Services Sector

09
CHAPTER

The services sector's significance in the Indian economy has continued to increase, with the sector now accounting for around 55 per cent of total size of the economy and GVA growth, two-thirds of total FDI inflows into India and about 38 per cent of total exports. The share of services sector now exceeds 50 per cent of Gross State Value Added in 15 out of the 33 states and UTs, with this share more than 80 per cent in Delhi and Chandigarh. However, data on GVA growth, high-frequency indicators and sectoral trends suggest a moderation in services sector activity during 2019-20. Bank credit to services sector, air passenger traffic and rail freight traffic have witnessed a deceleration, while foreign tourist arrivals and port traffic have continued to ease during 2019-20. On the bright side, the very latest readings on most of these indicators suggest a recovery. Moreover, gross FDI equity inflows into services sector have registered a strong recovery and services exports have maintained their momentum during April-September 2019. Services exports have outperformed goods exports in the recent years, due to which India's share in world's commercial services exports has risen steadily over the past decade to reach 3.5 per cent in 2018, twice the share in world's merchandise exports at 1.7 per cent. India's education services imports have increased markedly in the recent years, up from about US$ 2.3 billion in 2013-14 to US$ 5.0 billion in 2018-19. The shipping turnaround time at ports has almost halved from 4.67 days in 2010-11 to 2.48 days in 2018-19. India has launched around 5-7 satellites per year in the recent years with no failures, barring one in 2017.

SERVICES SECTOR PERFORMANCE: AN OVERVIEW

Gross Value Added in Services Sector

9.1 As per the First Advance Estimates for Gross Value Added (GVA) from the Ministry of Statistics and Planning Implementation, services sector growth (YoY) continued to moderate during 2019-20, reaching 6.9 per cent from 7.5 per cent in 2018-19 (Table 1). By sub-sector, growth (YoY) in 'financial services, real estate & professional services' decelerated to 6.4 per cent during 2019-20 and that in 'trade, hotels, transport, communication & broadcasting services' remained on a downward trend, reaching 5.9 per cent in 2019-20. However, 'public administration, defence & other services' witnessed an acceleration in activity during 2019-20, with a growth (YoY) of 9.1 per cent. Notwithstanding the recent underperformance, the services sector continues to outperform agriculture and industry sector growth, contributing around 55 per cent to total GVA as well as to total GVA growth.

Table 1: Services Sector Performance in GVA

Sector	Share in GVA (per cent)	Growth (per cent YoY)				
					2019-20	
	2019-20 (1st AE)	2017-18 (RE)	2018-19 (PE)	2019-20 (1st AE)	Q1	Q2
Total Services	**55.3**	**8.1**	**7.5**	**6.9**	**6.9**	**6.8**
Trade, hotels, transport, communication & services related to broadcasting	18.3	7.8	6.9	5.9	7.1	4.8
Financial, real estate & professional services	21.3	6.2	7.4	6.4	5.9	5.8
Public administration, defence & other services	15.6	11.9	8.6	9.1	8.5	11.6

Source: Ministry of Statistics and Programme Implementation (MoSPI).
Note: Shares are in current prices and growth in constant 2011-12 prices; RE: Revised Estimates. PE: Provisional Estimates, 1st AE: 1st Advance Estimates.

9.2 The moderation in services sector growth during 2019-20 is also reflected in the high-frequency indicators, though some recent data suggests that service sector activity might be bottoming out (Figure 1(a) to (d)). The services Purchasing Managers' Index (PMI) has stabilized in the recent months above the threshold of 50 (above 50 indicates service sector activity is expanding) after having softened during Q4 of 2018-19 and Q1 of 2019-20. Growth in air passenger traffic has begun to show some signs of recovery after having witnessed a slowdown since mid-2018-19. Even the growth in rail freight, which was contracting in the past few months, has picked up in November 2019. In contrast, bank credit to the services sector has continued to decelerate. The growth in bank credit to services sector was 4.8 per cent as on November 2019 as compared to 28.1 per cent a year ago (Table 2).

Figure 1(a): Services PMI Index

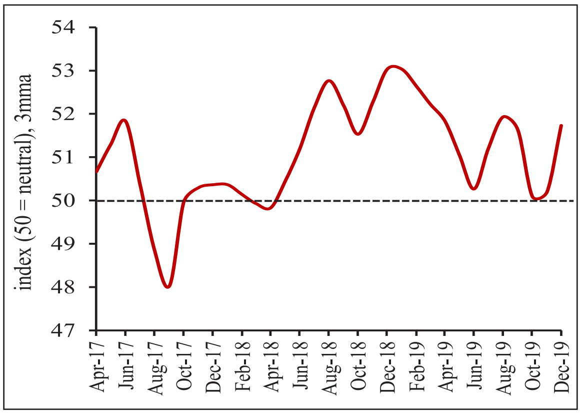
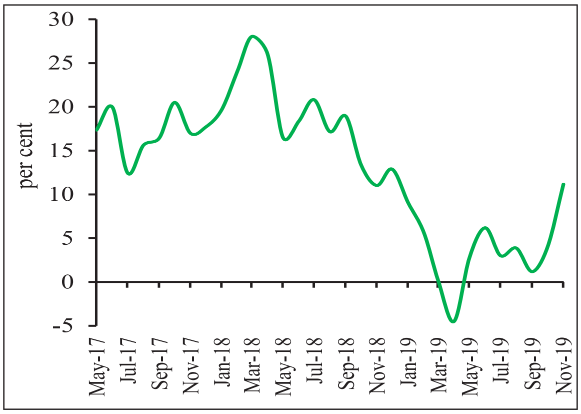


Figure 1(b): Growth (Year on Year (YoY)) in Air Passenger Traffic



Source: IHS Markit Economics, Directorate General of Civil Aviation.

Figure 1(c): Growth (YoY) in Rail Freight Traffic

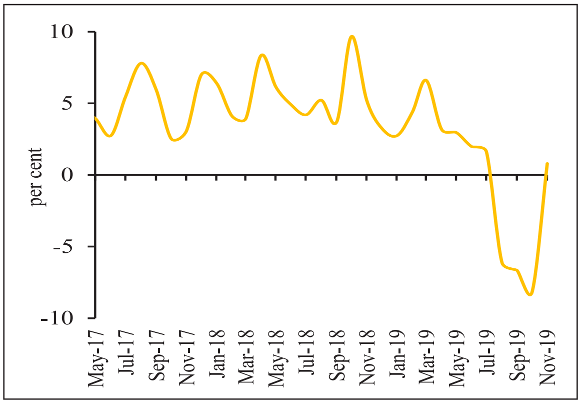
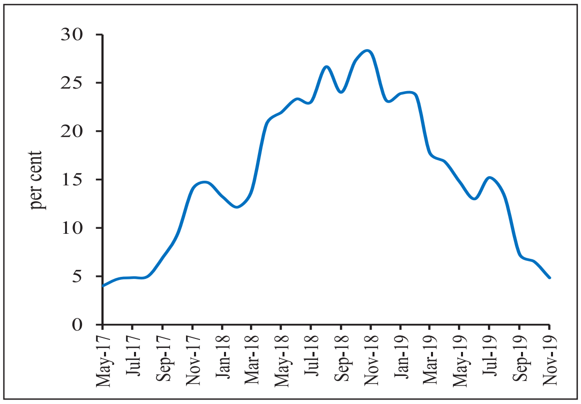


Figure 1(d): Growth (YoY) in Bank Credit to Services Sector



Source: RBI, Indian Railways.

Table 2: Growth (YoY) in Bank Credit to Services Sub-Sectors

Services Sub-Sectors	Fiscal Year-to-Date Apr-Nov 2019 (per cent)	Fiscal Year-to-Date Apr-Nov 2018 (per cent)
Services	**-2.2**	**9.9**
Transport Operators	0.9	6.6
Computer Software	2.8	2.8
Tourism, Hotels & Restaurants	11.4	5.3
Shipping	-13.5	1.1
Professional Services	-0.5	8.4
Commercial Real Estate	9.1	1.0
Bank credit to NBFCs	14.0	14.1
Retail Trade	2.3	2.3
Wholesale Trade*	-13.2	3.1
Other Services	-20.7	16.9

Source: RBI.
Note: *Other than food procurement.

9.3 RBI's data on the allocation of bank credit for services sub-sectors shows that the deceleration in credit growth during April-November 2019 has been driven by 'Professional Services', 'Shipping', 'Transport Operators' and 'Wholesale Trade' (Table 2). Bank credit to 'Tourism, Hotels & Restaurants', 'Commercial Real Estate'and 'Non-Banking Financial Corporations (NBFCs)' remained high as compared to the other sub-sectors during April-November 2019.

9.4 Services sector performance at the state and UT level shows that the services sector now accounts for more than 50 per cent of the Gross State Value Added (GSVA) in 15 out of the 33 states and UTs (Table 3). In 8 states, services sector account for more than 60 per cent of GSVA. Chandigarh and Delhi stand out with a particularly high share of services in GSVA of more than 80 per cent while Sikkim's share remains the lowest at 26.8 per cent. Even states with relatively lower share of services in GSVA, such as Jharkhand, Odisha, Andhra Pradesh, Uttarakhand, Gujarat, Arunachal Pradesh and Goa, have witnessed strong services sector growth in the recent years.

Table 3: Services Sector Performance at the State and UT Level

State	Services Sector Share in GSVA in 2018-19 (per cent)*	Services Sector 5-year Average Growth (per cent YoY)**
Chandigarh*	86.7	7.3
Delhi	84.1	8.8
Andaman and Nicobar Islands*	68.1	8.6
Karnataka	65.4	10.5
Manipur*	65.1	6.3
Telangana	64.7	11.2
Kerala*	62.7	6.4
Bihar	61.1	9.0
Jammu & Kashmir*	58.3	5.5
Meghalaya*	59.0	7.5
Maharashtra*	57.6	8.1
West Bengal	57.5	9.2
Tamil Nadu	54.2	6.9
Nagaland*	54.1	4.9
Haryana	50.8	9.2
Uttar Pradesh	48.8	7.7
Puducherry	48.5	6.0
Assam*	47.8	6.9
Mizoram*	46.8	7.8
Punjab	46.5	7.2
Rajasthan	45.0	7.3
Jharkhand	44.8	8.7
Andhra Pradesh	43.0	9.8
Himachal Pradesh	42.8	7.6
Arunachal Pradesh*	42.5	9.0
Odisha	41.8	8.4
Uttarakhand	40.5	9.5
Tripura*	39.7	3.0
Goa	38.0	8.4
Chhattisgarh	37.1	5.9
Madhya Pradesh	35.9	6.7
Gujarat*	35.7	8.6
Sikkim	26.8	4.4

Source: MoSPI.

Note: *2017-18 data; **Average from 2014-15 to 2018-19, or average from 2013-14 to 2017-18 where the data for 2018-19 is unavailable.

FDI Inflows into Services Sector

9.5 FDI data from the Department for Promotion of Industry and Internal Trade shows that gross FDI equity inflows (excluding re-invested earnings) into the services sector[1] witnessed a strong recovery during April-September 2019 following a decline in 2018-19. Gross FDI equity inflows jumped by 33 per cent YoY during April-September 2019 to reach US$ 17.58 billion, accounting for about two-thirds of the total gross FDI equity inflows into India during this period (Table 4). The jump in FDI equity inflows was driven by strong inflows into sub-sectors such as 'Information & Broadcasting', 'Air Transport', 'Telecommunications', 'Consultancy Services' and 'Hotel & Tourism'.

Table 4: Gross FDI Equity Inflows* into Services Sector

Services Sub-Sectors	Share in FDI Equity Inflows into Services Sector in 2018-19 (per cent)	Gross FDI Equity Inflows (US$ million)			
		2017-18	2018-19	Apr-Sep 2018	Apr-Sep 2019
Financial, Business, Outsourcing, R&D, Courier, Tech Testing & Analysis	20.6	6,709	9,158	4,915	4,455
Computer Software & Hardware	14.5	6,153	6,415	2,541	4,025
Trading	10.1	4,348	4,462	2,143	2,143
Telecommunications	6.0	6,212	2,668	2,178	4,280
Information & Broadcasting	2.8	639	1,252	58	196
Hotel & Tourism	2.4	1,132	1,076	344	859
Hospitals & Diagnostic Centers	2.4	708	1,045	345	376
Education	1.8	286	777	167	216
Retail Trading	1.0	224	443	256	243
Consultancy Services	0.9	760	411	88	473
Sea Transport	0.6	1,051	279	117	173
Air Transport	0.4	629	191	30	114
Agriculture Services	0.2	110	88	29	23
Gross FDI Equity Inflows into Services Sector (US$ million)		**28,960**	**28,264**	**13,209**	**17,577**
Change from Previous Period (per cent YoY)		**15.0**	**-2.4**	**-20.5**	**33.1**
Gross FDI Equity Inflows into India (US$ million)		**44,857**	**44,366**	**22,664**	**26,096**
Share of Services Sector in Gross FDI Equity Inflows into India (per cent)		**64.6**	**63.7**	**58.3**	**67.4**

Source: Department for Promotion of Industry and Internal Trade (DPIIT).
Note: *Excludes re-invested earnings.

[1] Estimated as gross FDI equity inflows into financial services, business services, outsourcing, R&D, technology testing & analysis, courier, telecommunications, trading, computer hardware & software, hotels & tourism, hospital & diagnostic centres, consultancy services, sea transport, information & broadcasting, retail trading, agriculture services, education, and air transport.

Trade in Services Sector

9.6 RBI's Balance of Payments data suggests that services exports during April-September 2019 maintained their momentum from 2018-19, with a growth (YoY) of 6.4 per cent. The jump in export growth of travel, software, business and financial services offset the contraction in export growth of insurance and other services (including construction, etc.) (Table 5). The robust growth in business services exports was driven by higher receipts for R&D services, professional and management consultancy services, and technical and trade related services.

9.7 Trends in the composition of services exports over the past decade show that the shares of traditional services, such as transport, and value-added services, such as software, financial services and communications, have witnessed a decline. Meanwhile, the share of travel services has increased over the past decade and that of business services has risen slightly. The share of software services has declined by 4 percentage points over the past decade to reach 40 per cent of total services exports in 2018-19. Yet, India's services exports remain concentrated in software services, accounting for twice the share of the second-largest component, business services.

Table 5: Services Trade Performance by Sub-Sector

Commodity Group	Share (per cent)		Value (US$ billion)			Growth (per cent YoY)		
	2008-09	2018-19	2017-18	2018-19	Apr-Sep 2019-20 (P)	2017-18	2018-19	April-Sep 2019-20 (P)
Total Services Exports			**195.1**	**208.0**	**104.6**	**18.8**	**6.6**	**6.4**
Travel	10	14	28.4	28.4	14.6	22.0	0.3	8.2
Transportation	11	9	17.4	19.5	10.5	10.0	11.6	10.8
Insurance	1	1	2.5	2.7	1.2	13.6	6.2	-4.9
GNIE*	0.4	0.3	0.7	0.6	0.3	12.9	-8.1	3.5
Software Services	44	40	77.3	83.5	46.1	4.0	7.9	12.7
Business Services	18	19	37.3	39.1	22.4	13.4	4.7	18.6
Financial Services	4	2	5.2	4.9	2.5	1.3	-5.9	4.3
Communication	2	1	2.1	2.6	1.3	-11.7	22.1	18.3
Total Services Imports			**117.5**	**126.1**	**64.1**	**22.6**	**7.3**	**7.9**
Travel	18	17	19.5	21.7	12.2	18.6	11.2	4.3
Transportation	25	16	17.6	20.5	12.1	24.6	16.6	22.8
Insurance	2	1	1.7	1.8	0.8	13.7	5.3	-0.7
GNIE*	2	1	0.8	1.1	0.6	32.5	40.3	11.9
Software Services	5	5	5.1	5.8	4.0	43.3	13.1	33.7
Business Services	29	32	36.6	40.4	22.9	13.3	10.3	19.6
Financial Services	6	3	5.5	3.5	1.1	-5.4	-37.0	-40.7
Communication	2	1	1.0	1.1	0.6	4.8	18.4	25.1
Services Trade Balance			**77.6**	**81.9**	**40.5**			
Goods Trade Balance			**-160.0**	**-180.3**	**-84.3**			

Source: RBI.
Note: *GNIE = Government not included elsewhere; P: Preliminary.

This has made the software sector, and therefore overall services exports, susceptible to changes in exchange rate, global IT spending, stringent USA visa norms, and rising cost pressures due to increased local hiring in export destinations. Even though global IT spending, as projected by Gartner in October 2019, is expected to accelerate in 2020, rising production costs and uncertainty related to Brexit and USA's visa norms pose downward risks to India's software exports.

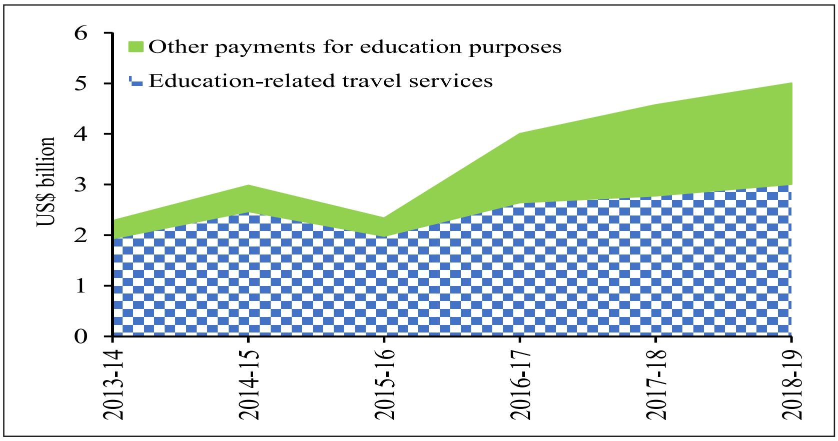
9.8 Services import growth (YoY) during April-September 2019 was 7.9 per cent. An increase in import growth for transport, software, communication and business services offset the contraction in imports of financial and insurance services and the slowdown in imports of travel services. Increased business services payments were primarily driven by professional, management and consultancy services, and technical and trade related services.

9.9 Net exports of services increased from US$ 38.9 billion during April-September 2018 to US$ 40.5 billion during April-September 2019, up 4.1 per cent YoY. The services trade surplus, largely driven by the surplus in software services, financed about 48 per cent of India's merchandise deficit during April-September 2019, partially offsetting the impact on the current account deficit.

9.10 Besides software services, India runs a small trade surplus in travel, insurance and financial services. However, within travel services, India persistently runs a trade deficit in education services with education imports, i.e., expenditure incurred by Indian students traveling abroad for education purposes on tuition, room and boarding, reaching about US$ 3 billion in 2018-19. Adding to this other payments for education purposes such as fees paid for correspondence courses abroad, which constitute as payments for receiving education services abroad, there has been a marked increase in India's education services imports in the recent years amounting to US$ 5.0 billion in 2018-19 (Figure 2).

9.11 From a long-run perspective, India's focus on boosting services exports during bilateral trade negotiations augurs well for mitigating bilateral trade deficits with trading partners. Looking ahead, world trade volume for goods and services are projected to recover in 2020 following a deceleration in 2019. Global uncertainty, protectionism and stricter migration rules would be key factors in shaping India's services trade ahead.

Figure 2: Import of Education Services



Source: RBI

Note: Education travel services includes expenditure incurred by Indian students abroad on tuition, room and boarding.

Box 1: India in World Commercial Services Exports

The increasing role of services in economic activity is also reflected in the growing importance of services in global trade and in India's trade. Looking at two time periods, 2005-11 and 2012-2018, it is evident that both commercial services[2] exports and goods exports have slowed in India and globally in the recent years (Table A). However, while merchandise exports were growing faster than commercial services exports during 2005-11, commercial services exports have outperformed goods exports lately. This has led to an increase in the share of commercial services exports in overall exports both in India and globally.

Table A: Performance of Services and Merchandise Exports in India and World

Country	Growth in merchandise exports (per cent)		Growth in commercial services exports (per cent)		Share of commercial services exports in total exports (per cent)	
	CAGR 2005-11	CAGR 2012-18	CAGR 2005-11	CAGR 2012-18	2005	2018
World	9.7	0.8	8.9	4.4	19.8	22.9
India	20.4	1.5	17.7	5.9	34.2	38.6

Source: WTO.
Note: Calculations are on calendar year basis.

According to WTO data, India's share in world's commercial services exports has risen steadily over the past decade to reach 3.5 per cent in 2018, twice the share in world's merchandise exports at 1.7 per cent. India now ranks 8th among the world's largest commercial services exporters and continues to register strong growth performance relative to the other major services-exporting countries as well as world services export growth (Table B).

Table B: Commercial Services Exports in Top 10 Exporting Countries

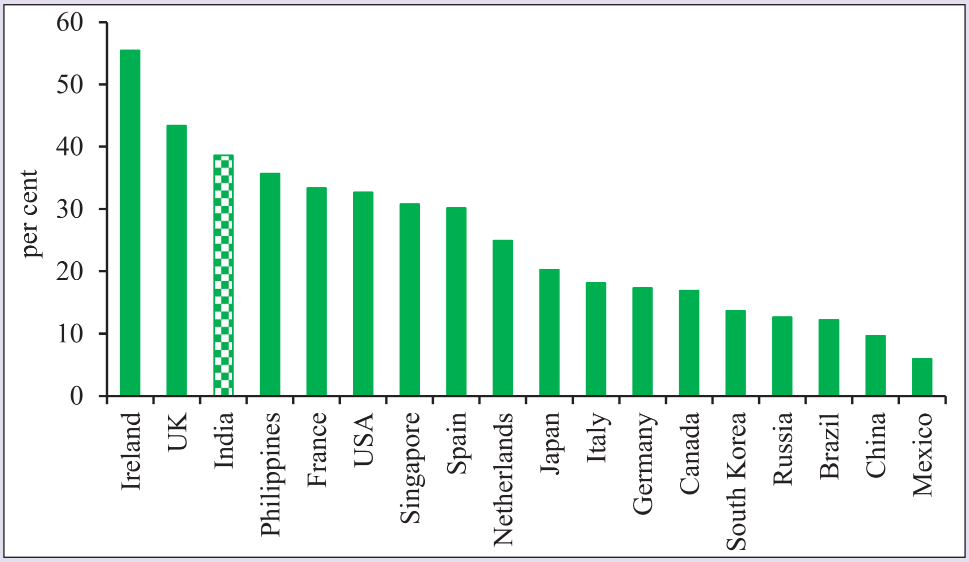
Country	Share in global commercial services exports in 2018	Global ranking in 2018	Growth in Commercial Services Exports (per cent YoY)		
			2017	2018	Jan-June 2019
World			**8.0**	**7.7**	**N.A.**
USA	14.0	1	5.2	3.8	0.7
UK	6.5	2	2.4	5.6	-3.0
Germany	5.6	3	8.0	7.3	-2.4
France	5.0	4	5.7	6.2	-7.0
China	4.6	5	8.7	17.1	4.2
Netherlands	4.2	6	14.3	11.4	3.4
Ireland	3.6	7	20.5	14.3	10.9
India	**3.5**	**8**	**14.5**	**10.7**	**7.1**
Japan	3.2	9	6.4	3.1	3.6
Singapore	3.2	10	10.0	6.6	-2.1

Source: WTO.
Note: Calculations are on calendar year basis; N.A.: not available.

[2] Commercial services exports refer to all services exports excluding government services.

Among the major services-exporting economies, India also has a relatively high share of services exports in overall exports (Figure A).

Figure A: Share of Commercial Services Exports in Total Exports for Major Economies in 2018



Source: Calculations based on WTO data.
Note: Calculations are on calendar year basis.

Box 2: Developing the Offshore Fund Management Industry to Boost Financial Services Exports

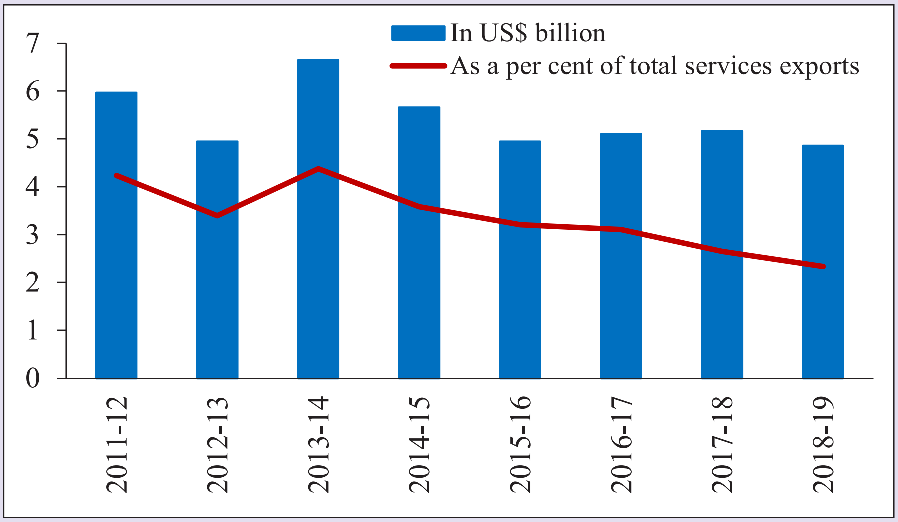
The financial services sector has been identified as one of the Champion Services Sectors by the government to enable on-shoring of the India-related financial services that are currently being rendered from global financial centers. This would provide an impetus to financial services exports and high-skilled employment. Despite India's strong performance in services exports (Box 1), India's financial services exports have remained stagnant, averaging about US$ 5 billion in the recent years. As a result, the share of financial services exports in overall services exports has almost halved from 4.2 per cent in 2011-12 to 2.3 per cent in 2018-19 (Figure B).

One type of financial services that is currently being rendered from global financial centers and could be potentially brought on-shore is the asset management activity of offshore funds. These offshore funds located in tax and regulatory friendly jurisdictions, such as Singapore, Luxembourg, Ireland, Hong Kong and London, pool investments from offshore investors and invest in India via the Foreign Portfolio Investment (FPI), Private Equity (PE) or Foreign Venture Capital Investment (FVCI) route. Such funds include the India-focused offshore funds which invest only in India, and the Regional/ Global diversified funds with partial investment allocation to India (Table C). As foreign investment into India continues to increase in the coming years, on-shoring the fund management activity of offshore funds to India would benefit the economy by:

- Contributing to the continued expansion of India's asset management industry which has been witnessing significant growth in the recent years (Table C). The Asset Managers Roundtable of India (AMRI) estimates that fund management activity of almost 25 per cent of FPI, PE and FVCI funds' total Assets Under Management (AUM) could be potentially on-shored to India by 2020, and potentially a greater share of AUM in the coming years. Assuming total AUM of FPIs at US$ 542 billion and total AUM of PE & FVCIs at US$ 326 billion by 2020, this implies that nearly US$ 136 billion of FPI funds and US$ 82 billion of PE & FVCI funds, i.e., US$ 217 billion in total assets, could be potentially managed on-shore in India by 2020, according to AMRI estimates.

- Generating employment for high-skilled finance professionals, including fund managers and support service providers, such as custodians, fund specialists, fund accountants, fund administrators, risk managers, research analytics professionals and tax advisors. The management fee received by fund managers for managing the offshore funds would constitute as financial services exports. Based on a conservative assumption of 1 per cent management fee (compared to 2 per cent globally), the AMRI estimates that on-shore management of US$ 217 billion in assets of offshore funds could yield about US$ 2.2 billion in fund management fees and therefore financial services exports in 2020.

Figure B: India's Financial Services Exports



Source: RBI.

Table C: Size of India's Domestic Fund Management Industry and Offshore Funds

Domestic Funds (US$ billion)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
AUM of Asset Management Companies	129	137	173	186	271	328	344
Assets Managed By Portfolio Managers*	12	14	19	21	29	38	41
AUM of Alternative Investment Funds	0.3	2	4	6	13	25	41

FPI Funds** (US$ billion)	2012	2013	2014	2015	2016	2017	2018
AUM of FPIs	243	237	356	351	346	514	451
AUM of India-Focused FPI Offshore Funds***	21	17	23	24	22	31	N.A.

Source: Asset Managers Roundtable of India (AMRI) estimates; calculations based on SEBI, NSDL, Morningstar, VCCEdge, Venture Intelligence data.
Note: *Includes non-EPFO/PFs discretionary assets and non-discretionary assets; **Data is on a calendar year basis; ***Estimates would be higher if AUM for regional/global diversified FPI offshore funds with partial investment allocation to India are included; N.A.: Not Available.

At present, the fund management activity of these offshore funds is being undertaken by fund managers, often of Indian origin, located in offshore jurisdictions since their presence in India would create tax implications for the offshore fund's profits. In April 2016, the government introduced 'safe harbour' provisions as Section 9A, *Income Tax Act (1961)* under which, on satisfying a set of eligibility conditions, the offshore fund would not be considered a 'resident' for tax purposes solely based on its fund manager being located in India. However, most offshore funds have been unable to utilize the 'safe harbour' provisions since they have to satisfy a total of 17 stringent eligibility conditions related to the fund's structure, investor composition, investment activity and fund manager's activity and remuneration. Some of these conditions are not in sync with the structure and investment pattern of offshore funds and nature of FPI inflows into India, and lead to dual compliance burden for offshore investors since they are also required to comply with RBI and SEBI regulations related to end-investors in FPIs and round- tripping.

In comparison, in key fund management jurisdictions such as USA, UK, Singapore and Hong Kong, the eligibility conditions under 'safe harbour' provisions for offshore funds are fewer and less stringent in many cases, with discretion available to tax authorities to evaluate the offshore fund's structure and investment pattern and allow for exceptions on a case-by-case basis.

In view of the above challenges, the Commerce Ministry's *High-Level Advisory Group (HLAG) Report* (September 2019) recommended simplifying the tax framework and removing tax residency risk for offshore funds wanting to on-shore their fund management activity given that the offshore fund and fund manager are registered with SEBI and compliant with SEBI regulations. Operationalizing the 'safe harbour' regime of Section 9A, *Income Tax Act (1961)* would enable on-shoring the fund management activity of India-focused offshore funds, and potentially, regional/global offshore funds with partial allocation to India. It would also enable greater delegation of fund management activity of FPIs to India as FPI inflows continue to rise in the coming years.

MAJOR SERVICES: SUB-SECTOR WISE PERFORMANCE AND RECENT POLICIES

9.12 Most of the sub-sectors of the services sector witnessed a moderation in growth during 2019-20 (Table 6). The growth in tourism sector decelerated in 2019-20 with weaker growth in foreign tourist arrivals and consequently in foreign exchange earnings from tourism. In the ports sector, growth in port traffic softened in 2019-20 from the previous year. The number of wireless phone subscriptions and wireless internet subscriptions increased in 2019-20. This section discusses developments in some key sub-sectors of the services sector in detail.

Table 6: Performance of India's Key Services Sub-Sectors

Sub-Sector	Indicator	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
IT –BPM*	IT-BPM service revenues:	US$ billion	118.6	129.4	139.9	151.4	161.8 (E)	-
	Exports	US$ billion	97.7	107.8	116.1	125.1	135.5 (E)	-
	Domestic	US$ billion	20.9	21.6	23.8	26.3	26.3 (E)	-
Aviation**	Airline passengers:	million	115.8	135.0	158.4	183.9	204.2	-
	Domestic	million	70.1	85.2	103.7	123.3	140.3	95.7#
	International	million	45.7	49.8	54.7	60.6	63.9	15.6@
Telecom	Wireless phone subscriptions	million	969.9	1033.6	1170.2	1183.4	1161.8	1154.6$
	Wireless internet subscriptions	million	283.3	322.2	400.6	472.7	615.0	665.4%
Tourism	Foreign tourist arrivals[b]	million	7.7	8.0	8.8	10.0	10.6	8.6##
	Foreign exchange earnings from tourism[b]	US$ billion	19.7	21.0	22.9	27.3	28.6	24.0##
Shipping	Port traffic	million tonnes	581.3	606.5	648.4	679.4	699.1	524.0^

Source: Ministry of Tourism, Indian Ports Association, Ministry of Shipping, Directorate General of Civil Aviation, Telecom Regulatory Authority of India, NASSCOM.

Note: *Excluding hardware & e-commerce; **Domestic passengers carried by Indian carriers and international passengers carried by Indian and foreign carriers; [b] On calendar year basis; #For Apr-Nov 2019 period; @For Apr-Jun 2019 period; $As of Nov 2019; ##For Jan-Oct 2019 period; %As of Sep 2019; ^For Apr-Dec 2019 period; E: Estimate.

Tourism Sector

9.13 The tourism sector is a major engine of growth, contributing to GDP, foreign exchange earnings and employment. In India, the tourism sector witnessed a strong performance from 2015 to 2017, with high growth in foreign tourist arrivals. However, foreign tourist arrivals growth (YoY) has decelerated since then to 5.2 per cent in 2018 and 2.7 per cent in January-October 2019 (Figure 3(a)). This trend, however, is not unique to India, as the growth (YoY) in international tourist arrivals globally also slowed from 7.1 per cent in 2017 to 5.4 per cent in 2018 (Table 7).

9.14 Correspondingly, growth in foreign exchange earnings from tourism sector have slowed in 2018 and 2019 after registering strong growth until 2017 (Figure 3(b)). Foreign exchange earnings totalled US$ 24 billion in January-October 2019, with a growth (YoY) of 2 per cent.

Table 7: Foreign and International Tourist Arrivals and Tourism Receipts in India and the World

Indicator	2014	2015	2016	2017	2018
Foreign Tourist Arrivals (FTA) in India (million)*	7.68	8.03	8.80	10.04	10.56
International Tourist Arrivals (ITAs) in India (million)**	13.11	13.76	15.03	16.81	17.42
International Tourist Arrivals (ITAs) around the World (million)	1137	1195	1241	1329	1401
India's Share in World's ITAs (per cent)	1.15	1.15	1.21	1.26	1.24
India's Rank in World's ITAs	24th	24th	26th	26th	22nd
India's Share in Asia Pacific's ITAs (per cent)	4.86	4.84	4.90	5.19	5.01
India's Rank in Asia Pacific's ITAs	8th	7th	8th	7th	7th
India's Share in World Tourism Receipts (per cent)	1.57	1.73	1.84	2.03	1.97#
India's Rank in World Tourism Receipts	15th	14th	13th	13th	13th#
India's Share in Asia Pacific's Tourism Receipt (per cent)	5.49	5.91	6.18	6.90	6.54#
India's Rank in Asia Pacific's Tourism Receipts	7th	7th	7th	7th	7th#

Source: Ministry of Tourism.
Note: *Based on data from the Bureau of Immigration on tourists entering the country on a foreign passport; **Tourists entering the country on a foreign passport plus non-resident citizens visiting the country; #Provisional. International Tourist Arrivals is the sum of Foreign Tourist Arrivals and NRI arrivals in the country.

Figure 3(a): Growth (YoY) in Foreign Tourist Arrivals to India

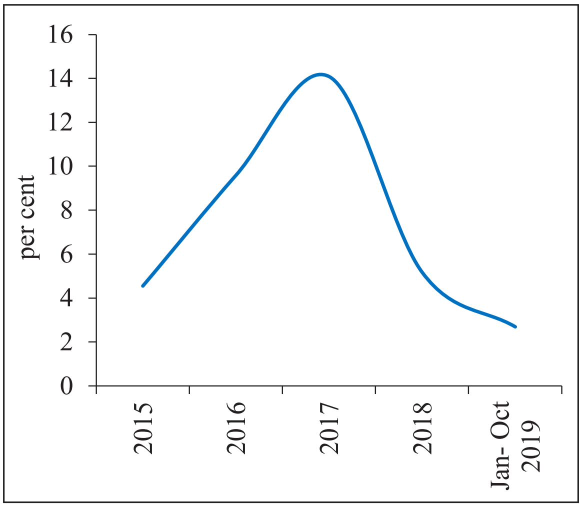
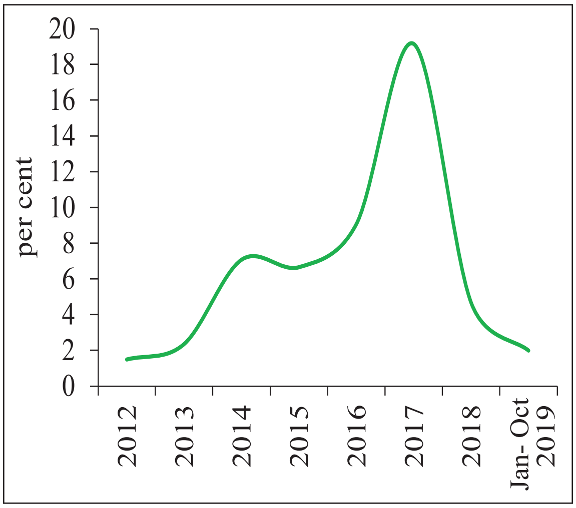


Figure 3(b): Growth (YoY) in Tourism Foreign Exchange Earnings



Source: Ministry of Tourism.
Note: Figures for 2019 are provisional.

9.15 India ranked 22nd in the world in terms of international tourist arrivals in 2018, improving from the 26th position in 2017. India now accounts for 1.24 per cent of world's international tourist arrivals and 5 per cent of Asia & Pacific's international tourist arrivals (Table 7). India ranks 13th in the world and 7th in Asia & Pacific in terms of tourism foreign exchange earnings, accounting for close to 2 per cent of the world's tourism foreign exchange earnings.

9.16 Foreign tourists from the top 10 countries visiting India - Bangladesh, USA, UK, Sri Lanka, Canada, Australia, Malaysia, China, Germany and Russia - accounted for 65 per cent of the total foreign tourist arrivals in India in 2018. Among the foreign tourists, 62.4 per cent tourists visited for leisure, holiday and recreation, 16.3 per cent for business purposes, and 13.5 per cent was Indian diaspora.

9.17 Looking at tourism trends at the state level, the top five states attracting domestic tourists are Tamil Nadu, Uttar Pradesh, Karnataka, Andhra Pradesh and Maharashtra, accounting for nearly 65 per cent of the total domestic tourist visits in the country in 2018. The top five states attracting foreign tourists are Tamil Nadu, Maharashtra, Uttar Pradesh, Delhi and Rajasthan, accounting for about 67 per cent of the total foreign tourist visits in the country in 2018.

9.18 To facilitate international tourism, India introduced the e-Tourist Visa regime in September 2014 for 46 countries. Prior to the launch of the scheme, the e- Visa facility was available for only 12 countries. The government further liberalized the visa regime in 2016, renaming it to e-Visa scheme with five sub-categories i.e. 'e-Tourist Visa', 'e-Business Visa', 'e-Medical Visa', 'e-Conference Visa' and 'e-Medical Attendant Visa'. The e-Visa scheme is now available for 169 countries with valid entry through 28 designated airports and 5 designated seaports. With this, foreign tourist arrivals to India on e-visas have increased from 4.45 lakh in 2015 to 23.69 lakh in 2018 and stood at 21.75 lakh in January-October 2019, recording nearly 21 per cent year-on-year growth from the previous year.

BOX 3: Share of Tourism in GVA and Employment of States

The Ministry of Tourism along with the National Council of Applied Economic Research (NCAER) has prepared a Tourism Satellite Account (TSA) following the methodology recommended by the UN World Tourism Organization. The state-wise share of Tourism Direct Gross Value Added (TDGVA) in state GVA and share of tourism employment in total state employment have been estimated in the Ministry of Tourism and NCEAR's draft report (Table A).

Table A: Share of Tourism in State GVA and Employment

States	Share of TDGVA in State GVA in 2015-16		Share of Tourism Employment in State Employment in 2015-16	
	Direct (per cent)	Direct and Indirect (per cent)	Direct (per cent)	Direct and Indirect (per cent)
Andaman & Nicobar Islands	4.63	10.39	11.09	24.07
Andhra Pradesh	2.29	4.66	5.41	12.84
Arunachal Pradesh	1.21	2.39	2.20	4.76
Assam	2.19	4.32	4.41	8.75
Bihar	2.96	5.99	4.17	10.50
Chandigarh	3.87	9.17	6.70	12.37
Chhattisgarh	2.13	4.44	2.41	7.65

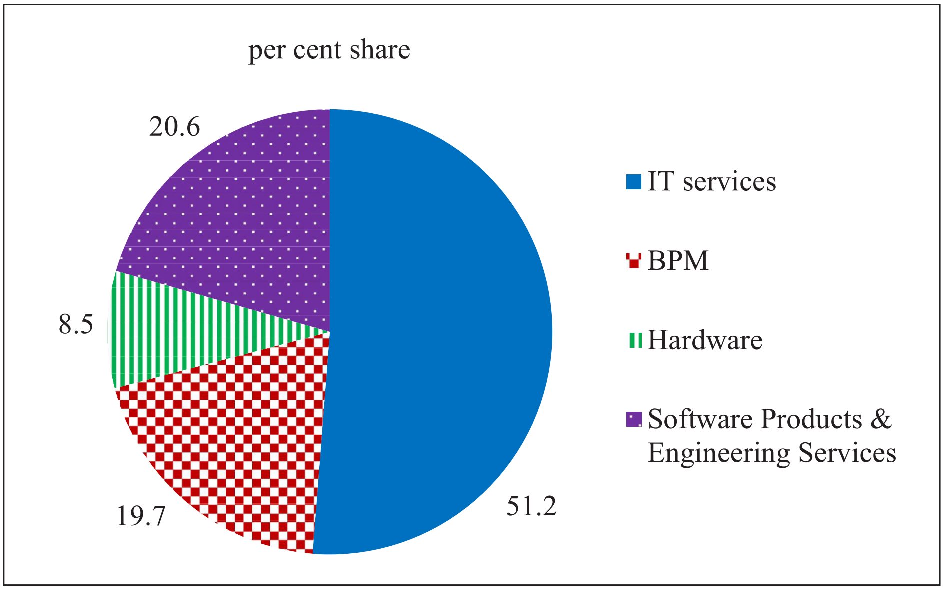
Dadra & Nagar Haveli	0.79	1.79	7.01	23.81
Daman & Diu	0.75	1.36	11.71	29.35
Delhi	4.32	7.78	12.40	21.05
Goa	5.50	11.55	19.38	40.92
Gujarat	1.78	3.96	5.85	15.39
Haryana	1.95	3.88	5.98	10.15
Himachal Pradesh	3.20	6.89	10.23	20.23
Jammu & Kashmir	3.68	7.48	6.74	16.45
Jharkhand	2.10	4.18	3.89	9.12
Karnataka	2.63	5.74	5.46	17.74
Kerala	4.34	8.72	11.20	25.87
Lakshadweep	4.30	9.02	21.95	49.71
Madhya Pradesh	2.39	4.90	3.34	8.45
Maharashtra	3.08	5.52	5.66	12.46
Manipur	2.38	5.50	6.25	12.05
Meghalaya	2.39	5.22	2.87	10.44
Mizoram	1.25	2.55	4.57	10.96
Nagaland	1.87	3.55	3.58	8.34
Odisha	2.43	5.00	5.27	12.11
Puducherry	1.73	4.08	14.25	56.24
Punjab	1.90	3.75	6.69	12.33
Rajasthan	2.73	5.63	5.18	11.26
Sikkim	2.12	4.40	6.84	13.07
Tamil Nadu	2.59	5.37	6.36	15.97
Telengana	2.29	5.07	5.13	17.83
Tripura	1.53	2.99	3.05	5.05
Uttar Pradesh	2.24	4.63	4.46	11.39
Uttarakhand	2.29	5.27	7.99	21.18
West Bengal	2.09	4.30	6.41	14.34

Source: Ministry of Tourism, NCAER.

Information Technology and Business Process Management (IT-BPM) Services

9.19 The Indian IT-BPM Industry has been the flag-bearer of India's exports for the past two decades, with industry size reaching about US$ 177 billion in March 2019. The sector contributes significantly to the economy via employment growth and value addition. IT services constituted 51 per cent of the IT-BPM sector in 2018-19, followed by Software & Engineering Services (20.6 per cent share) and BPM Services (19.7 per cent share) (Figure 4). Within the IT-BPM sector, IT services remained the dominant segment with about US$ 91 billion in revenues in 2018-19. Out of the IT services, digital revenues grew (YoY) more than 30 per cent to reach US$ 33 billion.

Figure 4: Sub-Sector Breakdown of IT-BPM Sector in 2018-19



Source: NASSCOM.

9.20 A significant part (about 83 per cent) of the IT-BPM industry (excluding hardware) continues to be export driven, with export revenues in excess of US$ 135 billion in 2018-19 (Table 8). During 2018-19, the revenue growth (YoY) for IT-BPM sector (excluding hardware) softened to 6.8 per cent from 8.2 per cent in 2017-18. This was driven by a contraction of 0.3 per cent in domestic revenue growth even as export revenue growth accelerated to 8.3 per cent.

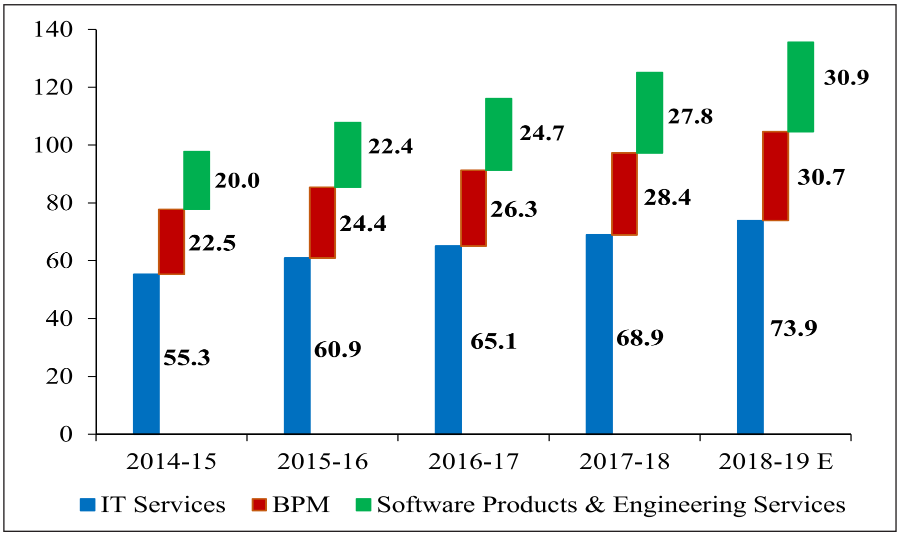
9.21 Out of the total US$ 135.5 billion in exports of the IT-BPM sector in 2018-19, IT services accounted for 55 per cent of the exports, and BPM and Software Products & Engineering services accounted for the remaining 45 per cent with each accounting for almost half of the share (Figure 5). All three sub-sectors witnessed a pickup in export revenues in 2018-19, with IT services growing (YoY) by 7.3 per cent, BPM services by 8.3 per cent and Software Products & Engineering Services by 11.2 per cent.

Table 8: Exports and Domestic Market Size of Indian IT-BPM Industry (Excluding Hardware & E-Commerce)

Year	US$ billion			Growth (per cent YoY)		
	Domestic	Exports	Total	Domestic	Exports	Total
2014-15	20.9	97.7	118.6			
2015-16	21.6	107.8	129.4	3.2	10.3	9.1
2016-17	23.8	116.1	139.9	10.4	7.6	8.1
2017-18	26.3	125.1	151.4	10.4	7.8	8.2
2018-19E	26.3	135.5	161.8	-0.3	8.3	6.8

Source: NASSCOM.
Note: E: Estimate.

Figure 5: Sub-Sector Breakdown of IT-BPM Exports (US $ billion) (Excluding hardware and e-commerce)

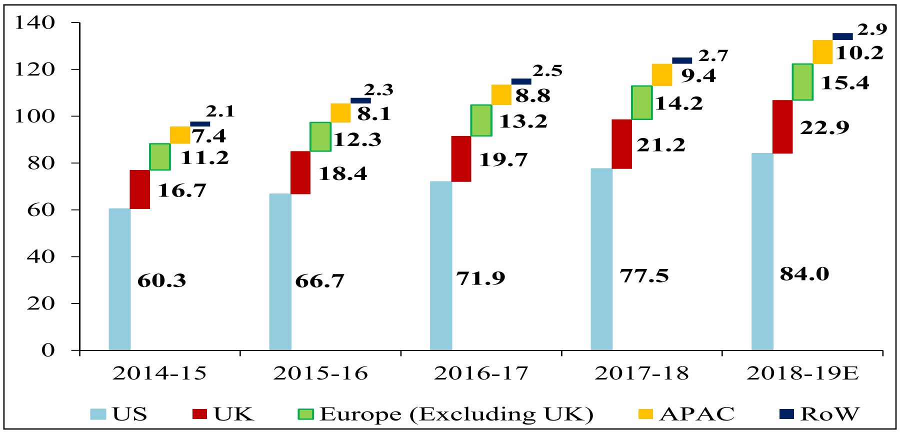


Source: NASSCOM.
Note: E: Estimate.

9.22 Looking at export revenues by destination, USA accounts for the bulk of exports, amounting to US$ 84 billion (Figure 6), which is 62 per cent of total IT-BPM exports (excluding hardware) in 2018-19. This is much larger than the share of exports going to UK, which is the second largest export market for IT-BPM services, with a share of around 17 per cent. Europe (excluding UK) and Asia-Pacific account for 11.4 per cent and 7.6 per cent of the export earnings, respectively.

9.23 Over the past 2-3 years, a number of policy initiatives have been undertaken to drive innovation and technology adoption in the IT-BPM sector, including Start-up India, National Software Product Policy, and removal of issues related to Angel Tax. The Indian start-up ecosystem has been progressing and is now the third largest in the world with 24 unicorns, though the gap with the largest (China: 206) and second largest (USA: 203) markets remains significant. Cities such as Bangalore, Delhi-NCR and Mumbai account for around 55 per cent of the total startups in India (Source: NASSCOM study).

Figure 6: Geographic Break-up of India's IT-BPM Exports (US $ billion) (Excluding hardware and e-commerce)



Source: NASSCOM. Note: E: Estimate.

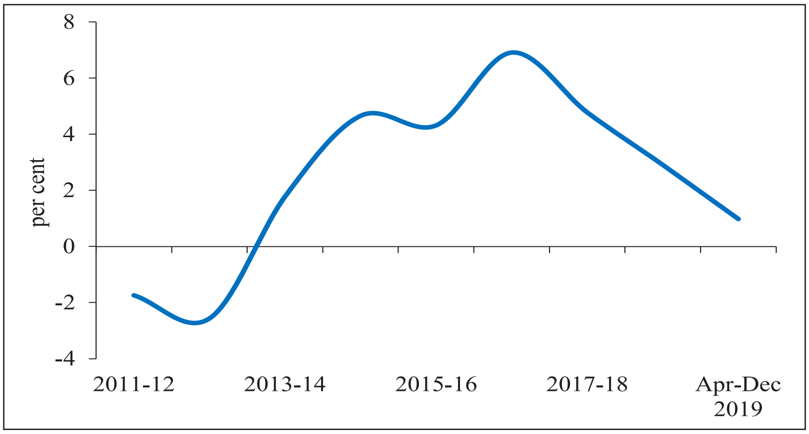
Port and Shipping Services

9.24 India has a 0.9 per cent share in world fleet as on January 2019. India has 13 major ports and about 200 non-major ports. The total cargo capacity of Indian ports stood at 1,452.64 Million Tonnes Per Annum (MTPA) at the end of March 2019, more than doubling from 628.03 MTPA at the end of March 2010. Ports such as Paradip, Chennai, Vishakhapatnam, Deendayal (Kandla) and JNPT had the highest cargo capacities as of March 2019. The total numbers of ships owned by Indian companies stood at 1,414 as of August 2019, up from 1,040 in 2010.

9.25 Growth in overall port traffic witnessed an acceleration between 2013-14 and 2016-17, but has decelerated since 2017-18 (Figure 7). Traffic handled at major ports grew (YoY) at close to 1 per cent in April-December 2019.

9.26 The turnaround time of ships, which is a key indicator of efficiency of the ports sector, has been on a continuous decline, almost halving between 2010-11 and 2018-19 to 2.48 days. The shipping turnaround time has declined across all major ports and is now the lowest at the Cochin, New Mangalore, V.O. Chidambararanar and Chennai ports, and the highest at the Kolkata port (Table 9). As per the latest UNCTAD data, the median ship turnaround time globally is 0.97 days, suggesting that India has room to further improve upon the efficiency at ports.

Figure 7: Growth (YoY) in Port Traffic



Source: Indian Ports Association.

Table 9: Average Ships' Turnaround Time at Major Indian Ports (in days)

Port Name	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Kolkata	5.37	4.95	4.49	4.22	4.18	3.98	4.73	4.11	3.84
Haldia	4.53	3.66	3.99	3.80	3.37	3.27	3.45	3.76	3.04
Paradip	7.73	6.33	4.39	4.62	7.01	4.50	4.99	3.31	2.51
Visakhapatnam	5.84	5.68	5.39	4.73	5.67	3.84	3.75	2.58	2.51
Kamarajar (Ennore)	2.78	2.17	2.95	4.24	4.32	6.53	2.70	2.20	1.97
Chennai	4.36	3.91	3.24	2.46	2.54	2.53	2.51	2.21	1.98
V.O.Chidambararanar	4.11	4.89	4.31	3.92	3.55	3.73	4.40	2.69	1.96
Cochin	2.20	1.82	1.58	1.76	1.69	2.18	1.99	1.54	1.47
New Mangalore	2.71	2.95	3.29	3.18	2.46	2.63	2.35	2.04	1.93
Momugao	6.15	4.80	3.93	4.34	4.15	3.65	4.51	2.63	2.63
Mumbai	4.96	5.22	5.58	5.31	5.28	4.61	3.27	3.72	2.52
JNPT	2.67	2.46	2.54	2.44	2.24	2.44	2.01	2.24	2.13
Deendayal (Kandla)	5.90	6.42	6.40	5.66	5.38	4.66	4.40	2.52	3.01
All Ports	**4.67**	**4.47**	**4.24**	**3.90**	**4.00**	**3.64**	**3.43**	**2.68**	**2.48**

Source: Indian Ports Association.

Space Sector

9.27 India's space programme has grown exponentially since its modest beginnings five decades ago, moving from providing simple mapping services in the 1960s to many more uses currently. This includes design and development of a series of launch vehicles and related technologies, satellites and related technologies for earth observation, telecommunication and broadband, navigation, meteorology and space science, R&D in space sciences, and most recently, planetary exploration.

9.28 India spent about US$ 1.5 billion on space programmes in 2018. However, India's government space expenditure still lags behind that of the major players in the space sector, such as USA, which spent about 13 times more than India in the space sector in 2018 (Table 10). China, which has become a key player in the space sector in the recent years, also spent about seven times more than India in 2018.

Table 10: Government Budget for Space Sector in 2018

Country	Expenditure (US$ billion)
USA (NASA)	19.5
China (CNSA)	11.0
Russia (Roskosmos)	3.3
India (ISRO)	**1.5**

Source: ISRO (which sourced from statista).

9.29 India has launched around 5-7 satellites per year in the recent years with no failures, barring one in 2017. On the other hand, Russia, USA and China dominate the satellite launching services with 20, 31 and 39 satellites respectively in 2018 (Table 11).

9.30 Among the key areas of focus in the space programme, the first area has been satellite communication, with INSAT/GSAT system as the backbone to address the needs for telecommunication, broadcasting and satellite-based broadband infrastructure in the country. The second area of focus has been earth observation and using space-based information for weather forecasting, disaster management, national resource mapping and governance. The third focus area has been satellite-aided navigation including GAGAN and NavIC. GAGAN, a joint project between ISRO and the Airports Authority of India (AAI), augments GPS coverage of the region to improve accuracy and integrity for civil aviation applications and better air traffic management over Indian airspace. NavIC, a regional Navigation system has also been established for providing Position, Navigation and Timing (PNT) Services.

Table 11: Number of Satellite Launches by Country

Country	2013	2014	2015	2016	2017	2018
USA	19(0)	23(1)	20(2)	22(0)	29(0)	31(0)
Russia	34(2)	37(3)	29(3)	19(1)	20(1)	20(1)
China	15(1)	16(0)	19(0)	22(2)	18(2)	39(1)
European Space Agency	6(0)	7(0)	9(0)	9(0)	9(0)	8(1)
India	**3(0)**	**4(0)**	**5(0)**	**7(0)**	**5(1)**	**7(0)**
Japan	3(0)	4(0)	4(0)	4(0)	7(1)	6(0)
Others	1(0)	1(0)	3(0)	2(0)	2(1)	3(0)
Total	**81(3)**	**92(4)**	**86(5)**	**85(3)**	**90(6)**	**114(3)**

Source: ISRO.
Note: The numbers in brackets show satellite launch failures.

9.31 Globally, space activity is undergoing tremendous changes in the recent years in terms of players and applications. This has been marked by a shift in engagement of space activities - from government agencies pursuing national needs and space exploration activities to non-governmental/ private sector agencies aggressively pursuing commercial needs. Space systems are also being actively used for national security purposes by most countries. The global space economy for 2018 tallied about US$ 360 billion, which includes space systems manufacturing and space-based services.

9.32 ISRO has been pursuing the policy of engaging Indian industries in delivering space related goods and services, especially in light of the growing number of satellite and launch vehicle missions and application programmes. In this direction, the following areas have been identified for attracting private investments in the space sector: (i) Production of Polar Satellite Launch Vehicle (PSLV); (ii) Satellite integration and assembly; (iii) Production of composite materials; (iv) Production of solid, liquid, cryogenic and semi-cryogenic propellants; and (v) Production of electronic packages, Testing & Evaluation for avionics and satellite subsystems.

CHAPTER AT A GLANCE

- The services sector's significance in the Indian economy has continued to increase, with the sector now accounting for around 55 per cent of GVA and GVA growth, two-thirds of total FDI inflows into India and about 38 per cent of total exports.
- The services sector now accounts for more than 50 per cent of Gross State Value Added in 15 out of the 33 states and UTs.
- Gross Value Added growth of the services sector moderated in 2019-20.
- Various high-frequency indicators and sectoral data such as air passenger traffic, rail freight traffic, port traffic, bank credit to services sector and foreign tourist arrivals suggest a moderation in services sector activity during 2019-20.
- Gross FDI equity inflows into services sector have witnessed a strong recovery and services exports have maintained their momentum during April-September 2019.
- Services exports have outperformed goods exports in the recent years, due to which India's share in world's commercial services exports has risen steadily over the past decade to reach 3.5 per cent in 2018, twice the share in world's merchandise exports at 1.7 per cent.
- The shipping turnaround time at ports has almost halved from 4.67 days in 2010-11 to 2.48 days in 2018-19. However, this is still more than twice the global median.
- India has launched around 5-7 satellites per year in the recent years with no failures, barring one in 2017.