given below:

- The services sector has the highest share (54.6 per cent) in the gross capital formation (GCF) of in 2013–14. This is owing to the GCF in real estate, ownership of dwelling and professional services at 20.1 per cent, though the share has fallen in the last two years, followed by trade and repair services (10.6 per cent) and public administration and defence (10.6 per cent) where there is improvement in shares.
- The growth rate of services GCF at 3.1 per cent has also been higher than the total GCF growth of 1.4 per cent. Infact, the positive GCF growth in services led to positive growth in total GCF as GCF growth in agriculture and industry was negative at –0.3 per cent and –0.6 per cent, respectively. GCF growth in manufacturing was even more negative at –5.4 per cent.
- As per the Advance Estimates (AE) in 2014–15, growth of the services sector accelerated further to 10.6 per cent as compared to 9.1 per cent in 2013–14.
- There was also good growth in trade, hotels, transport, communication, and related services at 8.4 per cent in 2014–15 though it was lower than the 11.1 per cent growth in 2013–14.

State-wise Comparison

The services sector is the dominant sector in most states of India with a share of more than **40** per cent in the gross state domestic product (GSDP) in 2013–14 except for Arunachal Pradesh and Sikkim. Chandigarh is at the top with a share of **88.4** per cent followed by Delhi with **87.7** per cent. Special features are as given below:

- The major services in most of the states with high share are: trade, hotels, and restaurants followed by real estate, ownership of dwellings and business services.
- Banking and insurance has an important share only in a few states/union territories (UT) like Delhi, Maharashtra, and Chandigarh.
- As per the latest data, in 2013–14, Bihar had the highest services growth of 17.3 per cent and Uttarkhand the lowest of 5.5 per cent. Bihar has been consistently showing double-digit growth in the services sector in the last five years due to high growth in trade, hotels, and restaurants.

FDI in Services Sector

There is some ambiguity in classifying FDI in different activities under the services sector continues. The *Economic Survey 2014–15* puts financial and non-financial services, construction, telecommunications, computer hardware and software, and hotels and tourism under the services sector (though it could include some non-service elements). Thus the share of FDI in services have been as given below:

- 43.7 per cent share during 2000–14.
- The share increases to 53.8 per cent if some other services or service-related sectors

are included—trading, information and broadcasting, construction (infrastructure) activities, consultancy services, hospital and diagnostic centres, ports, agriculture services, education, air transport including air freight, and retail trading are included.

- During 2014–15 the FDI inflows to services was estimated to grow by over 105 per cent compared to around 22 per cent growth in overall FDI inflows.
- During 2014–15, the top five services attracting FDI has been (in descending order)—telecommunications, hotel and tourism, financial and non-financial services, construction.

India's Services Trade

India's services trade has been growing during the reform period. The main features of it are as follows:

- India has 3.2 per cent share in global services exports in 2013 (it was 1.2 per cent in 2000).
- India ranks 6th in the world among the leading services exporters in 2013.
- Services export growth rate was 3.7 per cent duirng first half of 2014–15. After being at a high of 31.2 per cent during 2002–09, it started declining in wake of the global financial crisis, fell to 3.4 per cent in 2011–13 and improved to 4 per cent by 2013–14.
- Services trade has been a major source of financing India's trade deficit in recent years. Surplus on account of services exports financed 49.4 per cent and 49.3 per cent of merchandise trade deficit in 2013–14 and first half of 2014–15, respectively.
- Composition of services exports—computer services (45.8 per cent share); other business services (18.8 per cent share) including professional and consulting services (10.2 per cent share), technical and trade-related services (7.8 per cent share) and R & D services (0.8 per cent share); travel (11.8 per cent share); transport (11.5 per cent share); and financial, insurance and pension services (5.8 per cent share).

There are many market access barriers and domestic regulations in India's services sector (as highlighted by the *Economic Survey 2012–13* and *2013–14*). Given the potential of India's services sector, removal of many of these barriers, both domestically and internationally, is of vital importance. Services sector negotiations both at multilateral and bilateral/regional levels are, therefore, of special significance to India. Two recent developments in India's exports sector are:

(i) the rising foreign value added content, and

(ii) services value added content.

As per the Organisation for Economic Cooperation and Development (OECD) **TiVA** (trade in value added) data, domestic value added content in India's gross exports was 78 per cent in 2009, a little above the OECD average (76 per cent), but 12 per cent lower than in 1995, reflecting increasing fragmentation of production and integration with global value chains.

India is *fifth highest* in terms of services value added content in its exports after Hong Kong, Iceland, Singapore, and EU-27. This has been driven by increasing direct exports of services and more than doubling of foreign services content of exports also indicating greater integration with global value chains.

A study for the Ministry of Finance, Government of India (GoI) by Indian Council for Research on International Economic Relations (ICRIER), quoted by the *Economic Survey 2014–15*, also shows rising share of foreign value added in India's exports.

WTO NEGOTIATIONS

From developing countries point of view, the provisions of the WTO have been quite controversial. There has been repeated deadlocks in the negotiations of the tade body at almost all of its Ministerial Conferences. Like every country, India has also been actively protecting and promoting its trade interets on the platform of the WTO. India's stand at the WTO, as per the latest information from the GoI, has been as given below:

(i) The post Bali work programme has to be within the mandate of the Doha Development Agenda (DDA) and valuable milestones such as the Annex C on 'Services' of the Hong Kong Ministerial Declaration (HKMD), which contains the roadmap for conclusion of the Doha Round.

(ii) India does not support any *cherry picking* of issues or sectors of interest to certain economies in the name of concluding the Doha Round and the level of ambition across the negotiating pillars including in services would be governed by *agriculture*.

(iii) Since development is the central theme of the Doha negotiations, commitments in areas of export interest to developing countries and least developed countries (LDCs) is crucial for the success of the round. In the past, India has been dismayed by the negligible progress in *Mode 4* offers.

(iv) *Preferential treatment for the LDCs in the World Trade Organization (WTO):* At the High Level Meeting of the WTO services council in February 2015, discussions were held to operationalise the Bali decision on LDC services waiver.

India has been a generous partner for LDCs and offered market access for contractual services suppliers and independent professionals. An exclusive quota of 250, only for tourist guides from LDCs was offered. India has also agreed to waive visa fee for LDC applicants seeking Indian business or employment visas.

BILATERAL AGREEMENTS

India has been promoting its global economic interest with an effective economic diplomacy, specially in the reform period. The process got pace in the last decade. As per the latest informations from the GoI, India's global ties and arrangements to promote trade are as given below:

(i) India has signed *Comprehensive Bilateral Agreements (CBA)* with the Governments of Singapore, South Korea, Japan, and Malaysia. A Free Trade Agreement (FTA) in services and investment was signed with the Association of South East Asian Nations (ASEAN) in September 2014.

(ii) India has joined the *Regional Comprehensive Economic Partnership (RCEP)* plurilateral negotiations and is continuously engaged in the bilateral FTA negotiations including Trade in Services with Canada, Israel, Thailand, the European Free Trade Association (EFTA), Australia, New Zealand, and the EU.

Negotiations with Canada and Australia have not progressed much and modalities for the negotiations are still being discussed. Negotiations with Thailand are at an advanced stage and with EFTA are more or less over.

India is also engaged in bilateral trade dialogues 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).

SERVICES EMPLOYMENT

The pattern of the sectoral share of employment has changed over the last two decades with the share of agriculture falling and of industry and services rising steadily. As per the latest data provided by the *Economic Survey 2014–15*, the situation of employment in the services sector are as given below:

- Services share in employment at **28.5** per cent in 2011–12 is higher than in industry at **24.4** per cent:
- Among the different services sectors, from 1993–94 to 2011–12, there was continuous *increase* in employment share in trade, hotels, and restaurants; transport, storage, and communication; and financial, insurance, real estate and business services.
- Employment share in community, social, and personal services has fallen continuously except in 2011–12 when there was an increase compared to 2009–10 and 2004–05.
- Employment *elasticity* has increased for both services and industry in 2009–10 to 2011–12 compared to 2004–05 to 2009–10, though industry had relatively higher employment elasticity.
- Among services, employment elasticity was the highest in 'financial, insurance, real estate and business services', and 'transport, storage, and communication'.

SERVICES PERFORMANCE

Some available indicators of the different services in India for 2014–15 show reasonably good performance of tourism, telecom, aviation, and railways. Estimates of the Centre for Monitoring Indian Economy (CMIE) derived from limited firm-level data indicates improved performance in retail trading, aviation, telecom and transport logistics. Other estimates like the HSBC's services PMI *(Purchasing Managers Index)* data indicate improvement in services sector growth in 2014–15 as the reading was above 50 in all months since May 2014 and it was at in January 2015.

The performance of the services sector in recent years has been reasonably good, despite the difficult international and domestic situation. However, the performance of different sectors varied. A brief description is given below about the performance of the major services in the country:

Tourism: As per the World Travel and Tourism Council (WTTC), the US$ 7 trillion travel and tourism sector's contribution to world GDP increased in 2013 to 9.5 per cent, creating 4.7 million new jobs. This resulted in total employment in this sector of nearly 266 million, that is one in eleven jobs in the world. This sector is estimated to grow by 4.3 per cent in 2014 and generate 6.5 million new jobs.

The latest World Tourism Barometer of the United Nation's World Tourism Organization (UNWTO) also shows that international tourist arrivals reached 1.1 billion in 2014, a 4.7 per cent increase over the previous year and for 2015 the forecast is an increase of 3 to 4 per cent.

France has the highest share in international tourist arrivals (ITAs) and the US in international tourism receipts (ITRs) in 2013. **India's** share in ITAs is a paltry **0.6** per cent compared to 7.8 per cent in France and 6.4 per cent in the US. Even

Vietnam and Indonesia have higher shares than India. However, in terms of ITRs, India's share at **1.5** per cent is better than those of Vietnam and Indonesia though it is way below the share of the US at 14.5 per cent.

In **India's** *National Accounts Statistics (NAS),* there is no separate heading for tourism. Some tourism activities like travel agent, tour operator, and other reservation activities are a part of the broad category administrative and support service activities and other professional activities.

As per the Second Tourism Satellite Account of India (TSA), the contribution of tourism to total GDP during 2012–13 was **6.9** per cent (3.7 per cent direct and 3.1 per cent indirect) and to total employment 12.4 per cent (5.3 per cent direct and 7.0 per cent indirect). After poor foreign exchange earnings (FEE) growth in dollar terms at 4.0 per cent, despite growing foreign tourist arrivals at 5.9 per cent, in 2013, there was an increase in growth of both foreign tourist arrivals (7.1 per cent) and FEEs (6.6 per cent) in 2014.

In *Union Budget 2014–15,* the government announced several measures for boosting tourism, such as:

(i) Streamlining of some service tax bottlenecks

(ii) Focused effort for the development of a global scale Buddhist circuit

(iii) Cleaning of the Ganga together with creation of world class amenities to enhance the spiritual experience along the Ganga.

(v) Easing of the Indian tourism visa regime through the execution of tourist visa on arrival enabled by electronic travel authorisation (ETA) for forty-three countries will provide a major boost to tourism.

Shipping: Shipping is an important indicator of both commodity and services trade of any country. Around **95** per cent of India's trade by volume and **68** per cent in terms of value is transported by sea. By December 2014, India had a fleet strength of 1,209 ships with gross tonnage (GT) of 10.3 million, with the public-sector Shipping Corporation of India (SCI) having the largest share of around **31** per cent. Of this, around 358 ships with 9.1 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 dead weight tonnage (DWT) is only **1.1** per cent. In 2013, as per UNCTAD, India with 10.7 million twenty-foot equivalent units of container (TEUs) and a world share of **1.6** per cent ranked *eighth* among developing countries in terms of container ship operations.

India continues to be a leading *ship breaking* destination. It topped the list of ship recycling countries in 2014 with a world share of **32** per cent, scrapping 234 ships. India supplied 60,000 crew (fresh seamen) and 44,500 officers in 2014.

There are certain concerns in the shipping sector of India:

(i) It has been plagued by economic hardships since 2008. In 2014, all segments of shipping saw intermittent spikes, but there was no secular uptrend in any of them.

(ii) Internationally, deliveries of new ships are slated in 2015, which could dampen shipping freight rates even more.

(iii) The *Baltic Dry Index*, the barometer of merchandise trade as well as shipping services, which had peaked to 11,793 on May 20, 2008 has been in the lower range since then and is in the red at 530 by February 2015.

(iv) There has also been a sharp decline in the share of Indian ships in the carriage of

India's overseas trade from about 40 per cent in the late 1980s to 9.1 per cent in 2012–13. The existing Indian fleet is also ageing, with the average age increasing from 15 years in 1999 to 17.7 by 2014 (43.1 per cent of the fleet is over 20 years old and 10.7 per cent in the 16–19 age group). Thus, there is urgent need to increase India's shipping fleet.

The GoI, recognising the need to encourage the growth of Indian tonnage, has taken several policy initiatives in recent years:

(i) Indian shipping companies allowed to acquire ships abroad and flag them in the country of their convenience;

(ii) Access to cheaper finance abroad allowed;

(iii) Exemption from customs and central excise duty leviable on bunker fuels used in Indian flag vessels for transportation of export and import items and on empty containers between two or more ports in India; and

(iv) Elimination of registration requirement of ship repair units (SRUs) with the Director General of Shipping.

Port Services: The cargo traffic of Indian ports increased by 4.5 per cent to 975.7 million tonnes in 2013–14 and by 6.8 per cent in (April-December) 2014–15. In the *Maritime Agenda*, a target of 3,130 million tonnes (MT) port capacity has been set for the year 2020 with around Rs. 2,96,000 crore investment. More than 50 per cent of this capacity is to be created in the non-major ports.

FDI up to 100 per cent under automatic route is permitted for construction and maintenance of ports. In 2013–14, 16 public private partnership (PPP) projects were awarded for capacity addition of 159.7 MT in the major ports comprising construction of berths and terminals and mechanisation of existing berths.

The three ports-related performance indicators showed continued improvement with the average turnaround time and average pre-berthing detention time falling to 2.1 days and 0.2 day respectively and the average output per ship berth day improving to 14,326 tonnes in 2014–15 (April-November). The improvement in turnaround time and pre-berthing detention time could partly be due to mechanisation and systemic improvements in ports and partly to lower volume handled in some ports on account of global downturn. However, the improvement in average output per ship berth day indicates that the performance parameters of Indian ports are also improving

IT and ITeS: Software development and information technology enabled services (ITeS) including business process management (BPM), software engineering R&D services and product development has emerged as one of the most dynamic and vibrant sectors in India's economy. It has got a special position in the economy:

- It is the *single largest* contributor to services exports. As per *AT Kearney's Global Services Location Index 2014,* India ranked **first** and remains the pre-eminent destination for offshore services, with excellence in IT, BPO, and voice services.
- The sector continues to be one of the largest employers in the country, directly employing nearly **3.5** million people as per the National Association of Software and Service Companies (NASSCOM).
- As per the Central Statistics Office (CSO), computer and related services with a share of **3.3** per cent in India's GDP grew by 14.4 per cent in 2013-14.

As per NASSCOM's estimate the revenue of the IT-BPM industry at US$119 billion grew by 12 per cent in 2014–15, while the export market at US$ 98 billion grew by 12.3 per cent ovvr the previous year.

The BPM sector is being driven by greater automation, expanding omnichannel presence, and application of analytics across the entire value chain. India is the *fourth* largest start-up hub in the world with over 3100 start-ups in the country.

- The domestic IT-BPM market is estimated at US$ 20.9 billion in 2014–15, with a growth of 10 per cent.
- Software products and services revenues for 2015–16 is projected to grow at 12–14 per cent to reach US$ 133-136 billion as per NASSCOM. Export revenues are projected to grow by 12 to 14 per cent to reach US$ 110–112 billion and domestic revenues by 10–15 per cent to reach US$ 23–24 billion during 2015–16.

In the *Union Budget 2014-15,* recognizing the need for greater penetration of IT services domestically, the Digital India programme was launched. This is an ambitious umbrella programme to prepare India for knowledge-based transformation. This would ensure—

(i) Broadband connectivity at village level,
(ii) Improved access to services through IT-enabled platforms,
(iii) Greater transparency in government processes, and
(iv) Increased indigenous production of IT hardware and software.

One of the important components of this programme is people's empowerment through availability of entitlements on the cloud, coupled with Aadhaar Authentification Platform. A *National Rural Internet and Technology Mission (NRITM)* for services in villages and schools and *E-Kranti* for government service delivery are other initiatives. Recognising the importance of IT, the government's *Make in India* mission has included IT and BPM among the twenty-five focus sectors.

R&D Services: The Research and Development (R&D) sector has been growing consistently in *double digits* in the last few years with growth at **20.8** per cent in 2012–13. Professional, scientific and technical activities including R&D grew by 14.0 per cent in 2013–14.

As per the *Global R&D Service Providers (GSPR) Rating 2014*, a report by Zinnov Management Consulting, India's R&D globalisation and services market is set to double by 2020 to US$ 38 billion. The study estimates the overall addressable R&D globalisation and services opportunity at US$ 170 billion as of 2014. Currently only US$ 55 billion of this opportunity is addressed globally. India's share of the addressed market is **33** per cent with in-house R&D centres contributing US$ 11.3 billion worth of services to their parent companies.

As per the *Global Competitiveness Report 2014–15*:

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

Consultancy Services: Consultancy services are emerging as one of the fastest growing services in India cutting across different sectors with some overlapping. According to *Plunkett Research*, global consulting industry revenues (including human resources), IT, strategy, operations, management, and business advisory services) increased to an estimated $431 billion in 2014 compared to US$ 415 billion during the previous year. India's outsourcing and consulting industry is estimated at US$ 86.4 billion in 2014, accounting for almost **20** per cent of global consulting industry revenue, and is projected to reach US$ 99.0 billion in 2015.

India's emergence as one of the fastest growing consultancy markets worldwide is largely attributable to increased investment activities due to liberalisation of FDI, entry of many new players into the Indian market and low cost sourcing. Indian consultants have good expertise particularly in engineering consultancy, which could be leveraged to enhance consultancy exports.

Real Estate and Housing: Real estate and ownership of dwelling constitute **7.8** per cent of India's GDP. Both domestic and global slowdown affected this sector with growth decelerating 6.0 per cent in 2013–14 and FDI falling to US$ 703 million in 2014 (first 7 months). Main features of this sector stand as given below:

- House prices have increased over the years in many cities and towns as per the National Housing Bank's *RESIDEX* index of residential prices in India. In 2014, out of 26 cities, 17 witnessed increase in prices over 2013 with the maximum increase observed in Chennai (17 per cent) followed by Ahmedabad (15 per cent), while 7 saw decline, with the maximum fall witnessed in Meerut (–16 per cent) followed by Chandigarh (–8 per cent).
- The *widening gap* between demand and supply of housing units and affordable housing finance solutions is a major policy concern for India. At present urban *housing shortage* is 18.8 million units of which 95.6 per cent is in economically weaker sections (EWS)/low income group (LIG) segments and requires huge financial investment to overcome.
- Institutional credit for housing investment is well below that in countries like China, Thailand, and Malaysia though growing at a CAGR of about 19 per cent per annum.
- Procedural delay is another major constraint in this sector. According to the World Bank's *Doing Business 2015,* India ranked 184 (out of 189 economies) in terms of construction permits, requiring on an average 27 procedures to get permits as compared to an average of 14 in South Asia and 12 in OECD (Organization for Economic Cooperation and Development) countries.

Some of the recent policy actions from the government to strengthen the sector are as given below:

(i) The amendment in the FDI policy *(2013-14),* reducing the minimum floor area to 20,000 square metre from the earlier 50,000 square mtre and bringing down the minimum capital requirement to US$ 5 million from US$ 10 million.

(ii) Real Estate Investment Trusts (REITs) allowed in the *Union Budget 2014–15*.

(iii) In order to encourage savings, the deduction limit on housing loan interest for self- occupied property was increased to Rs. 2 lakh (from Rs. 1.5 lakh) in the *Union Budget 2014–15*.

(iv) In order to push development of affordable housing and achieve the target of housing for all by 2022, the RBI relaxed norms for issue of long-term bonds by banks for financing affordable housing, without the compulsion of maintaining CRR and SLR *(2014–15)*.

Internal Trade: The trade and repair services contributes **11** per cent to India's GDP and had growth rate of 14.3 per cent in 2013–14. Trade is the major item in this category as the share of repair services in this category is just 6–7 per cent. As per the *AT Kearney's Global Retail Development Index (GRDI),* India's ***retail trade*** ranking slipped further to **20th** in 2014 from **14th** in 2013.

The retail sector was affected in 2013 by high consumer price inflation, currency fluctuations, and strict FDI policies. However, India remains an attractive long-term retail destination for several reasons, including its large population, 58.3 per cent of which is below 30 years and 31.1 per cent of which lives in urban areas with rising disposable incomes. Migration from traditional stores to modern retail continues, though the latter accounts for only **8** per cent of the total market.

India's ***e-commerce*** market is expected to grow by more than **50** per cent in the next five years. Inventory management, logistics planning, and resource availability are important hurdles for online retail in India. Consumer safeguard being another concern for consumers of e-commerce, the government proposes including sufficient provisions in the ongoing amendment to the Consumer Protection Act 1986.

Media and Entertainment Services: The Indian media and entertainment industry comprises various segments which include television, print, films, radio, music, animation, gaming and visual effects, and digital advertising.

As per a report by *FICCI–KPMG,* the Indian media and entertainment industry grew by 11.8 per cent in 2013 (Rs. 918 billion) and is projected to grow at a CAGR of 14.2 per cent by 2018. This sector has a share of **1.6** per cent in India's total FDI flows. Digital advertising and gaming are projected to drive the growth of this sector in the coming years. Major fetures of the sector are:

- With 161 million TV households, India is the world's *third largest* TV market after China and the USA.
- There are about 826 satellite television channels, 86 teleports, 243 FM radio channels, and 179 community radio stations operating in India.
- India's broadcasting distribution network comprises 6,000 multi–system operators (MSOs), around 60,000 local cable operators (LCOs), and 7 direct to home (DTH) operators.
- The Government has embarked on an ambitious exercise of digitizing its cable network in four phases leading to complete switch off of ***Analog TV*** services by December 2016.
- India also has a liberalised FDI regime for the broadcasting sector where 26 per cent FDI is allowed in content and 74 per cent in various carriage services like DTH, HITS (headend in the sky).
- India is emerging as the new favourite of international ***studios***, with *100 per cent FDI* permitted in the film sector. Disney, Fox, Sony, and Warner Brothers have entered into coproduction and distribution deals with domestic production houses. India has co-production treaties with ten countries. During the year 2014–15 (till December 2014), the government has accorded permission for film shooting in India to **21** foreign production houses.

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[5] in the services sector is as follows:

Trade & 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 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

5. H.A.C. Prasad and R. Sathish, Working Paper No. 1/2010-DEA on **Policy for India's Services Sector**, 2010 with updates from concerned Departments and Institutions. [Source: ***Economic Survey 2012–13***, MoF, GoI, N. Delhi, p. 228].

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[6] in this regards are outlined in the following way:

1. 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,

(a) setting up a portal for services,
(b) showcasing India's competence also in non-software services in trade exhibitions, c) engaging dedicated brand ambassadors and experts.

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

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

Tax and Trade Policy related: These include use of 'net' instead of 'gross' foreign exchange criteria for export benefit schemes, the issue of *retrospective* amendments of tax laws like,

(a) amendment to the definition of royalty to include payment of any rights via any medium for use of computer software,
(b) tax administrative measures to tackle delay in refunds,
(c) introducing VAT (value added tax) refund for foreign tourists, and
(d) addressing the issue of bank guarantees based on past performance to avail of export promotion benef its in services.

6. 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. [Source: ***Economic Survey 2013–14,*** p. 190].

2. 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 sevral reasons –

(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:

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

(b) addressing multiple taxation issues;

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

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

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

(f) 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

(g) 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—

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

(b) 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:

(a) need to replace our ageing ships with new ones,

(b) increasing shipping fleet (with prices falling on account of global slowdown),

(c) a special financing mechanism needs to be developed.

(d) 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—

(a) allowing FDI in all areas of the rail sector except railway operations.

(b) even in railway operations, FDI is proposed in PPP projects, for suburban corridors, high speed train systems, and dedicated freight lines.

While privatization of railways has been successful in some countries like Japan, it has failed in some others like the UK. So this proposal needs to be examined carefully and quickly to allow privatization and inflows of FDI in areas where it is feasible, suggests the *Economic Survey 2014–15*.