Services Sector

10
CHAPTER

India stands out for the size and dynamism of its services sector. The contribution of the services sector to the Indian economy has been manifold: a 55.2 per cent share in gross domestic product (GDP), growing by 10 per cent annually, contributing to about a quarter of total employment, accounting for a high share in foreign direct investment (FDI) inflows and over one-third of total exports, and recording very fast (27.4 per cent) export growth through the first half of 2010-11.

10.2 The data on this sector is still sparse and has to be collected from multiple sources. While the latest available data has been taken from different national and international sources, care has been taken as far as possible to use data from only reliable sources. It is hoped that having a separate chapter on services will be a catalyst for better and more regular data on this sector in the future. Some services, such as infrastructure (roads, railways, civil aviation), financial services, and social services (health and education) are discussed in other chapters of the survey. The construction industry is briefly discussed in this chapter, because of similar related characteristics and RBI and international institutions like WTO including it under services, even though from a national accounts classification, it is part of the secondary rather than the tertiary sector.

10.3 This chapter examines the role of services in India's economy in terms of contribution to GDP, employment, FDI, and States' domestic product, and draws some international comparisons. The chapter goes on to examine the performance of different services sub-sectors which are not well-covered in other chapters such as domestic trade; tourism including hotels and restaurants; shipping and port services; storage; telecommunications related services; real estate; information technology (IT) and IT enabled services (ITeS); accounting and auditing services; research and development (R&D) services; legal services and consultancy; construction; and some specialized social services such as sports.

Importance of The Services Sector for India

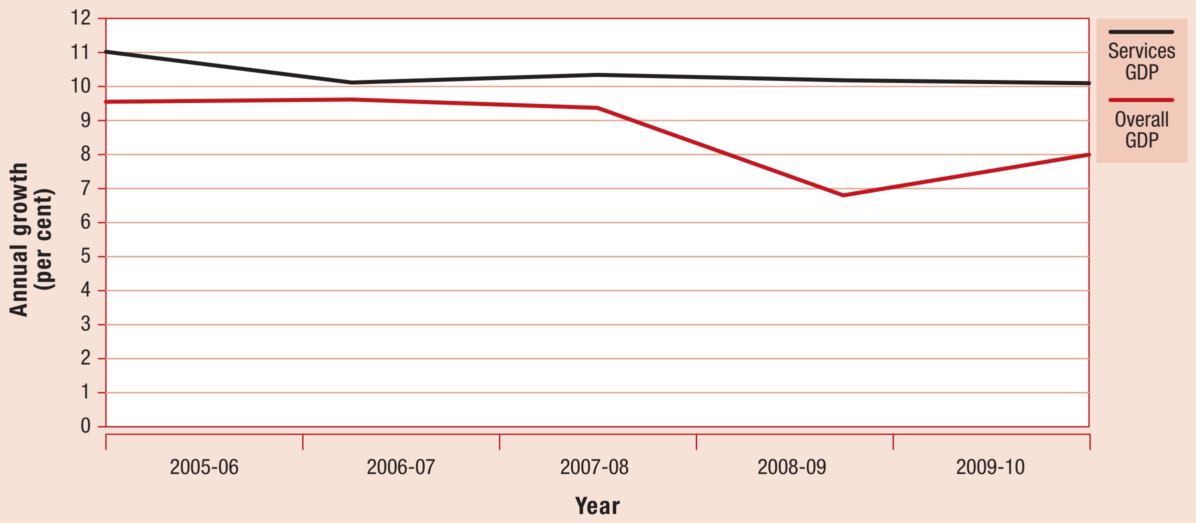
10.4 The importance of the services sector can be gauged by looking at its contributions to different aspects of the economy.

Services GDP

10.5 The share of services in India's GDP at factor cost (at current prices) increased rapidly: from 30.5 per cent in 1950-51 to 55.2 per cent in 2009-10. If construction is also included, then the share increases to 63.4 per cent in 2009-10.

10.6 The ratcheting up of the overall growth rate (compound annual growth rate [CAGR]) of the Indian economy from 5.7 per cent in the 1990s to 8.6 per cent during the period 2004-05 to 2009-10 was to a large measure due to the acceleration of the growth rate (CAGR) in the services sector from 7.5 per cent in the 1990s to 10.3 per cent in 2004-05 to 2009-10. The services sector growth was significantly faster than the 6.6 per cent for the combined agriculture and industry sectors annual output growth during the same period. In 2009-10, services growth was 10.1 per cent and in 2010-11

Figure 10.1 Growth rate of GDP and services sector GDP



Source : Central Statistics Office (CSO)

(advance estimates—AE) it was 9.6 per cent. India's services GDP growth has been continuously above overall GDP growth, pulling up the latter since 1997-98. It has also been more stable (Figure 10.1).

Services Employment in India

10.7 Although the primary sector (agriculture mainly) is the dominant employer followed by the services sector, the share of services has been increasing over the years while that of primary sector has been decreasing. Between 1993-94 to 2004-05, there was a sharp fall in the share of the primary sector in employment. The consequent rise in share of employment of the other two sectors was almost equally divided between the secondary and tertiary sectors. In 2007-08 compared to 2004-05, though the trend was similar, the fall in employment in primary sector was less (at -1.1 per cent) with a small commensurate rise in employment in the other two sectors, which was again almost equally divided between the other two sectors (Table 10.1)

FDI in Services in India

10.8 The measurement of the share of services in FDI inflows encounters problems as it is difficult to clearly differentiate activities between services and goods in sectors such as computer hardware and software, telecommunications, and construction. Nevertheless, the share of the four sectors combined (services [financial and non-financial], computer hardware and software, telecommunications, and housing and real estate), predominantly consisting of services, in FDI equity

Table 10.1 : Share of Broad Sectors in Employment (UPSS)

Sectors	Shares			Change in shares		
	1993-94	2004-05	2007-08	2004-05 over 1993-94	2007-08 over 2004-05	2007-08 over 1993-94
Primary	64.5	57.0	55.9	-7.5	-1.1	-8.6
Secondary	14.3	18.2	18.7	3.9	0.5	4.4
Tertiary	**21.2**	**24.8**	**25.4**	**3.6**	**0.6**	**4.2**

Note : For the years 2004-5 and 2007-8 projected population at mid-point of these two rounds was obtained by applying projected population figures from the Registrar General of India's (RGI) office. For the year 1993-94, the population at mid-point of the survey period was obtained by interpolation of census population of 1991 and 2001. Work participation rates of rural males, rural females, urban males, and urban females were obtained separately from unit-level data of the National sample Survey (NSS) and by multiplying them with the respective population, the total numbers of Usual Principal and Subsidiary Status (UPSS) workers for these four categories were obtained. Then the distribution of employment from unit-level data for broad sectors (primary, secondary, and tertiary) was obtained. From the number of workers in the four categories and sectoral distribution of employment, total employment for three sectors for each of these four categories was obtained. From this, overall employment distribution at broad sectoral level was calculated.

Table: 10.2 : Sectors Attracting Highest FDI Equity Inflows

(₹ crore)

Ranks	Sector	2008-09 (Apr.-Mar.)	2009-10 (Apr.-Mar.)	2010-11 (Apr.-Dec.)	Cumulative Inflows (Apr. 2000-Dec. 2010)	% age to Total Inflows (In US$ter-ms)
1	**Services Sector** (financial & non-financial)	28,516 **(6,138)**	20,776 **(4,353)**	13,044 **(2,853)**	1,18,274 **(26,454)**	**21%**
2	**Computer Software & Hardware**	7,329 **(1,677)**	4,351 **(919)**	3,054 **(670)**	47,144 **(10,601)**	**8%**
3	**Telecommunications** (radio paging, cellular mobile, basic telephone services)	11,727 **(2,558)**	12,338 **(2,554)**	6,021 **(1,327)**	46,727 **(10,258)**	**8%**
4	**Housing & Real Estate**	12,621 (2,801)	13,586 (2,844)	4,680 (1,024)	42,049 (9,380)	**7%**
5	**Construction Activities** (including roads & highways)	8,792 **(2,028)**	13,516 **(2,862)**	4,109 **(911)**	39,802 **(8,964)**	**7%**

Source : Department of Industrial Policy and Promotion.
Note : Figures in parantheses are US$ million.

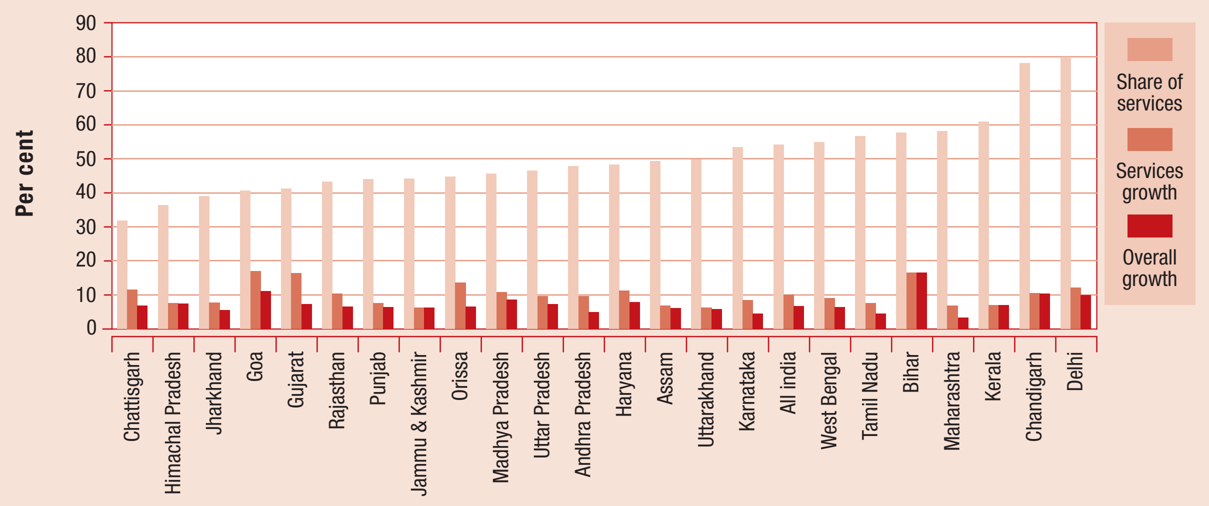
inflows in April 2000–December 2010 is around 44 per cent. If construction is included then the share rises to 51 per cent. The financial and non-financial services sector which falls purely in the services category is the largest recipient of FDI equity inflows with a 21 per cent share. This is followed by the other two sectors, namely computer software and hardware, and telecommunications each with 8 per cent share. Housing and real estate, and construction with 7 per cent share each were next in importance (Table 10.2).

10.9 The year 2009-10 has seen a drying up of FDI inflows to India due to the global crisis with a fall of 5.5 per cent. Mirroring this trend, FDI inflows in the services sector also fell by 29.1 per cent (in US dollar terms). The first nine months of 2010-11 have also not shown any improvement on the FDI front, overall and in services sectors.

State-wise Comparison

10.10 A comparison of the share of services in the gross state domestic product (GSDP) of different States and Union Territories shows that the services sector is the dominant sector in most States of India (Figure 10.2). States such as Delhi, Chandigarh, Kerala, Maharashtra, Bihar, Tamil Nadu and West Bengal have shares equal to or above the all-India share.

Figure 10.2 Share and growth of services sector in 2008-09



Note: Data in the case of Goa and Jammu and Kashmir are for 2007-08. Shares in current prices, Growth rate constant prices.

10.11 State-wise growth of GSDP is also closely associated with faster growth of the tertiary sector. Interestingly, Bihar which has the highest overall growth rate in 2008-09 also has the fastest growth among States in services, in part due to its rapid progress from a low base (only Goa's growth rate in services is higher than that of Bihar, but this is for 2007-08). Even small States such as Chhattisgarh and relatively low-income States such as Orissa and Rajasthan which have relatively low overall growth rates have started piggy-backing on the good performance of their services sectors to climb up the ladder of progress. Thus, the services revolution in India seems to be becoming more broad based rather than being concentrated in only a few States.

Services Exports

10.12 India is also moving towards a services-led export growth. During 2004-05 to 2008-09 as per the Balance of Payments data, merchandise and services exports grew by 22.2 and 25.3 per cent respectively. Services growth slowed in 2009-10 as a result of the global recession, but the decline was less pronounced than the slowdown in merchandise export growth, and has recovered rapidly in the first half of 2010-11 with a growth of 27.4 per cent. The overall openness of the economy reflected by total trade including services as a percentage of GDP shows a remarkable increase from 29.2 per cent in 2000-01 to 53.9 per cent in 2008-09, though it dipped to 46.1 per cent in 2009-10 due to the global crisis. The dip was more due to fall in share of merchandise trade to GDP to 35 per cent in 2009-10 compared to 41 per cent in 2008-09. The fall in the share of services trade to GDP was less than 2 percentage points from 12.9 per cent to 11.2 per cent.

Important Services for India

10.13 Some services have been particularly important for this improving performance in India. Software is one sector in which India has achieved a remarkable global brand identity. Tourism- and travel-related services and transport services are also major items in India's services. Besides these, the potential and growing services include many professional services, infrastructure-related services, and financial services.

Table 10.3 : Share of different services categories in GDP at factor cost (current prices)

	2004-05	2005-06	2006-07	2007-08	2008-09@	2009-10*
Trade, hotels & restaurants	**16.1**	**16.7**	**17.1**	**17.1**	**16.9**	**16.3**
Trade	14.6	15.1	15.4	15.4	15.4	14.9
Hotels & restaurants	1.5	1.6	1.7	1.7	1.5	1.4
Transport, storage & communication	**8.4**	**8.2**	**8.2**	**8.0**	**7.8**	**7.8**
Railways	1.0	0.9	0.9	1.0	0.9	1.0
Transport by other means	5.7	5.7	5.7	5.5	5.5	5.2
Storage	0.1	0.1	0.1	0.1	0.1	0.1
Communication	1.7	1.6	1.5	1.4	1.4	1.5
Financing, insurance, real estate & business services	**14.7**	**14.5**	**14.8**	**15.1**	**16.1**	**16.7**
Banking & insurance	5.8	5.4	5.5	5.5	5.7	5.4
Real estate, ownership of dwellings & business services	9.0	9.1	9.3	9.6	10.4	11.4
Community, social & personal services	**13.8**	**13.5**	**12.8**	**12.5**	**13.3**	**14.4**
Public administration & defence	5.9	5.6	5.2	5.1	5.8	6.3
Other services	8.0	7.9	7.6	7.4	7.5	8.1
Construction	**7.7**	**7.9**	**8.2**	**8.5**	**8.5**	**8.2**
Total Services (excluding Construction)	53.0	52.9	52.9	52.7	54.1	55.2
Total Services (including Construction)	60.7	60.8	61.1	61.2	62.6	63.4
Total GDP	**100**	**100**	**100**	**100**	**100**	**100**

Source : CSO
@ provisional estimates * quick estimates

10.14 CSO's classification of the services sector falls under four broad categories, namely a) trade, hotels, and restaurants; b) transport, storage, and communication; c) financing, insurance, real estate, and business services; and d) community, social, and personal services. Among these, financing, insurance, real estate, and business services; and trade, hotels and restaurants are the largest groups accounting for 16.7 per cent and 16.3 per cent respectively of the national GDP in 2009-10. The community, social, and personal services category accounts for a 14.4 per cent share, while transport, storage, and communication accounts for a 7.8 per cent share. Construction, which is a borderline services inclusion, has a share of 8.2 per cent (Table 10.3).

Services Sector : International Comparison

Services GDP

10.15 With an overall share of 64.2 per cent in world GDP in 2009 (Table 10.4), the services sector across the globe has been playing a dominant role in the growth of economies, especially in high-income economies which have transited to services-led economies. India with a services sector share of 52 per cent in national GDP in 2009 and 55.2 per cent in 2009-10 compares well even with the developed countries in the top 12 countries with the highest overall GDP. China's share of services in its national GDP at 39.2 per cent is relatively low, though it is ahead of India in absolute terms (as its overall GDP is more than three times that of India). In terms of services growth rate, China (10.5 per cent) followed by India (8.9 per cent) are the two fastest growing economies in the top 12 countries. In the global crisis year of 2009, when most of the top 12 countries registered negative growth in services, only China(9.4 per cent), India (6.8 per cent), and Brazil (2.6 per cent) registered positive growth. India's world ranking in overall GDP at current prices in 2009 was 11 and in services GDP it was 12. Except for the Russian Federation moving to 11th position and India moving to 12th in services, there is no major change in rank in terms of overall GDP and services GDP.

Table 10.4 : Performance in Services Growth of Top 12 Countries

Country	Rank		Overall GDP (US$ billion)		Share of Services (% of GDP)			Services Growth Rate (%)			
	Overall GDP	Services GDP	At Current Prices 2009	At Constant Prices 2009	2000	2008	2009	2000	2008	2009	2000-09(b)
United States	1	1	14119	12,899	74.1	76.8	76.5	3.4	0.9	-3.1	2.0
Japan	2	2	5069	4451	71.0	71.3	71.0	1.9	0.1	-5.6	0.5
China	3	4	4984	3544	39.0	39.1	39.2	9.7	9.5	9.4	10.5
Germany	4	3	3330	2847	61.6	64.4	66.6	3.4	3.1	-1.4	1.4
France	5	5	2649	2192	68.8	70.0	71.1	3.7	0.9	-1.1	1.5
United Kingdom	6	6	2170	2285	65.4	69.3	70.5	4.7	0.5	-3.3	2.3
Italy	7	7	2113	1725	62.5	64.6	66.6	3.9	-0.2	-2.0	0.9
Brazil	8	9	1572	1021	55.5	55.8	57.3	4.0	4.8	2.6	3.6
Spain	9	8	1464	1182	59.3	61.9	63.6	5.2	2.3	-1.0	3.1
Canada	10	10	1336	1168	59.5	64.0	65.5	4.6	2.2	-0.2	2.8
India	11	12	1287	1141	45.9	52.4	52.0 (55.2)(a)	4.9	9.7	6.8	8.9
Russia	12	11	1231	865	50.2	52.4	54.0	6.0	7.4	-5.1	5.6
World	-	-	58069	49,356	63.7	64.0	64.2	3.9	2.0	-1.6	2.5

Source : UN National Accounts Statistics accessed on 4 February 2011.

Note : Rank is based on current prices.
Growth rates are based on constant prices (US$).
(a) In 2009-10 as per CSO, India.
(b) CAGR is estimated for 2000-09.

Table 10.5 : Number of Greenfield FDI Projects in Services Industries 2007–2009

Sector	2007	2008	2009
Hotels & Tourism	297	553	370
Transport, Storage, and Communications	1024	1269	1133
Communications	448	594	544
Financial Services	1161	1616	1267
Business Services	2922	3647	2927

Source: UNCTAD, World Investment Report 2010.

FDI in the Services Sector

10.16 The global economic and financial crisis had a dampening effect on cross-border FDI flows. Though the crisis took a heavy toll on flows to manufacturing activities, the services sector was also affected. As per the United Nations Conference on Trade and Development (UNCTAD), the impact of the crisis across sectors has resulted in a shift in their relative weights in FDI flows-it has fallen in manufacturing, relative to the primary and services sectors. The share of manufacturing in total cross-border mergers and acquisitions (M&As) was lower in developed countries--where it stood at 30 per cent of their value in 2009--than in developing and transition economies, where it accounted for 32 per cent of the transaction value. The shares of the primary sector and services in total cross-border M&As by value, on the other hand, were higher in developed countries than in developing and transition economies. Business services were among the sectors where investment expenditures were hard hit by the crisis, registering a reduction of greenfield investment projects in the world by 20 per cent in 2009 compared to the previous year. Greenfield investments in financial services also declined from 1616 in 2008 to 1267 in 2009 (Table 10.5).

10.17 On the positive side, at global level, medium-term prospects for services are generally better than those for the manufacturing sector with international investment in the services sector expected to grow relatively faster. In addition, many services transnational companies, which some years ago were mainly focused on their home markets, are now pursuing internationalization strategies involving ambitious investments abroad. Developing and transition economies, particularly in Asia, are considered as most attractive destinations.

Trade in Services

10.18 India has made much progress in Trade in services, which is dominated by developed countries, and was among the top 12 service exporters of the world in 2009. However, China in fifth rank is ahead of India with 12th rank (see Chapter 7 for details).

India's Services Data

10.19 One of the important challenges faced by the country is collection of data on the services sector. The challenge of data collection leads to difficulties in compilation of an index for services sector production, non-representation of many services sectors in the calculation of the wholesale price index, limited availability of published data on pricing of services, and limited data on trade in services. Even where data are available, they suffer from deficiencies related to definition, method of collection, suitability for pricing, and construction of indices.

10.20 Recently some efforts are being made to collect services data (see Box 10.1). While these initiatives have to be speeded up, a lot more effort in coordination may be needed.

Performance of Sub-sectors

10.21 The two fast-growing broad services categories are: a) financing, insurance, real estate and business services; and b) transport, storage, and communication. The latter overtook the former in 2009-10 with a high growth of 15 per cent (Table 10.6). A third category, growth of trade, hotels, and restaurants, slowed in 2008-09 and has recovered moderately in 2009-10. The fourth category, community, social, and personal services, saw a sudden jump in 2008-09 to overtake the growth of all other categories, reflecting the high growth in public administration and defence. This category has continued to grow rapidly in 2009-10, despite a slowdown in growth in public administration and defence (with the commitments for pay arrears under the new revised scale for Government

Box 10.1 : Some Recent Efforts to Collect Services Data

1. **Index of services production (ISP)** : The contribution of the services sector to the national economy, both in terms of value addition and employment generation, is growing over the years. However, there is no short-term indicator to measure the dynamics of this vast and heterogeneous sector. To fill this gap, the ISP is being compiled by the CSO. The index for railways, air transport, and ports has been completed.
2. **Services price index (SPI)** : Dr Rangarajan Commission (2001), set up by the Ministry of Statistics and Programme Implementation, had recommended the compilation of a separate SPI, which should eventually be merged with the wholesale price index (WPI) once it has stabilized and established its robustness. Ten sectors, namely banking, trade, business services, postal services, telecommunication, air transport, port services, insurance, rail transport, and road transport have been identified in the initial phase for development of an experimental SPI. Methodologies for developing the SPI have been finalized for seven sectors, namely railways, trade services, business services, banking, telecommunications, postal services, and air transport. A common format is developed for the sector-specific methodologies approved by the Expert Committee covering the scope of the index, products to be covered, and weighting diagram. Construction of the SPI on experimental basis is to be undertaken sequentially beginning with the index of banking services and rail transport.
3. **Trade in services data :** There are some developments on the services trade front also. While the RBI has been providing data on services at a more disaggregate level in recent years, as per the recommendations of the Working Group on Balance of Payments (BOP) manual, the RBI will also provide aggregate data on trade in services with a lag of 45 days from April 2011, i.e. April 2011 data will be available on 15 June 2011. The working group had suggested that disaggregated data on services should be released on a quarterly basis. As a follow up, RBI has started releasing disaggregated quarterly data on trade in services beginning the first quarter of 2010-11, which has been published in the February 2011 issue of the RBI bulletin. A joint committee on International Trade in Services formed by the Department of Commerce had also submitted its report in 2001 and in 2010 an expert group on Strengthening of Institutional Mechanism for Regular Collection and Compilation of Data on International Trade in Services has been set up by the Ministry of Statistics and Programme Implementation.

Table 10.6 : Annual Growth in India's Services GDP at Factor Cost (in constant prices)

(percentage)

	2005-06	2006-07	2007-08	2008-09*	2009-10**
Trade, Hotels, & Restaurants	**12.2**	**11.0**	**10.0**	**5.5**	**6.7**
Trade	11.7	10.7	9.7	6.5	7.2
Hotels & Restaurants	17.5	14.4	13.1	-3.1	2.2
Transport, Storage, & Communications	**12.2**	**12.7**	**12.9**	**11.1**	**15.0**
Railways	7.5	11.1	9.8	7.6	9.4
Transport by Other Means	9.3	9.0	8.7	5.2	7.0
Storage	4.7	10.9	3.4	10.5	10.7
Communications	25.5	24.9	25.4	25.8	32.1
Financing, Insurance, Real Estate, & Business Services	**12.7**	**14.0**	**11.9**	**12.5**	**9.2**
Banking & Insurance	15.9	20.6	16.7	14.0	11.3
Real Estate, Ownership of Dwellings, & Business Services	10.6	9.5	8.4	11.2	7.5
Community, Social, & Personal Services	**7.0**	**2.9**	**6.9**	**12.7**	**11.8**
Public Administration & Defence	4.2	2.0	7.6	20.2	13.0
Other Services	9.1	3.5	6.3	7.4	10.9
Construction	12.8	10.3	10.7	5.4	7.0
Total Services (excluding Construction)	11.0	10.1	10.3	10.1	10.1
Total Services (including Construction)	11.2	10.1	10.4	9.5	9.7
Overall GDP	**9.5**	**9.6**	**9.3**	**6.8**	**8.0**

Source : CSO
Notes : * provisional estimates.
****quick estimates.**

employees coming down), due to the offsetting rise in growth of other services reflecting the fiscal stimulus to social sector activities. Among the sub-categories, in 2008-09, double-digit growth was registered by communication (25.8 per cent), public administration, and defence (20.2 per cent), banking and insurance (14 per cent) and storage (10.5 per cent). Negative growth was registered only by hotels and restaurants (-3.1 per cent). Among business services, the two important categories are computer-related services and the category consisting of many services like R&D services, market research, business and management consultancy, architectural engineering, and advertising, with shares of 3.26 per cent and 0.88 per cent respectively in the GDP. While computer-related services, which grew by 21.2 per cent in 2008-09, registered a moderate growth of 5.2 per cent in 2009-10 due to the global crisis, R&D services registered good growth of 19.6 per cent and 19.9 per cent in 2008-09 and 2009-10 respectively. Among other services, the two important ones in terms of share of GDP are education and medical health, with the former growing at 13.9 per cent and the latter at 5.3 per cent in 2009-10. All other services are of minor importance in India's GDP. While total services including construction grew by 9.7 per cent, total services excluding construction grew by 10.1 per cent in 2009-10. In 2010-11(AE), they grew by 9.4 per cent and 9.6 per cent respectively.

10.22 The two broad services categories, namely trade, hotels, transport and communication; and financing, insurance, real estate and business services, comprising many dynamic services have performed well with growth of 11 per cent and 10.6 per cent, respectively in 2010-11 (AE). Only community, social and personal services have registered a low growth of 5.7 per cent due to base effect of fiscal stimulus in the previous two years, thus contributing to the slight deceleration in the growth of the services sector. Construction sector grew at a moderate 8 per cent.

10.23 A comparison of the different indicators related to different services in India shows good performance in services like telecom, aviation, and railways. Storage services show a fall in the number of warehouses which is a just a reflection of demand and supply in different places (Table 10.7). The performance and outlook for the services sector based on the limited firm-level data, though sketchy and based on estimates and forecasts also indicates a robust performance in services activities in 2010-11 and 2011-12 (see Box 10.2).

Table 10.7 : Performance of India's Services Sector: Some Indicators

Sector	Indicators	Unit	Period			
			2007-08	2008-09	2009-10	2010-11
Aviation	Airline Passengers (domestic and international)	Million	53.49	49.5	56.94	
Telecom	Telecom Connections (wireline and wirless)	lakh	3004.92	4297.25	6212.8	7647.6(b)
Tourism	Foreign Tourist Arrivals	Million	5.08(a)	5.28(a)	5.11(a)	5.58(a)
	Foreign exchange earnings from tourist arrivals	US $ Million	10,729(a)	11,750(a)	11,394(a)	14,193(a)
Shipping	Gross Tonnage of Indian Shipping	Million GT	8.84(a)	9.31(a)	9.39(a)	10.1(c)
	No. of ships	Numbers	867	925	1003	
Ports	Port Traffic	Million Tonnes	521.47	532.53	562.74	416.61(d)
Railways	Freight Traffic by Railways	Million Tonnes	804.11	833.31	887.99	673.31(e)
	Net Tonne Kilometers of Railways	Million	523,000	538,226	584,760	444,515(e)
Storage	Storage Capacity	MT	98.78	105.25	105.98	
	No. of Warehouses	Numbers	490	499	487	

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

Notes :
(a) calendar years, for example 2007-08 for 2007.
(b) April-November.
(c) As on 01 September 2010.
(d) April – October.
(e) April – December.

Box 10.2: Performance of Services Firms: A Sectoral Analysis

The Centre for Monitoring Indian Economy's (CMIE) analysis of the sector-wise performance of services activities based on firm-level data is given here. The data for 2010-11 and 2011-12 are based on estimates and forecasts.

Transport logistics: The sales of the transport logistics services industry are estimated to have grown by a healthy 7.2 per cent during 2009-10. This growth is likely to have been achieved by a combination of higher cargo volumes and better realizations. In 2010-11 as a whole, the sales of this sector is expected to grow by 13 per cent and Profit After Tax (PAT) is expected to grow by 11 per cent.

Shipping: The shipping sector's sales are expected to fall by 3 per cent in 2010-11. Freight rates are likely to remain weak during the second half of the year. After two consecutive years of decline, the sales growth is likely to pick up in 2011-12 at 3.2 per cent with a slow recovery in cargo volumes and an improvement in freight rates. However, the industry's PAT is expected to decline by 3.3 per cent in 2011-12 with a sharp growth in depreciation charges and interest expenses, by 12.6 per cent and 13.7 per cent , respectively, which is likely to eat into a major part of the industry's operating profits. A substantial tonnage addition to its fleet during the two years is also likely to affect the rise in these expenses.

Aviation: Oil marketing companies hiked aviation turbine fuel (ATF) prices for the fortnight beginning 1 January 2011. The ATF price ex-Mumbai rose by 5.9 per cent as compared to the corresponding fortnight a month ago, to Rs.48,059 per kilolitre. This was 16.6 per cent higher than the average ATF price in January 2010. In 2010-11 as a whole, sales are expected to grow by 25.9 per cent. This will be due to an expected rise in passenger volumes and the passing on of higher ATF prices. In 2011-12, sales are likely to grow by a healthy 14 per cent.

Retail sector: Retail sector is expected to record healthy sales in 2010-11 and grow by 10.2 per cent in 2011-12. The sector's PAT margin is expected to expand over the next three years on account of a faster rise in income vis-a-vis expense. For the year ending March 2011, projects worth Rs.8,281 crore are expected to be completed adding retail space of 115.1 lakh square feet. During 2011-12, projects worth Rs.24,143 crore are expected to be completed adding a capacity of 168.6 lakh square feet.

Health Services: The health services sector's sales is expected to grow by a healthy 25.6 per cent in 2010-11 and 19.8 per cent in 2011-12 driven by a healthy rise in sales. The sector's PAT increased by a whopping 107.1 per cent in the quarter ending September 2010-11 on account of a faster rise in income vis-a-vis expenses and is expected to grow by 45 per cent in 2010-11.

Hotel: After falling in 2009-10, the hotel sector's sales are likely to grow in 2010-11 by 18.1 per cent due to both, higher occupancies and Average Room Rate (ARRs). However, fresh room additions in 2011-13 will keep the ARRs under check. Sales are expected to grow by 15.1 per cent in 2011-12.

Telecom: After rising by just 2.2 per cent during 2009-10, sales growth of the telecom industry witnessed a recovery and improved during the first half of 2010-11. This recovery in sales growth is expected to continue. During 2010-11 and 2011-12, sales are expected to rise by 11.4 per cent and 14.6 per cent respectively driven by an increase in the subscriber base and a deceleration in the fall of both, average revenue per user (ARPU) and the minutes of usage per user (MOU).

Software: The Indian software industry is mainly export-oriented. The industry garners around 60-70 per cent of the total revenue from its two largest markets, namely the US and Europe. The economic slowdown in these major export destinations led to a deceleration in growth of sales of the Indian software industry to 5.9 per cent. However, sales are expected to grow at 16.9 per cent and 17.8 per cent, respectively during 2010-11 and 2011-12 due to higher client additions and an uptick in billing rates.

Construction and allied activities: Sales growth of the construction industry is expected to pick up in the second half of 2010-11. With increased activity in the industrial and infrastructure construction segments, due to Government's thrust on infrastructure creation, sales growth of this sector is expected to rise by 20.2 per cent and 21.7 per cent in 2010-11 and 2011-12 respectively.

Source: Compiled by EXIM Bank of India based on CMIE Industry Analysis.

Performance of Some Major Services

Trade

10.24 Trade is an important segment in India's GDP. The GDP from trade (inclusive of wholesale and retail in the organized and unorganized sectors) at constant prices increased from ₹ 4,33,967 crore in 2004-05 to ₹ 6,71,396 crore in 2009-10, at a CAGR of 9.1 per cent. The share of trade in the GDP, however, remained fairly stable at around 15 per cent in the last four years.

10.25 The last decade has witnessed acceleration in the growth rate of real GDP. It has been in the range of 8-9 per cent during the last five years.

This fast growth means rising disposable income of the population, in particular that of the middle class. With the growth in consuming population, the retail business also got a boost. There are no official estimates of the size of retail trade in the country, though such estimates have been made by some institutions. Quoting a NSSO Survey, the International Council for Research on International Economic Relations (ICRIER) study of 2008 places employment in the retail trade at 35.06 million, which constitutes 7.3 per cent of the workforce in the country. On the basis of employment intensity in retail trading, the contribution of the retail sector in the GDP is estimated in the range of 10 to12 per cent. A large number of small and decentralized traders dominate the Indian retail scene. One estimate puts their number at 1.3 crore. The organized corporate sector has started showing interest in the retail business. With fast growth in the GDP and rising disposable income of the consuming classes, the modern format of retailing (i.e. organized retailing) is attracting domestic and foreign investment (Box 10.3).

Tourism, including Hotels and Restaurants

10.26 Tourism is one of the major engines of economic growth in most parts of the world including India. Since tourism does not fall under a single heading in the National Accounts Statistics, its contribution has to be estimated. In 2007-08, the contribution of tourism to the country's GDP, and to total jobs (direct and indirect) in the country was estimated at 5.92 per cent, and 9.24 per cent respectively. In absolute numbers, the total number of tourism jobs in the country increased from 38.6 million in 2002-03 to 49.8 million in 2007-08. According to the UN World Tourism Organization, tourism provides 6 per cent to 7 per cent of the world's total jobs directly and millions more indirectly through the multiplier effect in this sector. Tourism also plays an important role in the country's foreign exchange earnings, as its share in India's export of services accounted for 13 per cent of the total export of services in 2009-10.

Box 10.3 : FDI in Retail Trading in India and Other Countries

In India, retail trade is a state subject. There is no national framework for its regulation and development and states have their own regulations. At central level, only the flow of FDI into the sector is regulated. While FDI in cash and carry wholesale trading is permitted in India, FDI in multi-brand retailing is prohibited. FDI in single-brand retailing up to 51per cent has been allowed since 2006. A total of 94 proposals have been received till May 2010, of which 57 were approved. During the period April 2006 to March 2010, FDI inflows valued at US $ 194.69 million have come into this sector, accounting for 0.21 per cent of total FDI inflows during this period. FDI in retail trading is permitted in Brazil, Argentina, Singapore, Indonesia, China, and Thailand without limits on equity participation, while Malaysia has equity caps on FDI in the retail sector. Permitting FDI in retail in a phased manner beginning with metros and incentivizing the existing retail shops to modernize could help address the concerns of farmers and consumers. FDI in retail may also help bring in technical know-how to set up efficient supply chains which could act as models of development.

Source: Based on the Department of Industrial Policy and Promotion's Discussion paper, 'FDI in Multi brand Retail Trading', Department of Consumer Affairs' inputs, and working paper No.1. 2010, Department of Economic Affairs.

10.27 In India, the tourism sector witnessed significant growth in recent years. During the period 2004 to 2009, the CAGRs of foreign tourist arrivals and foreign exchange earnings from tourism in rupee terms were 8.1 per cent, and 14.5 per cent respectively. Foreign tourist arrivals in India, which were at 5.28 million in 2008, fell to 5.11 million in 2009 due to the global crisis. These arrivals, which registered negative or low growth rates in the first eleven months of 2009, started recovering from December 2009 with a good growth of 21 per cent. In the year 2010, the recovery continued with foreign tourist arrivals at 5.58 million registering a growth of 9.3 per cent. The foreign exchange earnings from tourism in the year 2010 witnessed a growth of 18.1 per cent over the previous year in rupee terms compared to the decline of 3.3 per cent in 2009. Domestic tourism also plays an important role in overall tourism development in the country. The number of domestic tourist visits increased to 650 million in 2009 as compared to 562.98 million in 2008, witnessing a growth of 15.5 per cent in spite of various adverse factors during this period.

10.28 The hotels and restaurants sector is an important sub-component of the tourism sector. Availability of good quality and affordable hotel rooms plays an important role in boosting the growth of tourism in the country. Presently there are 1593 classified hotels with a capacity of 95,087 rooms in the country. The hotels sector comprises various forms of accommodation, namely star category hotels, heritage category hotels, timeshare resorts, apartment hotels, guest houses, and bed and breakfast establishments. The share of the hotels and restaurant sector in the overall economy increased from 1.46 per cent in 2004-05 to 1.69 per cent in 2007-08, and then decreased to 1.53 per cent and 1.45 per cent in 2008–09 and 2009-10 respectively. The CAGR in the GDP contributed by the hotels and restaurants sector was 8.5 per cent in 2004–05 to 2009–10. There was, however, negative growth (-3.41 per cent) in 2008–09 over the year 2007–08, which was due to the adverse global economic conditions in this year, while in 2009-10, the sector registered a growth of 2.2 per cent. Several studies have identified the demand-supply gap in hotel rooms in India; some of them have estimated a gap of 150,000 hotel rooms, of which 100,000 rooms are in the budget segment. Since the construction of hotels is primarily a private-sector activity and is capital intensive with a long gestation period, the Government is making efforts to stimulate investments in this sector and speed up the approval process.

10.29 Various financial and fiscal incentives have been announced by the Government for the hospitality sector including a five-year tax holiday under the Income Tax Act for two, three, and four star category hotels located in all United Nations Educational, Scientific and Cultural Organization (UNESCO) World Heritage sites (except Mumbai and Delhi) for hotels starting operations from 1 April 2008 to 31 March 2013; a five-year tax holiday announced in 2007-08 for two, three, and four star category new hotels and convention centres coming up between 1 April 2007 and 31 July 2010 in the National Capital Territory of Delhi and some neighbouring districts of the National Capital Region. Other incentives include: relaxation of external commercial borrowings (ECB) to reduce the liquidity crunch being faced by the hotel industry for setting up new hotel projects; allowing FDI up to 100 per cent under the automatic route for the hotel and tourism-related industry; delinking of credit to hotel projects from commercial real estate by the RBI, thereby enabling hotel projects to avail of credit at relaxed norms and reduced interest rates; and an investment-linked deduction under Section 35 AD of the Income Tax Act announced in the Union Budget 2010-2011 for establishing new hotels of 2-star category and above, all over India, thus allowing 100 per cent deduction in respect of the whole or any expenditure of capital nature. Government also has a voluntary scheme of granting approval to bonafide tour operators, travel agents, tourist transport operators, and adventure tour operators who satisfy certain criteria specified in terms of turnover, infrastructure, and manpower.

10.30 Since infrastructure development holds the key to India's sustained growth in the tourism sector, the Government has been making efforts to develop quality tourism infrastructure at tourist destinations and circuits. A scheme has been launched for development of nationally and internationally important destinations and circuits through mega projects. So far, 38 projects have been identified out of which 23 have been sanctioned. The mega projects are a judicious mix of heritage and cultural, spiritual, and ecotourism in order to give tourists a holistic experience. In order to meet the huge skill gap in the hospitality industry, the Government has put in place a multipronged strategy which includes strengthening and expanding the institutional infrastructure for training and education. Besides, steps are being taken for skill training of youth in the hospitality sector and providing skill certification. Special efforts were also made for the Commonwealth games including creation of additional hotel accommodation and assistance for training of service providers like tourist taxi drivers, auto drivers and immigration personnel in Delhi, the NCR region, and Agra for making them tourist friendly and hospitable. While the general security situation has improved, to strengthen the National Tourism Policy 2002's critical pillar of Suraksha (Safety), the Government has adopted the Code of Conduct for 'Safe and Honourable Tourism' on 1 July 2010.

10.31 Along with the continuation of promotional efforts under the Incredible India campaign, the Government has introduced the Visa-on-Arrival (VoA) scheme for tourists from five countries, namely Singapore, Finland, New Zealand, Luxembourg, and Japan on a pilot basis with effect from 1 January 2010. During January–December 2010, a total of 6549 VoAs were issued under this scheme. The VoA scheme has been extended to the nationals of Cambodia, Vietnam, Laos, and Philippines with effect from 1 January 2011 and Myanmar and Indonesia from 25 January 2011.

10.32 Despite these efforts, there is a lot more to be done given the potential of this sector. In fact at 11.5 per cent, the share of travel in India's exports of commercial services in 2008 is relatively lower than that of many other exporters of services and half the shares of the USA, EU, and China (Table 10.8).

Table 10.8 : Composition of Commercial Services Exports of India and Other Major Services Exporters

(shares in 2008)

		India	USA	EU	Japan	China	Singapore	Hong Kong
1	Transportation	11.0	17.5	23.0	31.9	26.2	34.8	31.4
2	Travel	11.6	26.0	22.2	7.5	27.9	12.7	16.6
3	Other Commercial Services	77.4	56.5	54.8	60.6	45.9	52.5	52.0

Source: calculated from World Trade organization (WTO) data.

10.33 India's share in international tourist arrivals is a paltry 0.58 per cent in 2009. In fact, at 11.07 million, outbound Indians in 2009 were more than double the inbound tourists, though foreign exchange outgo due to outbound Indians is much less than the foreign exchange inflow from inbound tourists. These facts show that this high potential sector with multiplier effects on income and employment generation is still relatively untapped.

Some Transport Related Services

Shipping

10.34 Shipping plays an important role in the economic development of the country, especially in India's international trade. The Indian shipping industry also plays an important role in the energy security of the country, as energy resources, such as coal, crude oil, and natural gas are mainly transported by ship. Further, during crisis situations, Indian shipping contributes to the uninterrupted supply of essentials, and can serve as second line of defence. Approximately, 95 per cent of the country's trade by volume, and 68 per cent in terms of value, is being transported by sea. Though India has one of the largest merchant shipping fleets among the developing countries, it was ranked eighteenth in the world in terms of dead weight tonnage (DWT) as on 01 January 2010. Leaving the 'flags of convenience' countries, India's share is low at 1.17 per cent, while China's is around three times higher than India's (see Table 10.9). Indian shipping tonnage (capacity) was practically stagnant at around 7 million gross tonnage (GT) till the beginning of 2004-05. However, the tonnage tax regime introduced by the Government of India in that year boosted the growth of the Indian fleet as well as its tonnage. The Indian fleet presently stands at 10.16 million GT and 1040 ships (as on 01 January 2011), with the Shipping Corporation of India, a public-sector undertaking, having a major share of 35.3 per cent in India's shipping tonnage. Of this 9.1 million GT with 340 ships caters to India's overseas trade and the rest to coastal trade. The gross foreign exchange earnings/ savings of Indian ships during 2007-08 were at a record level of ₹ 14,589 crore. Net foreign exchange earnings/ savings of Indian shipping companies, after accounting for financial costs at ₹ 8952 crore were around 61 per cent of gross earnings/ savings.

Table 10.9 : Share of Merchant Fleets by Flags of Registration as on 1 January 2010

Rank	Flag of Registration	DWT (In '000)	Share (%)
1	Panama	2,88,758	22.63
2	Liberia	1,42,121	11.14
3	Marshall Islands	77,827	6.09
4	Hong Kong	74,513	5.83
5	Greece	67,629	5.30
6	Bahamas	64,109	5.02
7	Singapore	61,660	4.83
8	Malta	56,156	4.40
9	China	45,157	3.54
10	Cyprus	31,305	2.45
11	South Korea	20,819	1.63
12	Norway	20,811	1.63
13	UK and Northern Ireland	20,176	1.58
14	Japan	17,707	1.39
15	Germany	17,570	1.38
16	Italy	17,276	1.35
17	Isle of Man	16,711	1.30
18	India	14,970	1.17
	World Total	12,76,137	100

Source : UNCTAD, Review of Maritime Transport 2010.

10.35 In order to facilitate growth of the Indian shipping industry and make it competitive at international level, the government has initiated several measures like bringing acquisition of all types of ships under open general licence; allowing 100 per cent FDI in the shipping and port sectors; cargo support to Indian shipping lines by providing for centralized shipping arrangements through the Chartering Wing (Transchart) of the Ministry of Shipping; introducing tonnage tax system during 2004-05; formulating a Cruise Shipping Policy of India in June 2008; and establishing the Indian Maritime University in November 2008.

10.36 According to the National Council of Applied Economic Research (NCAER), a 5 per cent increase in the national shipping tonnage saves or earns an additional 17 per cent of the freight bill and according to a report by The Energy and Resources Institute (TERI), a 1 per cent change in gross registered tonnage (GRT) is likely to bring about a 0.0068 per cent change in the GDP. While India's overseas seaborne trade has been growing substantially over the years from 224.62 million tonnes in 1999-2000 to 598.70 million tonnes in 2008-09 with a CAGR of 10.57 per cent during 2004-05 to 2008-09, there is 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 9.5 per cent in 2008-09 with a 5.7 per cent share in India's export trade and 12 per cent share in India's import trade. Given the relatively low participation of Indian ships in India's export trade and given the fact that Indian ships are ageing, with the average age of the Indian fleet increasing from 15 years in 1999 to 18.3 years in 2009, there is urgent need to increase the shipping fleet for a country of India's size. This can lead not only to higher growth of the economy but also higher foreign exchange earnings/ savings and higher employment.

Port Services

10.37 Being the gateways of international trade, ports play a vital role in the overall economic development of the country. India is blessed with a long coastline with 13 major ports and around 200 non-major ports. While around 72 per cent of the total cargo handled by volume was through India's major ports and the rest through non-major ports till 2008-09, with the development of private ports the share of major ports fell to 67 per cent during 2009-10. Despite the recessionary trend and decline in exports, during the years 2008-09 and 2009-10, traffic at major ports attained a growth of 2.2 per cent and 5.74 per cent respectively over the previous year. Some recent developments in the port services sector include the finalization of a model concession agreement for awarding projects on public private partnership (PPP) basis in 2008 and introduction of web-based port community systems. The ranking of ports in the world in 2008 places Singapore, followed by Shanghai and Rotterdam at the top, with Madras and the Jawaharlal Nehru Port Trust (JNPT) in the 70th and 71st positions in terms of total cargo volume. In terms of container traffic also, Singapore followed by Shangai are at the top, while the JNPT ranks 25th.

10.38 The average turnaround time in major Indian ports was 4.38 days in the year 2009-10 and was relatively higher in some ports like Paradip, Kolkata,Vizag, and Kandla, while average output per ship-berth-day was 10,168 tonnes with more than double the average in the JNPT and around one-fifth the average in Kolkata port. With the average turnaround time in India already relatively high by international standards, the turnaround time of Singapore being less than a day, what is cause for further worry is the rise in average turnaround time and average pre-berthing time and fall in average output per ship-berth-day in 2009-10. (See Table 10.10)

10.39 A lot of attention needs to be paid to our port sector. There is need to follow a holistic approach for improving the existing infrastructure and services at ports through modernization of the systems using latest technology. The infrastructure facilities at major ports for handling crude oil particularly need to be strengthened through a facilitative policy on single-point moorings. The facilities at existing ports with regard to cargo handling, stevedoring, pilotage services, bunker services, and warehousing facilities need to be upgraded. The trans-shipment of Indian cargo taking place outside the country at present needs to be handled at Indian ports through concerted measures. This would include increasing the drafts

Table10.10 : Some Performance Indicators for Major Ports in India

Year	Average Turnaround Time (in days)	Average pre-Berthing Time (in hours)	Average Output per Ship Berth day (in tonnes)
2004-05	3.41	6.03	9298
2005-06	3.50	8.77	9267
2006-07	3.62	10.05	9745
2007-08	3.93	11.40	10071
2008-09	3.87	9.55	10473
2009-10(P)	4.38	11.67	10168

Source : Ministry of Shipping website.

available at Indian ports, rationalization of port dues and providing differential levels of tariff for different sizes of vessels or for different cargoes so as to attract mother ships to berth at Indian ports. The many port charges in India need to be reduced as they are higher than in many other countries due to inefficiency of ports and inclusion of unrelated costs like pension and other contributions to labour in port services.

Storage Services

10.40 The warehousing services sector plays an important role in the economy of the country. Warehousing services are an important cog both in inbound logistics, as raw materials, parts, and stores have to be stocked, inventory control maintained, and materials which do not meet specifications returned to suppliers, as well as outbound logistics as the goods produced have to be stored in different geographical locations before shipping/ dispatch as per demand/ order inflows. In India, the most important component of warehousing is agricultural storage for agri-produce, foodgrains, fertilizers, manure, etc. Other components include industrial warehousing for industrial goods, import cargo, and excisable cargo; inland container depots (ICDs)/ container freight stations (CFSs) for facilitating import/export trade; and special warehouses for cold and temperature controlled storage. The warehousing sector also provides ancillary services like handling, transportation, pest control, farmer extension schemes, dedicated warehousing at doorsteps, consultancy, and project execution.

10.41 The Government has established the Central Warehousing Corporation (CWC) with the objective of providing scientific storage facilities for agricultural implements and produce and other notified commodities. Besides, with the same objective, 17 State Warehousing Corporations (SWCs) were also set up under the Warehousing Corporations Act 1962. The CWC and the respective State Governments are equal shareholders of these SWCs. The commercial outreach with social objectives has resulted in the CWC operating a large warehousing network across the country. As on 31 December 2010, the CWC was operating 476 warehouses, with a total storage capacity of 102.24 lakh MTs and an average utilization of 85 per cent. It made an entry into operation of public bonded warehouses in the late 1970s, when the Central Board of Excise and Customs, acknowledging the expertise of the CWC in the field of storage and warehousing, identified it as a custodian for dutiable goods. The CWC has also diversified its business into CFSs/ICDs and also started Container Rail Transportation from Loni (UP) to Jawaharlal Nehru Port. The expansion of the overall capacity of the CWC has been slow as it is cost intensive. The profits generated are being ploughed back to construct additional warehouses thereby strengthening the warehousing infrastructure throughout the country. At State level, the 17 SWCs meet the storage requirements and complement the work of the CWC. As on 31 October 2010, these SWCs were operating a network of 1585 warehouses with an aggregate storage capacity of 214.41 lakh MT.

10.42 Major policy initiatives taken recently by the Government include construction of godowns under the seven-years guarantee scheme of the Government of India, most of them being managed by the CWC or SWCs; permission of up to 100 per cent FDI in the construction of warehousing infrastructure; and construction of warehouses under the Grameen Bhandaran Yojana of NABARD and the Rastriya Krishi Vikas Yojana. In the year 2007-08, the Government enacted the Warehousing (Development & Regulation) Act 2007 to make the warehouse receipt fully negotiable. Recently the Government took another major initiative for construction of godowns under its Private Enterpreneurs Godown (PEG) scheme. The CWC has constructed 0.9 lakh MT godowns during the year 2009-10 and has planned to construct additional capacity to the tune of 1.77 lakh MT during the year 2010-11.

10.43 Some issues related to the warehousing sector include increasing high quality storage capacity as well as the numbers of trained samplers/ graders; addressing issues like storage loss due to deterioration of the produce during storage, lack of provision for dealing with cases where stocks are pledged with banks and the depositor either absconds or refuses to take delivery; delay in delivery and deposit of stocks due to extension of 'no-entry' zones in cities, levy of property tax on warehouses and high fees by ports.

Telecom and Related Services

10.44 The opening of the telecom sector in India has not only led to rapid growth but also helped a great deal towards maximization of consumer benefits as tariffs have been falling across the board as a result of increasing competition, with the telecom service price index falling from 100 in 2004-05 to

85.08 in 2007-08. The telecom sector has grown from a level of 22.8 million telephone subscribers in 1999 to 54.6 million in 2003, and further to 764.77 million at the end of November 2010. Wireless telephone connections have contributed to this growth as the number of wireless connections rose from 3.57 million in March 2001 to 729.58 million by the end of November 2010. Tele-density, which was 2.32 per cent, increased to 64.34 per cent in November 2010. However, there is a wide gap between rural tele-density (30.18 per cent in November 2010) and urban tele-density (143.95 per cent in November 2010). This shows that the market still has large untapped potential.

10.45 The Internet, which is another growing mode of communication, is a worldwide system of computer networks. Broadband is often called 'high-speed' Internet, because it usually has a high rate of data transmission. Broadband subscribers grew from 0.18 million in 2005 to 10.71 million as at the end of November 2010. The number of Internet and broadband subscribers is expected to increase to 40 million and 20 million, respectively by 2010. Introduction of BWA (Broadband Wireless Access) services will enhance the penetration as well as growth of broadband subscribers. Wi-Max has also been making headway in penetration of wireless broadband connectivity across all sectors. (For further details, see Chapter 11.)

Real Estate Services

10.46 The real estate sector includes development of commercial and residential real estates, with participation and involvement of both Government agencies and private developers. The GDP from the real estate sector (including ownership of dwellings) along with business services witnessed a growth of 7.5 per cent (at constant prices) in the year 2009-10. In terms of share, it accounted for 9.3 per cent of the GDP in the year 2009-10. Fiscal incentives for the housing sector provided in successive budgets together with liberal investment and credit policies and reforms brought the housing and real estate sector to the centre stage of the Indian economy. The policy measures include permission for FDI in townships, housing, built-up infrastructure, and construction development projects, including SEZs, under the automatic route, which has attracted foreign investors into this sector. However, FDI is not allowed in real estate business. The National Housing Bank (NHB) established with the objective of promoting housing finance institutions both at local and regional levels has conceptualized the reverse mortgage loan product exclusively for covering house-owning senior citizens. It has introduced the residential real estate price index (RESIDEX), which is an initiative towards providing the housing finance sector with an index which reflects the trends in the prices of residential properties across the country.

10.47 The global economic crisis impacted the Indian real estate industry significantly. However, various measures taken by the Government to boost the demand for residential properties, as also the relaxation in provisioning requirements by the RBI for banks and NHB for Housing Finance Companies (HFCs), has minimized the impact of economic crisis on this sector. The sector has started recovering following the increasing activity in the Indian economy, however with a fundamental difference. Customers are now going for need-based purchases rather than investment based on the euphoria and hype witnessed in 2007 and 2008.

10.48 A joint study by Price Waterhouse Coopers (PWC) and Urban Land Institute of India (ULI) has cited India as one of the emerging markets for real estate sector in the Asia Pacific region. The study classifies India as semi-transparent market in the Asia Pacific region, and ranks it 41st on a global transparency scoring scale. It places Mumbai (ranked 3rd), New Delhi (5th), and Bangalore (10th) among the top 10 prospective cities for real estate investment for the year 2011. Mumbai and New Delhi in that order capture the top two places in terms of city development prospects for the year 2011.

10.49 In this emerging services sector, while short term worries like hardening interest rates need to be addressed, there is also need for some fundamental reforms like tackling the high stamp duty issue which makes even honest citizens deal in black money and problems related to foreclosure of loans and the Urban Land Ceiling Regulations Act (ULCRA).

Some Business Services

IT and ITeS

10.50 India has gained a brand identity as a knowledge economy due to its IT and ITeS sector. The IT-ITeS industry has four major components: IT services, business process outsourcing (BPO), engineering services and R&D, and software products. The growth in the services sector in India has been led by the IT-ITeS sector which has become a growth engine for the economy, contributing substantially to increases in the GDP, employment, and exports. This sector has improved its contribution to India's GDP from 4.1 per cent in 2004-05 to 6.1 per cent in 2009-10 and an estimated 6.4 per cent in 2010-11. The industry has also helped expand tertiary education significantly. The top seven States that account for about 90 per cent of this sector's exports have started six to seven times more colleges than other States.

10.51 The Indian IT-ITeS industry has registered robust growth since 2004-05. According to NASSCOM, the year 2010-11 is characterized by broad-based growth across mature and emerging verticals. The overall Indian IT-ITeS revenue has grown to US $ 63.7 billion in 2009-10 and an estimated US $ 76.1 billion in 2010-11, translating into a CAGR of 22.5 per cent from 2004-05 to 2010-11. The industry grew by an estimated 19.5 percent in 2010-11 compared to the moderate growth of 6.2 per cent in 2009-10 (see Table 10.11). Exports dominate the IT-ITeS industry, and constitute about 77 per cent of total industry revenue. Total IT-ITeS exports have grown from US$ 17.7 billion in 2004-05 to US $ 49.7 billion in 2009-10 and an estimated US $ 58.9 billion in 2010-11 registering a CAGR of 22.2 per cent from 2004-05 to 2010-11.

10.52 Though the IT-ITeS sector is export driven, the domestic market is also significant with a revenue growth of US $ 14 billion in 2009-10 and an estimated revenue of US $ 17.2 billion in 2010-11. The IT and BPO industry (excluding hardware) witnessed a quick rebound in growth and has been estimated to have grown by 19.5 per cent, aggregating revenues of US$ 76.1 billion in 2010-11 with exports at US$ 58.9 billion accounting for a major portion.

10.53 This sector has also led to employment generation. Direct employment in the IT services and BPO/ITeS segment was 2.3 million in 2009-10 and is estimated to reach nearly 2.5 million by the end of financial year 2010-11. Indirect employment of over 8.3 million job opportunities is also expected to be generated due to the growth of this sector in 2010-11. These jobs have been generated in diverse fields such as commercial and residential real estate, retail, hospitality, transportation, and security.

10.54 India continues to be the dominant player in the global outsourcing sector. However, its future will depend on how the challenges related to its continued competitiveness are tackled. These include increasing competition, rising costs, talent shortfall, infrastructure constraints, increasing risk perception, protectionism in key markets, and deteriorating business environment.

10.55 The Government has been supporting the IT and ITeS sector in many ways. This was continued in the 2010-11 Budget with policies like Government expenditure for improving IT infrastructure and delivery mechanism, reduction in surcharge from 10 per cent to 7.5 per cent for IT companies and Government's E-Governance plan. There are some issues in the IT-ITeS sector which need attention. These include shifting from low-end services to high-end services like programming in the light of competition in BPO from other countries and policies in some developed countries like UK to employ locals; addressing data protection issues as half of offshore work does not come to India; concluding totalization agreements with target countries to resolve the social security benefits issue as is being done now; and increasing the coverage and depth of IT and ITeS services in the domestic sector.

Table 10.11: IT-ITeS Revenue and Exports (US $ billion)

Year	2009-10	2010-11 (Estimated)	Growth Rate in 2010-11 (%)	CAGR (2005-06 to 2010-11) (%)
Total IT-BPO Services Revenue	63.7	76.1	19.5	22.5
Exports	49.7	58.9	18.5	22.2
Domestic, of which	14.0	17.2	22.8	23.7
(i) IT Services	8.9	10.9	22.5	20.8
(ii) ITeS-BPO	2.2	2.8	27.3	29.3
(iii) Software Products	2.9	3.5	20.7	30.7

Source : Nasscom.

Accounting and Auditing Services

10.56 Accounting, auditing, and book-keeping services are part of 'business services'. The accounting profession in India is highly developed with the potential to become internationally more competitive. As per the WTO data, in the $33.76 billion other business services exports by India in 2008, the share of legal, accounting, management, and public relations services was 17.4 per cent and in the $21.06 billion imports of other business services by India, their share was 17.9 per cent. Indian accounting firms are increasingly getting integrated, and are providing associated services such as management consultancy, corporate finance, and advisory services, in addition to their core business of accounting, auditing, and tax services. The accounting profession is structured in India as partnership with few partners or proprietorship concerns. The Indian accounting sector mainly comprises small and medium enterprises (SMEs), matching the existing economic structure of India. The number of chartered accountancy firms with five or more partners is about 2000 out of more than 13000 firms. The remaining are practicing as proprietary firms or in their individual names. The Chartered Accountancy Profession in India has globally benchmarked its qualification, training and standards (including convergence to global standards on IFRS) for increased mobility and has entered into qualification recognition arrangements with accounting bodies in UK, Australia, Canada and Ireland.

10.57 The cost and management accounting profession in India has attained great maturity with the quality of professional cost and management accounting services being on par with the best in the world. However, there is limited use of cost audit and cost management techniques in India. Scientific use of management accounting tools on a wider scale can bring about higher cost efficiency in operations and take the Indian accounting industry to greater heights.

10.58 There is need to tap outsourcing in niche areas like actuarial and accountancy services as there is good scope for outsourcing actuarial services and accountancy services to India including setting up back offices. But Indian service providers need high-quality training in tax laws of US and other countries besides laws related to insurance, pension, etc. Tie-ups to overcome the weakness of small size of domestic accountancy firms can also help India's accounting sector grow manifold.

R & D

10.59 As per the Department of Science and Technology estimates, the national investment on R&D activities was ₹ 37,777.9 crore in 2007-08. Though India, with a R&D share of 0.8 per cent in the GDP in 2007-08, is ahead of other developing countries like Mexico, Malaysia, and Chile, it lags behind countries like South Korea (3.5 per cent), Russia (1.1 per cent), China (1.5 per cent), and Brazil (1per cent)

10.60 A cross-country comparison of expenditure on R&D by sectors shows the dominance of the business enterprises sector in other countries. In the US and China, the business enterprises sector accounted for as much as 72 per cent of total R&D expenditure in 2007 and in the UK, this figure was 64 per cent. In India, while the Government sector continues to account for a leading share, an

Table 10.12 : R&D Expenditure by Sectors : A Cross-country Comparison

(per cent)

Country	2002 Business Enterprises	2002 Govt	2002 Higher Edn	2002 Pvt. Non-profit	2007 Business Enterprises	2007 Govt.	2007 Higher Edn	2007 Pvt. Non-profit
US	70.0	12.1	13.4	4.5	72.6	10.6	12.9	3.9
UK	64.8	9.2	24.0	1.9	64.2	8.3	25.2	2.3
China	61.2	28.7	10.1	-	72.3	19.2	8.5	neg
S. Korea	74.9	13.4	10.4	1.3	58.6	18.6	21.3	1.5
Russia	69.9	24.5	5.4	0.2	62.9	30.1	6.7	0.3
Brazil	40.4	20.6	38.9	0.1	40.2	21.3	38.4	0.1
India	**19.3**	**76.5**	**4.1**	**-**	**29.6**	**66.0**	**4.4**	**neg**
S. Africa	55.5	21.9	20.5	2.1	57.7	21.7	19.4	1.2

Source: UNESCO Science Report 2010.
Note: neg—negligible.

important development has been the rising share of the business enterprises sector from 19 per cent in 2002 to almost 30 per cent in 2007 (Table 10.12)

10.61 As per estimates in 2009-10, the sectors which attracted largest R&D expenditures include pharmaceuticals, electrical and non electrical machinery, transport equipment, electronics, and plastics. R&D intensity (R&D as per cent of sales) for the pharmaceuticals sector was much higher than that for other sectors.

10.62 There is huge potential for R & D services, particularly in healthcare, biotech and electronics. However, there are issues related to intellectual property rights (IPRs) in the sector. India has amended the IPR laws in the past two decades and its laws are fully compliant with WTO regulations. There is an impartial judicial process in India which implements the laws. The Government has taken many measures to encourage R&D like enhancing the weighted deduction on expenditure incurred on in-house R&D from 150 per cent to 200 per cent for the manufacturing business and from 125 per cent to 175 per cent for payments made to national laboratories, research associations, colleges, universities, and other institutions for scientific research, and allowing a 125 per cent weighted deduction for approved associations engaged in research in social sciences or statistical research, besides exemptions in the income from approved research associations in the Budget 2010-11. Equipped with these incentives, the private sector should take a cue from other countries and step up its R&D investments.

Legal Services

10.63 The legal systems in India, the USA, and in the UK are rooted in British common law, thus making Indian lawyers competent, without much additional training, to undertake standard legal work such as vetting of contracts, patent registrations, or reviewing of documents. India has an estimated 600,000 legal practitioners and is next only to USA in terms of numbers. According to industry sources, Indian commercial law practice is approximately of the order of ₹ 600 crore to ₹ 650 crore per annum in revenues. The service providers are individual lawyers and small or family-based firms. In India, the practice of law is governed by the Advocates Act of 1961. Under this Act, foreign law firms are not allowed to engage in practice of law in India. Many foreign legal firms have set up liaison offices (currently permitted under the law), while a few have established referral relationships with Indian firms.

10.64 India has over 750 law colleges and about 30,000 lawyers graduating every year. The Bar Council of India, which lays down the standards of professional conduct and etiquette, as also standards for legal education, has been constituted under the Advocates Act 1961. In addition, there are also State Bar Councils that enrol advocates and enforce discipline. Government has constituted the National Legal Services Authority, under the Legal Services Authorities Act 1987 to monitor and evaluate implementation of legal aid programmes and lay down policies and principles for making legal services available under the Act. The National Litigation Policy has also been launched with the objective of reducing Government litigation in courts so that court time can be used for resolving other pending cases and average pendency time reduced from 15 years to three years, a goal set by the National Legal Mission.

10.65 India is ranked 41st, with a score of 4.8, in terms of judicial independence, according to the Global Competitiveness Report (2010-11) of the World Economic Forum. As regards efficiency of the legal framework in settling disputes, India is ranked 47th, with a score of 4.1. India rises to 37th position when it comes to the efficiency of the legal framework in challenging regulations, with a score of 4.2.

10.66 Over the years, the legal system in India has undergone changes with the increasing globalization of the Indian economy. This has enabled transformation of Indian lawyers into global service providers. Trans-border mergers, corporate restructuring, acquisitions, IPRs are some of the areas in which Indian lawyers have acquired expertise. Since liberalization, Indian lawyers have been gaining dynamic experience in handling cases spanning fields such as banking, telecom, insurance, power, civil aviation, and transportation, which were earlier largely under the purview of the public sector. In addition, they have acquired experience in areas related to taxation, mergers and acquisitions, joint ventures, IPRs, FDI, and special economic zones. The conclusion of The Trade Related Intellectual Property Rights (TRIPS) Agreement and Information Technology Agreement has brought the necessary experience in newer dimensions of patent services, analysis and prosecution support and internet-based disputes and cyber crimes.

10.67 India's prominence in the legal process off-shoring (LPO) segment is being widely acknowledged in the global market. Potential exists for India to tap a significant share of world LPO business. India holds significant advantage in various parameters that work in favour of driving the LPO industry towards India. Off-shoring legal work to India saves about 80 per cent of the cost that may be incurred in a developed country like USA. It is estimated that the cost of employing a fresh law graduate in the USA would be US $ 150,000 per annum as compared to US $ 15,000 per annum in India. On per hour basis, this works out to US $ 600 in the USA as compared to US $ 70 in India. Establishment cost to set up a legal firm in India is also low as compared to the USA or Europe. According to estimates, India is 40 times more cost-effective than in the USA in this regard.

Consultancy

10.68 Consultancy is essentially a knowledge-based profession with an underlying developmental role spanning a wide range of sectors. Not only do consultancy services play an important role in the development of the economy, but such consultancy exports enhance the visibility of Indian technical expertise abroad and boost the external sector in multiple ways, including foreign exchange revenues, promotion of export of technology and merchandise (especially capital goods and raw materials), and training of personnel, while contributing significantly to national development in the host country. Revenues of Indian consulting industry are estimated at US$ 4.41 billion in 2007. Though the consulting profession contributed only 0.44 per cent to the GDP in 2007, growth rates of the industry have been extremely promising over the last few years with a CAGR of about 73.68 per cent between 2002 and 2007. The Asia Pacific (APAC) consulting industry generated revenues worth US$33.5 billion in the year 2008 with India's contribution at US$1.81 billion, i.e. a share of 5.4 per cent of the total APAC market.

10.69 The consultancy services market can be broadly categorized into management consultancy and engineering consultancy. Some of the commonly provided services across both fields of consultancy include detailed project reports, impact studies, evaluation/ assessment studies, advisory services, design and detailed engineering. Consulting services in India are being provided by a host of entities, the major categories being individual consultants, consulting firms, R&D organizations, academic institutes, and professional bodies. Consulting firms are the dominant players (64 per cent) followed by individual consultants (22 per cent), R & D organizations (10 per cent), academic institutes (3 per cent), and professional bodies (1 per cent). The client sectors to which consulting services are provided include agriculture, banking and financial services, chemicals, education, energy, entertainment, environment, governance, public administration and policy, hospitality, infrastructure, manufacturing, real estate, retail, information technology, telecommunications, transport, and utilities.

10.70 The Indian management consultancy market is one which is still in its nascent stage, with high growth and large entry of players being the key characteristics. Although it is still relatively small in revenue size as compared to the global management consultancy market, standing at US$ 1.5 billion in the year 2006-07, the Indian management consultancy industry has shown high growth partly due to the low base from which it picked up. Growth in management consultancy exports was also high with exports amounting to US$7.3 billion in the year 2006-07.

10.71 The Indian engineering consultancy market is experiencing a boom, with many large-scale development projects driving its growth. It is a more developed market as compared to the management consultancy market. Although it is still relatively small in revenue size as compared to the global engineering consultancy market standing at US$ 2.91 billion in the year 2006-07, the Indian engineering consultancy industry has shown a steady growth over the last few years.

10.72 Over the past decade, India has emerged as one of the fastest growing consultancy markets worldwide. This is largely attributable to increased investment activities due to liberalization of FDI restrictions, entry of many new players into the Indian market, high growth in most key sectors, and India being an emerging economy and a low-cost sourcing destination.

Construction

10.73 The construction industry in India is an important indicator of development as it creates investment opportunities across various related sectors. The construction industry has contributed an estimated ₹ 3,84,282 crore (at constant prices) to national GDP in 2010-11 (a share of around 8 per cent). The industry is fragmented, with a handful of major companies involved in construction activities across all segments; medium sized companies specializing in niche activities; and small and medium contractors who actually work on subcontract basis and carry out the work in the field. The sector is labour intensive and, including indirect jobs, provides employment to more than 35 million people.

10.74 Creation of physical assets is an important outcome of construction activity. Prior to liberalization, the sector was dependent on Government spending on infrastructure as also construction activity undertaken by the private sector for housing complexes. The sector was given industry status in the year 2000. Since then, there are more initiatives by the Government to undertake projects on PPP basis. These initiatives have resulted in more private ownership of build-operate-transfer (BOT), build-operate-own-transfer (BOOT), and build-operate-lease-transfer (BOLT) projects. FDI is allowed upto 100 per cent under the automatic route in townships, housing, built-up infrastructure, and construction of development projects (which include housing, commercial premises, educational institutions, and recreational facilities).

10.75 The construction sector has major linkages with the building materials industry since they account for sizeable share of the construction costs (approximately 40 per cent to 50 per cent). The construction component, on an average, accounts for more than half of the investment required for setting up critical infrastructure like power projects, ports, railways, roads, and bridges. The sector therefore is critical for enhancing the productive capacity of the overall economy. With plans to enhance infrastructure investment to US $ 1 trillion, the construction sector is all set to become one of the growth engines of the Indian economy in the foreseeable future.

10.76 Construction services have been brought under the ambit of services tax since the year 2004. However, certain infrastructure projects like dams, roads, bridges, railways, and airports and projects awarded by Government/ local bodies are exempt from services tax. Construction service providers have been allowed to avail of Central value added tax (CENVAT) credit on capital goods, inputs, and input services since 2004. Moreover, excise duty on supply of goods to deemed export projects is refunded. The existing VAT Act provides for deduction of subcontractor turnover based on documentary evidence.

10.77 Some initiatives that could be taken in the construction sector include using the standard contract document for all domestic civil engineering projects, setting up consortiums to bid effectively for international projects, and resolving the issue of precondition in most of the overseas tenders floated by clients wherein equipment to be supplied by the contracting company has necessarily to be sourced from an approved list of suppliers from developed countries. Another area that needs consideration is the possibility of a double guarantee avoidance treaty on the lines of the double taxation avoidance treaty as overseas clients insist on bank guarantees to be issued under the contract being routed through a local bank operating in the country of project execution which results in Indian contracting companies being called upon to pay the bank guarantee charges to Indian banks as also to the local overseas banks which issue the final end guarantees to the client, based on the counter guarantees from the Indian banks.

Some Social Services

10.78 Healthcare and education are the two major social services (see chapter 12). Besides these two, some other social services like sports are gaining importance in India.

Sports

10.79 Sports have always been seen as an integral part of all round development of the human personality. Apart from being a means of entertainment and physical fitness, sports have also played a great role in national identity and bonding with the international community. Organizing sports events is emerging as an important activity for inflow of tourists and generation of employment and is thereby contributing to national income.

10.80 Physical education, games, and sports have been receiving attention over successive Plans. However, it was only after India hosted the Ninth Asian Games in 1982 that 'sports' became a subject of policy. The National Sports Policy 1984 was the first move towards developing an organized and systematic framework for the development and promotion of sports in the country and it was succeeded by the National Sports Policy 2001. The policy envisages broad-basing of sports, upgradation and development of infrastructure, strengthening of scientific and coaching support, among others. The Sports Authority of India (SAI) was established in 1984 with the objective of spotting and nurturing talent at all levels, by providing the requisite infrastructure and equipment, coaching facilities, scientific back-up, nutritious diet, and exposure to competition.

10.81 The 19th Commonwealth Games (CWG), a mega sporting event held every four years, in which 71 countries and territories participate, were organized successfully by India. The event has significantly contributed to employment generation, infrastructure development, tourism inflow, and growth in national income. The Sports Ministry had undertaken a massive and unprecedented training programme for the top sportspersons of India, to prepare the Indian contingent for CWG 2010. A Scheme for Preparation of Indian Athletes for CWG 2010 was put in place for providing comprehensive and intensive training and exposure to Indian sportspersons, both domestically and abroad. In this effort, 170 Indian and 30 foreign coaches and 78 supporting technical personnel were involved. This has resulted in the best-ever performance by India in any major, multi-disciplinary sports event with a haul of 101 medals (38 gold, 27 silver, and 36 bronze), which is more than double the medals India won at CWG, Melbourne, 2006. This achievement placed India second in medals tally after Australia and ahead of major sporting countries such as England, Canada, and South Africa.

Challenges And Outlook

Outlook

10.82 The outlook for the services sector which had slightly dimmed due to the fallout of the sub-prime crisis in the US and the global financial crisis has once again brightened. Recent business performance indicators of different service firms in different sub-sectors also support this healthy prognosis. Even during the crisis year, annual services growth was around the 10 per cent mark, which it has maintained since 2005-06. This is in contrast to the overall GDP growth which fell to 6.8 per cent in 2008-09 from 9.3 per cent in 2007-08. Thus the resilience of the services sector has greatly contributed to the resilience of the economy.

Challenges

10.83 Given the myriad activities in services, supporting its growth will require careful and differentiated strategies. The opportunities in this fast-growing, employment-oriented, FDI attracting sector, with vast export-potential are striking. However, the challenges are also many. One of the challenges in this area is to retain India's competitiveness in those sectors where it has already made a mark such as IT & ITeS and Telecommunications. Their deeper and broader use in the domestic sectors would also have a dramatic potential to increase the efficiency and productivity of other goods and services. The second challenge lies in making inroads into some traditional areas such as tourism and shipping where other countries have already established themselves, but where the potential for India is nevertheless very high. The third challenge is in making forays into globally traded services in still niche areas for India, such as financial services, health care, education, accountancy, and other business services where India has a large domestic market and has also shown recent signs of making a dent in the international market, but only a very small part of the full potential has been tapped. There are also challenges related to collecting better data and developing a better coordinated strategy to pull together all the dispersed information. Regulatory improvements will also be important as many domestic regulations and market access barriers could come in the way of fully tapping this growth-accelerating sector. Since there are diverse sectors within services, the issues and policies cannot be separated into watertight compartments. Addressing these challenges and issues could further strengthen the services sector which is the driving force for India to realize double-digit growth potential, both overall and at state level, while providing more and better jobs. to help achieve more inclusive and balanced growth.