

CHAPTER 2

Indian Service Sector:
A Review

Chapter Contents		
Sr No.	Topic	Page No.
2.1	Services Sector: An International Comparison	16
2.2	Indian Service Sector: The Rising Sun	17
	2.2.1 Services GDP	17
	2.2.2 Services Exports	18
	2.2.3 Services Employment in India	19
	2.2.4 FDI in Services in India	19
	2.2.5 Important Services for India	20
2.3	Performance of Services Sub Sectors	21
2.4	Performance of Some Major Services in Indian Economy	21
	2.4.1 Trade	21
	2.4.2 Tourism including Hotels and Restaurant	22
	2.4.3 Transport Related Services	25
	2.4.4 Storage Services	29
	2.4.5 Telecom Related Services	29
	2.4.6 IT and IT enabled Services	30
	2.4.7 Health Services	33
	Epilogue	35
	References	36

CHAPTER 2

INDIAN SERVICE SECTOR: A REVIEW

Gandhiji observed, “*Service to Man is Service to God.*” However, Bapu might never have visualized the commercialization of services to an extent that the Services’ Sector has today become a force driving the world economy.

Economic Survey 2010-2011, in its Chapter 10 quotes, “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 % share in GDP which is growing by 10 % annually; contributing to about a quarter of total employment; accounting for a high share in FDI inflows and over one-third of total exports, and recording very fast (27.4 %) export growth through the first half of 2010-11.” In the said context, this chapter examines the role of services in India’s economy in terms of contribution to GDP, employment, FDI, and draws some international comparisons.

The chapter goes on to examine the performance of different services sub-sectors such as Domestic Trade; Tourism including Hotels and Restaurants; Shipping and Port Services; Storage; Telecommunications related services as well as Information Technology (IT) and IT enabled services (ITeA).

2.1 Services Sector: An International Comparison

In 2010, the share of services with US\$ 63 trillion, was nearly 68 % of the world gross domestic product (GDP), as in 2001 (**Table 2.1**). Hence, with an overall share of 67.8 % in world GDP 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’s performance in terms of this indicator is not only above that of other emerging developing economies, but also very close to that of the top developed countries.

- ✖ Among the top 12 countries with highest overall GDP in 2010, India ranked 8th. However, it ranked 11th in terms of Services GDP. Moreover, while countries like UK, US and France have the highest share of services in GDP at above 78%, India’s share of 57% is much above that of China at 41.8%.
- ✖ In 2010, India was the second topmost country in terms of increase in its services share in GDP at 7.7% after China, which has registered a growth rate of 9.6% followed by Brazil at 4.8%, Japan and Russia at 2.9% each.
- ✖ In terms of CAGR, for the period 2001-10, China at 11.3% and India at 9.4% show very high services sector growth. Russia at 5.5% and Brazil at 4.0% are a distant

third and fourth respectively. While India's growth rate of the services sector at 10.1 % in 2009 was higher than that of China at 9.6 %, in 2010 it has decelerated to 7.7 % while China's has remained constant. It can also be observed that there has been rapid growth of services sector in India as compared to the developed economies viz, US, UK, Japan and Russia.

All these emphasize the prominence of the services sector in India.

TABLE 2.1										
Performance in Services Growth of Top 12 Countries										
Country	Rank as per overall GDP	Rank as per Services GDP	GDP (in US\$ Billions)	Share of Services (as % of GDP)			Services Growth Rate (%)			
				2001	2009	2010	2001	2009	2010	CAGR
US	1	1	14447.1	77.0	79.0	78.2	2.9	-1.4	1.2	1.8
Japan	2	2	5458.9	69.8	71.7	70.0	2.0	-4.8	2.9	0.6
China	3	3	5739.4	39.8	42.1	41.8	10.3	9.6	9.6	11.3
Germany	4	4	3280.3	69.7	73.7	72.5	2.1	-1.6	2.3	1.4
France	6	5	2559.8	76.5	78.9	78.1	1.7	-1.1	0.2	1.4
UK	5	6	2253.6	73.9	78.8	78.4	3.5	-3.2	1.1	2.0
Italy	7	7	2051.3	70.1	73.6	73.3	2.3	-2.9	1.2	0.6
Brazil	11	8	2089.0	65.3	67.6	66.8	1.8	3.0	4.8	4.0
Spain	10	10	1407.3	65.7	70.5	71.0	3.4	-1.0	0.7	2.7
Canada	9	9	1577.0	64.9	70.7	70.2	3.6	0.1	2.5	2.8
India	8	11	1722.3	50.0	56.5	57.0	7.5	10.1	7.7	9.4
Russia	12	12	1479.8	63.3	62.0	61.5	3.2	-5.6	2.9	5.5
World			63064.0	68.1	68.7	67.8	2.9	-0.9	2.5	2.6
(Source: Economic Survey: 2010-12)										
Note: (i) GDP (in US\$ Billions) is GDP at current prices.										
(ii) Growth rates are based on constant prices (US\$).										
(iii) CAGR is estimated for 2001-2010. (iv) Construction Sector is excluded in Services GDP.										

2.2 Indian Service Sector: The Rising Sun

Table 1.1, 1.2 and Chart 1.1 have already given a glimpse of the growing significance of services sector in the Indian Economy. However, its contributions to different aspects of the economy are briefly discussed in this section.

2.2.1 Services GDP

The share of various service sectors to the services GDP is presented in Table 2.2 which has been compiled from the Economic Survey 2010-11 and 2011-12.

- ✱ The share of services in India's GDP at factor cost (at current prices) increased rapidly from 33.5 % in 1950-51 to 55.1 % in 2010-11 and to 56.3% in 2011-12 as per AE. If construction is also included, then the share increases to 63.3% in 2010-11 and 64.4% in 2011-12. (Table 2.2)

TABLE 2.2								
Share of Different Services to GDP at Factor Costs (Current Prices)								[In %]
Sector	2004 -05	2005 -06	2006 -07	2007 -08	2008 -09	2009 -10@	2010 -11*	2011 -12**
Trade, Hotels and Restaurants	16.1	16.7	17.1	17.1	16.9	16.6	16.9	25.2#
Transport, Storage and Communication	8.4	8.2	8.2	8	7.8	7.8	7.7	
Financing, Insurance, Real Estate and Business Services	14.7	14.5	14.8	15.1	15.9	15.8	16.4	16.9
Community, Social and Personal Services	13.8	13.5	12.8	12.5	13.3	14.5	14.3	14.2
Total Services (Excluding Construction)	53	52.9	52.9	52.7	53.9	54.7	55.1	56.3
Construction	7.7	7.9	8.2	8.5	8.5	8.2	8.2	8.1
Total Services (Including Construction)	60.7	60.8	61.1	61.2	62.4	62.9	63.3	64.4
(Source: Economic Survey 2010-11 and 2010-12)								
@ represents Provisional Estimates (PE); * represents Quick Estimates (QE); ** represents Advance Estimates (AE)								
# Includes the share of both Trade, Hotels and Restaurants as well as Transport, Storage and Communication for 2011-12.								

- ✖ With a 16.9% share, Trade, Hotels and Restaurants as a group is the largest contributor to GDP among the various services' sub- sectors. It is followed by Financing, Insurance, Real estate and Business Services with a 16.4% share. Community, Social and Personal Services with a share of 14.3% is in third place. Construction, a borderline service inclusion, is at fourth place with an 8.2% share.
- ✖ The ratcheting up of the overall growth rate of the Indian economy from 5.7 % in the 1990s to 8.6 % 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 % in the 1990s to 10.3 % in 2004- 05 to 2009-10. The services sector growth was significantly faster than the 6.6 % for the combined agriculture and industry sectors annual output growth during the same period. In 2009-10, services growth was 10.1 % and in 2010-11, it was 9.6 %. 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.

2.2.2 Services Exports

India is also moving towards a services-led export growth. During 2004-05 to 2010-11, as per the Balance of Payments data, services exports grew at a CAGR of 20.6% compared to merchandise exports at 19.7%. Within the services sector, CAGRs of Financial Services (52.8%) and Business Services (29.2%) were higher, while that of Software at 21% was low.

(0.30%), Air Transport including air freight (0.27%), and Retail trading (0.03%) are included then the total share of cumulative FDI inflows to the services sector would be 58.4%. Telecommunications and Construction are the leading sectors in FDI inflows to the services sector in 2011-12 (April-December).

TABLE 2.4							
Sectors Attracting Highest FDI Equity Inflows (In US\$ Terms)							
Ranks	Sector	2008 -09	2009 -10	2010 -11	2011 -12	Cumulative Inflows (Apr- 00 to Dec-11)	% Share to Total Inflows
1	Services Sector (Financial & Non Financial)	6,138	4,176	3,296	4,575	31,710	20.1%
2	Telecommunications	2,558	2,539	1,665	1,989	12,554	7.9%
3	Computer Software & Hardware	1,677	872	780	564	10,973	6.9%
4	Housing and Real Estate	2,801	1,935	1,227	551	10,933	6.9%
5	Construction Activities	2,028	2,852	1,103	1,602	10,239	6.5%
(Source: Economic Survey 2010-2012)							

2.2.5 Important Services for India

- ✘ Some services have been particularly important for India's improving performance of which Software is one sector, which has achieved a remarkable global brand identity. Tourism and travel-related services and Transport services are also major contributors in India's services. Besides these, the potential and growing services include many professional services, infrastructure-related services and financial services.
- ✘ Central Statistical Organization's (CSO) 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 as well as the Trade, Hotels and Restaurants are the largest groups accounting for 16.7% and 16.3% respectively of the national GDP in 2009-10.
- ✘ The Community, Social, And Personal Services category accounts for a 14.3% share, while, Transport, Storage and Communication accounts for a 7.7% share. Construction, which is a borderline services inclusion has a share of 8.2 % (Table 2.2).

2.3 Performance of Service Sub-Sectors

As per Economic Survey 2011-12, Indian Services Sector excluding construction grew by 9.3% in 2010-11 and by 9.4% in 2011-12 whereas including construction it was 9.2% and 8.8% respectively in 2010-11 and 2011-12, which is nearly 2 percentage points higher than the overall growth rate.

- ✖ Broad category-wise, the “Trade, Hotels & Restaurants, Transport, Storage and Communications” category had the highest growth at 11.2%, followed by financing, insurance, real estate, and business services’ at 9.1% in 2011-12. ‘Trade’ and ‘Real estate, Ownership of dwellings and Business services’ are two major sub-sectors with shares of 15.4% and 10.6% of GDP respectively in 2010-11.
- ✖ Communications followed by Banking and Insurance are the fastest growing sub-sectors over the years with 27.2 % and 14.5 % growth respectively in 2010-11. Among ‘other services’ which have a share of around 8 % in India’s GDP, the major sub sectors include Education, Medical and Health as well as Personal Services.

2.4 Performance of Some Major Services in Indian Economy

In this section the performance the selected important services (*i.e.*, Trade, Tourism including Hotels and Restaurant, Transport Related Services, Telecommunication Services and IT - ITes) along with their contribution to the overall economy and growth is discussed.

2.4.1 Trade

- ✖ Trade is an important activity-providing interface between the producer and consumer. It is also 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 ₹ 7,42,621 crore in 2010-11, at a CAGR of 9.4%. As per the CSO’s QE, the growth rate in 2010-11 was 9.1% (**Table 2.5**)
- ✖ The share of trade in GDP has been slightly above 15 % in the last six years (15.4 % in 2010-11). With a high GDP growth in the last five years coupled with high growth in consuming population, the retail business is of late being hailed as one of the sunrise sectors in the economy.
- ✖ T. Kearney, an international management consultancy firm, has identified India as one of the topmost retail destinations.
- ✖ As per the 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 % of the workforce in the country. Based on employment intensity in retail trading, the contribution of the retail sector in the GDP is estimated in the range of 10 to 12% and 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.

TABLE 2.5							
Annual Growth in India's Services GDP at Factor Costs (at Constant Prices) [In %]							
Name of Sector	2005 -06	2006 -07	2007 -08	2008 -09	2009 -10@	2010 -11*	2011 -12**
Trade, Hotels, & Restaurants	12.2	11.0	10.1	5.7	7.8	9.0	11.2#
Trade	11.6	10.8	9.8	6.7	8.3	9.1	
Hotels & Restaurants	17.4	14.4	13.0	-3.3	2.8	7.7	
Transport, Storage, & Communications	11.8	12.6	12.5	10.8	14.8	14.7	
Railways	7.5	11.1	9.8	7.7	9.4	6.8	
Transport by Other Means	9.3	9.0	8.7	5.3	7.2	8.4	
Storage	4.7	10.9	3.4	14.1	8.7	7.9	
Communications	23.5	24.3	24.1	25.1	31.7	27.2	9.1
Financing, Insurance, Real Estate & Business Services	12.6	14.0	12.0	12.0	9.4	10.4	
Banking & Insurance	15.8	20.6	16.7	14.0	11.3	14.5	
Real Estate, Ownership of Dwellings & Business Services	10.6	9.5	8.4	10.4	7.8	6.9	
Community, Social, & Personal Services	7.1	2.8	6.9	12.5	12.0	4.5	5.9
Public Administration & Defence	4.3	1.9	7.6	19.8	18.2	1.3	
Other Services	9.1	3.5	6.3	7.4	7.2	7.3	
Construction	12.8	10.3	10.8	5.3	7.0	8.0	4.8
Total Services (excluding Construction)	10.9	10.1	10.3	10.0	10.5	9.3	9.4
Total Services (including Construction)	11.1	10.1	10.3	9.4	10.0	9.2	8.8
Total GDP	9.5	9.6	9.3	6.7	8.4	8.4	6.9
(Source: Economic Survey 2010-2012)							
@ represents Provisional Estimates (PE); * represents Quick Estimates (QE);							
** represents Advance Estimates (AE)							
# Includes the share of both Trade, Hotels and Restaurants as well as Transport, Storage and Communication for 2011-12.							

2.4.2 Tourism, including Hotels and Restaurants

Tourism sector has witnessed significant growth in recent years in India. It has accounted for 13% of the total of services' exports in 2009-10. Tourism is not only a major growth engine of economic growth in most parts of the world including India but also an export growth engine and employment generator. The sector has capacity to

create large-scale employment both direct and indirect, for diverse sections in society, from the most specialized to unskilled workforce.

- ✖ According to the UN World Tourism Organization, tourism provides 6% to 7% of the world's total jobs directly and millions more indirectly through the multiplier effect in this sector and also plays an important role in the country's foreign exchange earnings. In 2007-08, the contribution of tourism to India's GDP, and to total jobs (direct and indirect) was 5.92% and 9.24% 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.
- ✖ During the period 2006 to 2011, the CAGRs of Foreign Tourist Arrivals (FTA) and Foreign Exchange Earnings (FEE) from tourism (in ₹ terms) were 7.2% and 14.7% respectively. FTAs in India during 2010 were 5.78 million compared to 5.17 million during 2009, posting a growth of 11.8%, which is much higher than the growth of 6.5% for the world in 2010. FEEs from tourism during 2010 were ₹ 64,889 crore compared to ₹ 54,960 crore during 2009 with a growth rate of 18.1%. Despite the slowdown and recessionary trends in the economies of Europe and America, FTAs during 2011 were 6.29 million with a growth of 8.9% over 2010 and FEEs in 2011 were ₹77,591 crore with a growth of 19.6%. Domestic tourism has also emerged as an important contributor to the sector providing much needed resilience. Domestic tourist visits during 2010 are estimated at 740.2 million, with a growth of 10.7%.
- ✖ The growth in tourist inflows in 2012-13 and 2013-14 is likely to be driven by tourists from regions other than North America and Western Europe. This includes Asian regions like South Asia, East Asia, and South East Asia. The shares of tourists from these countries have been rising in recent years, as per the data released by the Ministry of Tourism, and are expected to rise in the coming years as well.

The hotels and restaurants sector is an important sub-component of the tourism sector. 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. Availability of good quality and affordable hotel rooms plays an important role in enhancing the growth of tourism in the country. As on 31 December 2011, there were 2,895 classified hotels having a capacity of 1,29,606 rooms in the country. The hotel industry had reported sales growth of 14.3 % during 2010-11 and is expected to maintain this level in 2011-12 and 2012-13. PAT is expected to grow at 36.2 % in 2011-12 and 26.4 % by 2012-13.

- ✖ The share of the hotels and restaurant sector in the overall economy increased from 1.46% in 2004-05 to 1.53% in 2008-09, and then decreased to 1.46% in 2010-11. There was, however, negative growth (-3.41%) 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 %.
- ✖ 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. Various financial and fiscal incentives are 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 neighboring 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 percent 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 % 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. Besides, A Hospitality Development and Promotion Board has been set up at central level with the main function of the Board being to monitor and facilitate clearances/ approvals for hotel projects both at central and state government levels and would be a single window for receiving applications for various clearances,

approving / clearing hotel projects in a time-bound manner, and reviewing hotel project policies to encourage the growth of hotel / hospitality infrastructure in the country.

Health tourism the new entrant in the sector, is a niche area where India has good potential. Several studies have estimated the global market for medical tourism ranging from US\$ 100 billion to US\$ 150 billion.

- ✘ The Asian medical tourism market is being bolstered by initiatives taken by the national governments, as also rising quality standards. According to a study by the Organization for Economic Cooperation and Development (OECD), Thailand, India, Singapore, Malaysia, Hungary, Poland, and Malta are promoting their comparative advantage as medical tourist destinations.
- ✘ Several features like cost-effective health-care solutions, availability of skilled health-care professionals, reputation for treatment in advanced health-care segments, increasing popularity of India's traditional wellness systems and strengths in IT have positioned India as an ideal health-care destination.
- ✘ India, while strengthening its capabilities in modern health-care systems is also leveraging its inherent strengths in traditional health-care systems such as ayurveda, siddha, yoga, naturopathy and faith healing/spiritualism. It also holds an edge over competitor countries with its mastery over techniques of concentration and mind control and its natural resources and cultural diversity.

2.4.3 Transport Related Services

Shipping is an important indicator of both commodity and services trade of any country and is playing an important role in the economic development of our country especially in international trade with around 95% of the country's trade by volume and 68% in terms of value being transported by sea.

- ✘ Besides, the Indian shipping industry also plays an important role in the energy security of the country as energy resources like 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.
- ✘ As on 1st January 2012, India had a fleet strength of 1,122 ships with Gross Tonnage (GT) of 11.06 million with the largest share being of public-sector Shipping Corporation of India at 36.17%. Of this, 372 ships with 10.01 million GT cater to India's overseas trade and the rest to coastal trade.

- ✱ The gross foreign exchange earnings/savings of Indian ships in 2010-11 were ₹ 10,666.45 crore. Leaving aside the 'flag of convenience' countries, the country with the highest dead weight tonnage (DWT) is Hong Kong. Though India has one of the largest merchant shipping fleets among developing countries, it is ranked eighteenth in the world in terms of DWT with a share of only 1.09 % as on 1 January 2011. In comparison, China is ranked ninth with a share of 3.78 % (Table 2.6).

TABLE 2.6			
Share of Merchant Fleets by Flags of Registration, as on 1 st January 2011			
Rank	Flag of Registration	DWT (In '000)	Share (%)
1	Panama	3,06,032	21.93
2	Liberia	1,66,246	11.91
3	Marshall Islands	98,757	7.08
4	Hong Kong	91,733	6.57
5	Greece	71,420	5.12
6	Bahamas	67,465	4.83
7	Singapore	67,287	4.82
8	Malta	61,294	4.39
9	China	52,741	3.78
10	Cyprus	32,321	2.32
11	Japan	22,201	1.59
12	Republic of Korea	20,155	1.44
13	Italy	19,440	1.39
14	Isle of Man	19,422	1.39
15	Norway	18,065	1.29
16	Germany	17,566	1.26
17	UK	16,999	1.22
18	India	15,278	1.09
(Source: Economic Survey 2010-2012)			

- ✱ According to preliminary estimates by UNCTAD, at 8.94 million Twenty foot Equivalent Units of Container (TEUs) in 2010, India was ranked eighth among developing countries in terms of container ship operation with a world share of 0.32%. UNCTAD further classifies India (ranked 17th) as one of the top 20 economies for shipbuilding based on deliveries in the year 2010 (37 vessels of 136,000 DWT), though its share is only 0.11 % in the world. India is also one of the major nations undertaking ship-breaking service. In 2010, with a world share of 32.43 %, it topped the list of ship-scrapping nations, scrapping 451 ships with 9.28 million DWT. India is also one of the major countries supplying seafarers. At third rank and with a 7.5% share in 2010, it supplied 46,497 officers to the global

shipping industry. However, India is ranked 22nd in 2011 according to the UNCTAD liner shipping index, down from 21st position in 2004.

- ✖ However, the global shipping industry has been experiencing turbulent waters in the year 2011 due to the economic slowdown which have been prevailing since 2008 with small windows of relief in 2011-12. Indian shipping companies faced problems of restricted cash inflows in 2011-12 due to very low charter hire and freight rates in all segments of shipping. Further, the incidence of piracy has been of great concern to the government. The government has deployed naval vessels for assistance to merchant vessels in the piracy-affected areas. As on 17th February 2012, 27 Indian seafarers are in the custody of somalian pirates. The government has been raising the issue of piracy and the need for more concerted international action at the meetings of the United Nations and the International Maritime Organization (IMO).
- ✖ While India's overseas seaborne trade has been growing substantially over the years, from 224.62 million tonnes in 1999-2000 to 570 million tonnes in 2010-11, there has been sharp decline in the share of Indian ships in the carriage of India's overseas trade. From about 40 % in the late 1980s, this share has declined to 9 % in 2010 11 with an 18% share in India's oil imports in 2009-10. Given the relatively low participation of Indian ships in India's 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 18.37 years in 2012, there is urgent need to increase the shipping fleet so that it is at least enough to meet India's trade volumes. At present Indian ships cater to only 9 per cent of India's overseas trade which is abysmally low by any standards. Huge investment and modernization are needed in this sector to capture at least a substantial portion of India's present, if not potential, trade. Higher asset size of Indian shipping will not only lead to higher growth of the economy but also higher employment and high foreign exchange earnings/savings. In order to provide the shipping industry a partial level playing field and make it competitive at international level, the government implemented certain policies in 2011 like giving a minimum depreciation of 3.34% (assuming life of 30 years) to drilling rigs; granting exemption on 29 July 2011 to ships falling under Chapter 8901 from additional customs duty and excise duty provided a general license under section 406 of the Merchant Shipping Act 1958 is granted by the Director General shipping; and exemption from import duty for spares and capital goods required by ship owners in Budget 2011-12.

Port Services

Ports being the gateways of international trade 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. The total capacity of Indian ports has reached approximately 1,160 million tonnes as on 1 January 2012. 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 percent and 5.74 % respectively over the previous year.
- ✘ The American Association of Port Authorities ranked Madras Port and the Jawaharlal Nehru Port Trust (JNPT) at 55th and 56th position in 2009 in terms of total cargo volume up from 70th and 71st positions in 2008.
- ✘ Union Budget 2011-12 has increased the allocation of funds for infrastructure and enhanced the limit of tax free bonds for the ports sector up to ₹ 50 billion. The government is also making all round efforts to increase port capacity in the country through the development of additional berths at the major ports, mechanization, deepening of channels and harbours to receive bigger vessels, improved rail and road connectivity and by facilitating similar development at the non-major ports promoted by state governments.
- ✘ 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 which has been awarded recently to the JNPT, Mumbai where the biggest dredging project is also being taken up. More trans-shipment of Indian EXIM containers is expected to take place at Indian ports, especially at the new International Container Trans-shipment Terminal at Cochin. Establishing one additional major port in each of the maritime states that is interested in providing support for such development is under consideration and a technical committee is evaluating proposals for new major ports received from the states of Andhra Pradesh, Gujarat, Karnataka, and Kerala. Besides, the government has successfully implemented the Port Community System as part of a paperless regime for transaction of business at ports.
- ✘ The sales of the transport logistics services industry are estimated to have grown by a healthy 17.5% during 2010-11. This growth is likely to have been achieved by a combination of higher cargo volumes and better realizations. In 2011-12 as a whole, the sales of this sector are expected to grow by 9.6% and profit after tax (PAT) at 17.8%. In 2012-13 sales are expected to grow at 9.9% and PAT 11.1%.

2.4.4 Storage Services

The warehousing services are an important cog both in inbound logistics as well as outbound logistics. In India, the most important component of warehousing is agricultural storage for agri-produce, food grains, 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.

- ✖ Central Warehousing Corporation (CWC) was established with the objective of providing scientific storage facilities for agricultural implements and produce and other notified commodities. And, with the same objective, 17 State Warehousing Corporations (SWCs) were also set up under the Warehousing Corporations Act 1962. The commercial outreach with social objectives has resulted in the CWC operating a large warehousing network across the country. As on 31 December 2011, the CWC was operating 469 warehouses, with a total storage capacity of 99.81 lakh MTs and an average utilization of 89 %. At State level, the 17 SWCs meet the storage requirements and complement the work of the CWC. As on 31 December 2011, these SWCs were operating a network of 1,624 warehouses with an aggregate storage capacity of 230.10 lakh MT.
- ✖ 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 % 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 Entrepreneurs Godown (PEG) scheme. The CWC has constructed 0.9 lakh MT godowns during the year 2009-10.

2.4.5 Telecom and Related Services

Indian telecom has proved to be an international success story with the sector witnessing commendable growth over the past few years. The Indian telecom network is ranked as the *second largest in the world*, next only to China. 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 206.83 million on 31 March 2007 to 926.53 million as on 31 December 2011. Wireless telephone connections have contributed to this growth which has been phenomenal as the number of wireless connections rose from 3.57 million in March 2001 to 729.58 million by the end of November 2010, reaching 893.84 million connections at the end of December 2011, taking their share to over 96 % of total telephones in the country.
- ✖ Tele-density which is an important indicator of telecom penetration increased has increased from 18.31% in March 2007 to 64.34% in November 2010 to 76.86% in December 2011. While urban tele-density as of December 2011 has reached a high level of 167.85 %, at 37.48 % rural tele-density is low, signifying the potential for further growth in rural areas. *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. Since the announcement of the Broadband Policy in 2004, several measures have been taken to promote broadband penetration in the country. As a result, there are 13.30 million broadband subscribers as on 31 December 2011 and 19.69 million internet subscribers at the end of March 2011. However, broadband has lagged behind the growth of telephones in India. Special efforts are being made to increase the penetration of broadband, especially in rural and remote areas. The upcoming decade is likely to usher in an information era through Mobile Value Added Services (MVAS) and Broadband for All.
- ✖ After rising to 10.5 % during 2010-11, sales growth of the telecom industry is expected to be 8.7 % in 2011-12 and 10.6 % in 2012-13. PAT during 2011-12 is expected to fall by 84.7 %, mainly on account of the sharp rise in the industry's interest outgo and higher depreciation charges due to the heavy borrowings for acquiring 3G licences and rolling out 3G services.

2.4.6 IT and IT enabled services (ITeS)

India has gained a brand identity as a knowledge economy due to its IT and ITeS sector which is giving India the image of a young and resilient global knowledge power. IT-

ITeA industry has four major components, viz, 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-ITeA 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% in 2004-05 to 6.1% in 2009-10 and an estimated 6.4% in 2010-11. The industry has also helped expand tertiary education significantly. The top seven States that account for about 90% of this sector's exports have started six to seven times more colleges than other States.

TABLE 2.7							
Overall Growth in Revenue and Exports of IT and ITeA (In US\$ Billion)							
Particulars	2007-08	2008-09	2009-10	2010-11(E)	2011-12(P)	Growth Rate in 2011-12 (%)	CAGR (%) 11 th 5 Year Plan
Total IT-BPO Services Revenue	52.1	29.9	64.0	76.3	87.6	14.8	13.9
Exports	40.4	47.1	49.7	59.0	68.7	16.4	14.2
Domestic	11.7	12.8	14.3	17.3	19.0	9.7	12.8
(Source: Economic Survey 2010-2012)							

- ✱ As per the estimates of NASSCOM, India's IT and BPO sector (excluding hardware) revenues were US\$ 87.6 billion in 2011-12, generating direct employment for nearly 2.8 million persons and indirect employment of around 8.9 million. As a proportion of national GDP, IT and ITeA sector revenues have grown from 1.2 % in 1997-8 to an estimated 7.5% in 2011-12. Software exports in 2011-12 are estimated at US\$69 billion compared to US\$59 billion in 2010- 11. While exports continue to dominate the IT-ITeA industry and constitute about 78.4% of total industry revenue, the CAGR of the domestic sector has also been high at 12.8% compared to the 14.2% for exports during the Eleventh Five Year Plan period. The growth rate of the domestic sector in 2010-11 was 20.6 % as compared to 18.8 % for the export sector whereas in 2011-12 it was 9.7 % for domestic sector and 16.4 % for export sector. In 2012-13, as per NASSCOM estimates, export revenues are expected to grow by 11 to 14 % and domestic revenues by 13 to 16 %, which are a pointer to the possibilities of making further forays into the untapped domestic sector for IT and ITeA (Table 2.7). This sector has also led to employment generation with direct employment in the IT services and BPO/ITeA segment expected to reach 2.8 million in 2011-12 compared to 2.5 million in 2010-11 and 2.3 million in 2009-10; and indirect employment of over 8.3 million jobs which have been generated in

diverse fields such as commercial and residential real estate, retail, hospitality, transportation, and security. India continues to be the dominant player in the global outsourcing sector. The IT and ITes sector is also a generator of skilled employment

- ✖ Indian IT service offerings have evolved from application development and maintenance to emerge as full service players providing testing and infrastructure services, consulting and system integration. The year also witnessed the next phase of BPO-sector evolution, characterized by greater breadth and depth of services, process re-engineering across the value chain, increased delivery of analytics and knowledge- based services through platforms, strong domestic market focus, and Small and Medium-sized Business (SMB) centric delivery models. In the engineering design and products development segments, there was increased use of electronics, adoption of fuel efficiency norms, convergence of local markets, and use of localized products. Increasing confidence between customers and service providers successfully executing a variety of activities across low-medium-high complexity projects has led to increasingly larger sizes of projects being sourced from India.
- ✖ In the domestic sector, the major component is IT services with 64.2% share, followed by software products/engineering with 19.6 % share and BPO with 16.2 % share. The CAGRs of these sectors were 11.5%, 13.6%, and 18.1% respectively. Strong economic growth, rapid advancement in technology infrastructure, increasingly competitive Indian organizations, enhanced focus by the government and emergence of business models that help provide IT to new customer segments are the key drivers for increased technology adoption in India.
- ✖ Government has taken various initiatives to promote the growth of the IT- ITes industry and has been a key catalyst for increased IT adoption through sectors reforms that encourage IT acceptance, National e-Governance Plan (NeGP), and the Unique Identification Development Authority of India (UIDAI) programme that creates large-scale IT infrastructure and promotes corporate participation. The NeGP was approved by the Government of India in May 2006 to make all government services accessible to the common man in his locality, through common service delivery outlets at affordable costs. More than 97,000 common service centres (CSCs) have been established across the country as web-enabled service access points for making public services available to citizens on anytime, anywhere basis. Initiatives under the NeGP also include online services related to income tax, Ministry of Corporate Affairs (MCA) 21, passports and central excise. The government has

also initiated new e-Governance projects for education, health, public distribution system and postal services. This will ensure the common man access to quality education, cost efficient and quality health care and postal services at affordable costs. Further, basic banking services, *i.e.*, cash withdrawal, cash deposit, balance inquiry and transfer of money from one account to another is proposed to be extended to every panchayat through the CSCs and money transfer facility to every village by December 2013, leveraging information communication technology (ICT) and mobile technology which will help make financial inclusion a reality with the help of IT.

- ✱ The Draft National Policy on Information Technology 2011 focuses on deployment of ICT in all sectors of the economy and providing IT solutions to the world. The Policy emphasizes adoption of technology-enabled approaches to overcome developmental challenges in education, health, skill development, financial inclusion, employment generation, and governance so as to enhance efficiency across the board in the economy. It seeks to bring ICT within the reach of the whole of India while at the same time harnessing the immense human resource potential in the country to enable it to emerge as the global hub and destination for IT-ITeA Services by 2020. Thus, IT and ITeA is playing a tremendous role in the economy as well as in the day to day life and revolutionizing the way of life.

2.4.7 Health Services

The health services are among the basic necessities and therefore the government's prerogative of provision. However, despite the initiatives by the government, it has not been able to cater to the whole and sole of the population. And with the rise in private health care clinics and hospitals it has become a sector in itself with signing of MOUs with developed countries like US and attracting FDI's and gradually contributing to the nation's GDP. Further, with growth in Health Services, the allied areas, *i.e.*, Medical Tourism, Pharmaceutical Industry, Drug Formulations, Health Insurance *etc.* have also got a boost.

India is one of the world's most lucrative healthcare markets, and is expanding rapidly, according to latest findings of a report titled 'Indian Healthcare - New Avenues for Growth'. The Indian Healthcare Sector is expected to reach US\$ 100 billion by 2015 and US\$ 275.6 billion by 2020 from the current US\$ 65 billion, growing at around 20 per cent a year, according to Fitch Rating Agency. According to Frost & Sullivan reports, spending on information technology (IT) by Indian healthcare players was estimated at US\$ 244 million in 2010 and is expected to grow at 22 per cent a year over

the next 10 years. Further, huge private sector investments will significantly contribute to the development of hospital industry, comprising around 80 per cent of the total market, highlighted the RNCOS report, titled 'Indian Hospital Services Market Outlook'. Some of the major factors driving the growth in the health services sector include increasing population, growing lifestyle related health issues, cheaper costs for treatment, thrust in medical tourism, improving health insurance penetration, increasing disposable income, government initiatives and focus on Public Private Partnership (PPP) models.

- ✖ The hospital services market represents one of the most lucrative segments of the Indian healthcare industry. On the back of continuously rising demand, the hospital services industry is expected to be worth US\$ 81.2 billion by 2015. The hospital and diagnostic centre in India has attracted foreign direct investment (FDI) worth US\$ 1.34 billion, while drugs & pharmaceutical and medical & surgical appliances industry registered FDI worth US\$ 9.19 billion and US\$ 521.45 million, respectively during April 2000 to March 2012, according to the data provided by Department of Industrial Policy and Promotion (DIPP).
- ✖ According to a new report published by RNCOS, titled "Booming Medical Tourism in India" India's share in the global medical tourism industry will reach around 3 per cent by the end of 2013. The report states that medical tourism is expected to generate revenue around US\$ 3 billion by 2013, growing at a CAGR of around 26 per cent during 2011–2013. The number of medical tourists is anticipated to grow at a CAGR of over 19 per cent during the forecast period to reach 1.3 million by 2013⁵.
- ✖ The Indian health insurance market is also on an upsurge providing lucrative growth avenue for both the existing players as well as the new entrants. According to the RNCOS report, the health insurance market is one the fastest growing and second largest non-life insurance segment in the country. Posting tremendous growth in the last two fiscals, the health insurance premium is expected to grow at a CAGR of over 25 per cent for the period spanning from 2009-10 to 2013-14.
- ✖ With 3G there are possibilities of remote treatment and diagnosis of patients through mobile phones. Also, with the number of cellphone users currently at 600 million and rapidly increasing by 20 million every month, some telecom operators and value-added service developers such as Nokia and BlackBerry are considering usage of mobile phones for diagnostic and treatment support, remote disease monitoring, health awareness and communication.

- ✱ Government initiatives in the public health sector have recorded some noteworthy successes over time with focus on investments related to better medical infrastructure, rural health facilities etc. The Government has decided to increase health expenditure to 2.5 per cent of the gross domestic product (GDP) by the end of the Twelfth Five Year Plan, from the current 1.4 per cent. Further, 100 per cent FDI is permitted for health and medical services under the automatic route. The National Rural Health Mission (NRHM)'s allocation has been proposed to be increased to US\$ 3.72 billion in 2012-13 from US\$ 3.23 billion in 2011-12.

Thus, Health Services is also emerging to be a fast growing sector.

Epilogue

Indian Services Sector has emerged as a dominant sector in terms of both contribution as well as growth. This sector is a growth engine not only for the national economy but also for many states.

Unlike the unskilled or semi-skilled nature of jobs in the agriculture sector, this sector provides myriad job opportunities ranging from highly skilled to unskilled in a variety of activities. Hence, services along with a revival in manufacturing activity, can be major drivers of overall *employment*.

Unlike the merchandise sector, the services sector is a net foreign exchange earner with exports of some services growing exponentially. It is also the major *FDI-attracting sector* with the five services topping the list of sectors attracting FDI to the country.

India's services sector has been resilient even during the tumultuous years of the global economic crisis maintaining a steady growth of around 10 per cent. This happened even when overall GDP growth dipped sharply to 6.7 per cent in 2008-09. Thus, the domestic economy is more dominant in the case of services and any changes in government spending in community, social, and personal services within the fiscal space available or newly created fiscal space could strengthen the growth prospects of the services sector with ripple effects in related sectors.

In fact, every important service sector is a storehouse of opportunity. The software-telecom combination is speculated to be a high growth propelling force for many more years to come with positive spillovers to other sectors and can give a cutting edge in these sectors while facing international competition. This combination along with retail trade is envisaged to change the very face of the rural economy.

The tourism sector which is an industry in itself is another mine of opportunity for India. Shipping is another major service which can step up growth by tapping the opportunities provided by India's own merchandise trade. Business services, which consists of many

dynamic services is a sunrise sector. Financial services, Health care and education are other niche areas with both external potential and internal opportunities which can be tailor-made to serve the objective of more inclusive development.

Thus Indian Services Sector is considered to be an uncharted sea with plenty of opportunities as well as new challenges having great future prospects with many untold stories and unfolded mysteries. This sector is envisaged to take the Indian growth story to the next level of development phase.

Having reviewed the Indian Service Sector and its growth story, the following chapter presents “Review of Literature” which accounts for the theoretical development in WCM theories as well as empirical analysis carried out in India and Abroad in the area of WCM which will help in understanding the nature of studies carried out as well as identifying the research gap.

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