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Emerging Opportunities and Policy Issues for Services Sector an Over View

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ABSTRACT

The services sector has been the major growth propeller of the Indian economy with the highest sectored contribution in India's Gross Domestic Product (GDP). However, in recent quarters, in line with general slowdown of the economy, the growth of services sector has also decelerated. Services export growth has also decelerated since 2011-12 and was at 3.4 per cent both in 2012-13 and H1 of 2013-14. However 'Net Services' growth which decelerated to 1.4 per cent in 2012-13 picked up to 12.6 per cent in H1 of 2013-14. This paper makes an attempt to analyze the recent performance services sector and list out some important policy issues in this sector. Policy Issues in Services Sector: These issues can be classified into two major categories. The first category is the market access issues for India's services exports, and the second is related to domestic regulations and policy reforms. While, issues on market access need to be addressed through proper persuasion/ negotiations at the bilateral and multilateral levels, issues related to domestic regulations can be addressed through policy reforms. Market Access Issues: The proposed VISA rules of US, different domestic regulations in our trading partner countries like licensing, state level regulations in different services tax and the buy American legislation, etc. are among the major market access issues.

1. INTRODUCTION

Performance of different Services: During 2012-13, 'trade, hotels and restaurants' (i.e tourism related) sector grew at 9.1 per cent. However the combined growth of this sector and 'transport, storage and communication' decelerated to around 4 per cent in first two quarters of 2013-14. Though, the number of foreign tourist arrivals grew by 4.4 per cent in first half of 2013-14 as compared to 2.9 per cent in 2012-13, the foreign exchange earnings in USD terms decelerated to 1.2 per cent in H1 of 2013-14 as compared to 5.6 per cent in 2012-13. In transport related services, the performance of aviation and railway sector have shown some improvement during H1 of 2013-14, while shipping sector's performance was moderate. The growth of construction sector which decelerated in 2011-12 and 2012-13 remained at the same level of 4.3 per cent in Q2 of 2013-14 as in 2012-13. In IT and ITeS sector, the growth of total IT and BPM services revenue moderated to 7.5 per cent in 2012-13, though NASSCOM has forecasted a growth in revenue of 13-15 per cent for software sector in 2013-14. Teledensity which is an important indicator of telecom penetration, increased from 18.22 per cent in March 2007 to 73.01 per cent as on 30th Sept 2013. Recent Policy measures/Reforms in the Services Sector: The government has taken many policy reforms like opening more sectors for FDI, freeing the control on opening new bank branches subject

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to certain conditions, setting an innovation fund to boost scientific innovation in R & D sector, incentivizing shipping sector by withdrawing excise duty and CVD on imported ships, notifying safe harbor rules, and setting aside an amount of Rs. 14,000 crore for capital infusion into banks. .

2. INDIA'S SERVICES SECTOR

INDIA'S SERVICES GDP

The share of services in India's GDP at factor cost (at current prices) increased from 33.5 per cent in 1950-51 to 55.7 per cent in 2011-12 and to 56.9 per cent in 2012-13. If construction is also included, the service sector's share increases to 65.0 per cent in 2012-13. The racketing up of the overall growth rate (CAGR) of the Indian economy from 5.7 percent in the 1990s to 8.8 percent during 2004-05 to 2010-11 was mainly due to an acceleration in growth of the services sector from 7.5 per cent in the 1990s to 10.2 per cent during 2004-05 to 2010-11. Since 2011-12, in line with the general growth trend, the growth rate of services sector also decelerated. However the growth deceleration of the services sector was lower than that of the overall growth. Services sector growth rates were 8.2 per cent in 2011-12 and 7.1 per cent in 2012-13. In the first two quarters of 2013-14, growth of services sector was 6.6 per cent and 5.9 per cent respectively.

FDI IN SERVICES SECTOR

The services sector remains the most attractive sector for foreign direct investment (FDI) inflows in India. As per the latest data on FDI released by Department of Industrial Promotion and Policy (DIPP), the combined FDI share of 'financial and non-financial services, construction development, telecommunications, computer hardware & software, and hotel & tourism' is 46.0 per cent of the cumulative FDI equity inflows during the period April 2000-August 2013. (Table 1) These five sectors are also among the sectors attracting the highest cumulative FDI inflows to the economy with financial and non-financial services topping the list during the period April 2000 to August 2013.

SERVICES ATTRACTING HIGHEST FDI EQUITY INFLOWS (IN US $ MILLION)

RANKS	SECTOR	2010-11	2011-12	2012-13	CUMULATIVE (APR. 2000-AUG 2013)	PERCENTAGE TO TOTAL	GROWTH RATE	
							2011-12	2012-13
1	Service sector	3,296	5,216	4,833	38,430	19.0	58.3	-7.3
2	construction	1,665	3,141	1,332	22,672	11.2	89.8	-57.6
3	Computer services	1,665	1,997	304	12,879	6.4	19.9	-84.8
4	Hotel & Tourism	308	993	3,259	6,790	3.4	222.4	228.2
5	Telecommunications	780	796	486	11,943	5.9	2.1	-38.9
	Top five services	**7,704**	**12,143**	**10,214**	**92,714**	**46.0**	**57.6**	**-15.9**
	Total FDI inflows	34847	46553	36,860	201,743	100	33.6	-20.8

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TABLE NO 1

In 2011-12, FDI inflows to the services sector (top five sectors including construction) grew robustly at 57.62 per cent to US $ 12.14 billion compared to the growth of overall FDI inflows at 33.6 per cent. However, in 2012-13, overall FDI inflows fell by 20.8 per cent to US$ 36.86 billion from US$ 46.55 billion in the previous year. Following this trend, FDI inflows in the top five services also fell by 15.9 per cent to US $ 10.21 billion.

INDIA'S SERVICES TRADE

Overall openness of the economy reflected by total trade, including services trade as a percentage of GDP shows a higher degree of openness at 59.5 per cent in 2012-13 compared to 38.1 per cent in 2004-05. The openness indicator based only on merchandise trade is at 46.5 per cent in 2012-13 compared to 28.3 per cent in 2004-5. The share of India's services trade to total trade (goods & services) at 21.9 per cent in 2012-13 is also marginally higher than the 21.4 per cent in 2011-12, though; it is much lower than the 27 per cent recorded in 2006-07.

India has also been moving towards a service led export growth. While the CAGR of merchandise export growth during 2004-05 to 2008-09 was at 22.2 percent, services export growth was at 25.3 percent. As a result of the slowdown in world economy, services sector's exports growth has slowed down in 2009-10 and was at (-) 9.4 percent. In 2010-11 it jumped to 30.2 per cent which is also partly due to the base effect. However after that services export growth started decelerating to 13.1 per cent in 2011-12 and 3.4 per cent in 2012-13. Services import growth which was at 35.3 per cent in 2010-11 became negative at -4.5 per cent in 2011-12, but grew by 5 per cent in 2012-13. Net services which grew by 21.8 per cent in 2010-11, grew sharply by 45.3 per cent in 2011-12, as import growth was negative. However in 2012-13, with sharp deceleration in services export growth, net services growth was a tepid 1.4 per cent resulting in a lower cushion provided by services trade to finance the current account deficit (CAD).

In 2013-14 (April-Sept), there is again a pickup in services export growth to 3.4 per cent, while import growth was negative at (-) 3.9 per cent. As a result net services grew by 12.6 per cent. In 2012-13, among the major services exports, there is negative growth in transport services (a reflection of the external trade situation); travel services (a reflection of international trade situation and despite the depreciation of the rupee) and financial services; low growth for - 6- computer software services but good growth for other business services (Table 2). In the first half of 2013-14, there is pickup in growth of travel services (4.8 per cent), robust growth in financial services (34.3 per cent) and construction (37.2 per cent), continuation of low growth in computer services (5.6 per cent) and negative growth in other business services (-0.1 per cent).

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GROWTH RATE OF INDIA'S SERVICES TRADE

	VALUE ($ MILLION)	GROWTH RATE (PER CENT)					
	2012-13	2010-11	2011-12	2012-13	Q1 2013-14	Q2 2013-14	H1 2013-14
Total Services Exports	145,677	30.2	13.1	3.4	2.1	4.7	3.4
Transport	17,334	27.8	27.7	-5.7	-2.7	-1.6	-2.1
Travel	17,999	33.2	16.9	-2.5	9.1	0.9	4.8
Contraction	1,004	20.8	18.8	24.9	61.5	15.8	37.2
Insurance and pension service	2,227	22.3	35.3	-15.4	-5.5	-1.9	-3.7
Financial service	4,949	76.3	-	-	37.7	31.1	34.4
Telecommunication, computer	67,785						

TABLE NO 2

Sector-wise in 2012-13, among the major services imports, only ‘other business services’ with a share of 37.6 per cent and ‘charges for the use of intellectual property’ with 5.1 per cent share had high and positive growth of 19.2 per cent and 29.7 per cent respectively. However, in the first half of 2013-14, among major services imports, only ‘financial services’ and ‘Telecommunications, computer and information services’ had high growth.

PERFORMANCE OF INDIA’S SERVICES SUB-SECTORS

Trade, hotels, and restaurants as a group is the largest contributor to GDP among Trade, hotels, and restaurants as a group is the largest contributor to GDP among the various services sub-sectors with an 18.7 per cent share, followed by financing, insurance, real estate, and business services with a 17.1 per cent share in 2012-13. Among the major broad categories of services, ‘trade, hotels & restaurant’ category’s growth accelerated to 9.1 per cent in 2012-13 from 6.2 per cent recorded in 2011-12. However, the growth of ‘financing, insurance, real estate and business services’, and ‘transport, storage & communication’ decelerated to 8.6 per cent and 1.9 per cent in 2012-13 respectively. The quarterly estimates of services sector growth during 2013-14 show a decelerating trend from Q1 of 2012-13 onwards. The growth rate of services sector during the Q1 and Q2 of 2013-14 was at 6.6 per cent and 5.9 per cent compared to 7.7 per cent and 7.6 per cent in Q1 and Q2 of previous year (Table 3). The slowdown in services growth in Q1 and Q2 of 2013-14 is mainly due to slowdown in trade, hotels, and restaurants category to 3.9 per cent and 4.0 per cent respectively. Construction sector’s growth which decelerated to 2.8 per cent in Q1 grew by 4.3 per cent in Q2 of 2013-14. The growth rate of ‘community, social & personal services’ during Q2 decelerated to 4.2 per cent from 9.4 per cent in Q1 of 2013-14. On the other hand,

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growth rate of 'financing, insurance, real estate and business services' was high at 8.9 per cent in Q1 and 10.0 per cent in Q2 of 2013-14.

SECTOR-WISE SHARE & GROWTH RATE OF SERVICE SECTOR

SECTOR/SUB SECTOR	SHARE (AT CURRENT PRICES)	GROWTH RATE (AT CONSTANT PRICES)								
	2012-13	2010=11	2011-12	2012-13	2012-2013 Q1	2012-2013 Q2	2012-2013 Q3	2012-2013 Q4	2013-2014 Q1	2013-2014 Q2
Total Services (excluding construction)	56.9	9.8	8.2	**7.1**	7.7	7.6	6.7	6.6	**6.6**	5.9
TotalServices(including Construction)	65	9.8	7.8	6.8	7.6	7.1	6.2	6.3	**6.2**	5.8

TABLE NO 3

3. PERFORMANCE OF MAJOR SERVICES SUB-SECTORS

TRADE AND TOURISM SERVICES

While overall GDP growth and even services GDP growth decelerated during 2012-13, the growth of 'trade, hotels and restaurant services' category accelerated to 9.1 per cent from 6.2 per cent in 2011-12. Out of this, the main component - trade with a share of above 15 percent in India's GDP in the last seven years (17.2 percent in 2012-13) grew by 9.5 per cent to Rs.8,87,837 crore. Hotels and restaurant services also grew by 4.9 per cent in 2012-13 as compared to 2.8 per cent in 2011-12. However in Q1 and Q2 of 2013-14, following the general trend, even the combined growth of 'trade, hotels & restaurants' decelerated to 3.9 per cent and 4.0 per cent respectively.

TRADE

Indian retail trade is currently in a transformational stage. An expanding middle class, rising incomes and spending power, majority of youth in total population, rapid urbanization and several other factors have shaped India's consumption pattern. As per the industry estimates, Indian retail industry accounting for around 14-15 per cent of GDP, is estimated to be worth around US$ 500 billion currently. As per the estimates of the Department of Consumer Affairs, the domestic retail market is projected to be worth US$ 1.3 trillion by 2020. Future prospects pose a tremendous growth opportunity for retail players, domestic as well as foreign, with increasing popularity of businesses like online shopping and direct selling. McKinsey Global Institute predicted that India's consumer market would be worth US$ 1.5 trillion by 2025, surpassing Germany to become the fifth largest economy (behind the US,

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Japan, China and the UK) in the world. Home to one of the top five retail markets in the world, India offers immense scope of growth and opportunities in this area with almost 90 per cent of the Indian retail sector controlled by tiny family-run shops (i.e. the unorganized segment). The organized retailers have a lot of room for further penetration in this flourishing sector. After opening FDI in retail sector in September 2012, the retail landscape is expected to change rapidly.

TOURISM

As per the industry estimates, the total market size of Indian tourism and hospitality sector stood at US$ 117.7 billion and is expected to touch US$ 418.9 billion by 2022. Tourism has been identified by the WTO and OECD, as one of the key five sectors with great potential for high impact in aid for trade. Global economic conditions have greatly affected India's tourism sector with both foreign tourist arrivals (FTAs) and foreign exchange (FEEs) in dollar terms showing as sharp deceleration in 2012-13. During the first half (April to Sept) of FY 2013-14, while FEE in dollar terms has decelerated further to 1.2 per cent, foreign tourist arrivals have shown a slight pick up to 4.4 per cent (Table 4), indicating the growth in low-spending back-packers. The number of tourists availing the Visa on Arrival (VOA) scheme during January to August, 2013 has recorded a growth of 29.4% with a total number of 12,176 VOAs issued as during the corresponding period of 2012. With world tourist arrivals expected to increase by 43 million every year, on an average, from 2010 to 2030 and FTAs in emerging countries expected to grow faster than in advanced economies, a goldmine of an opportunity in tourism is available for India. The industry is flight operators, which could offer improved services to tourists. Cruise shipping is one of the most dynamic and fastest growing components of the global leisure industry. India with a vast and beautiful coastline, virgin forests, and undisturbed idyllic islands could also be a fabulous tourist destination for cruise tourists.

GROWTH PERFORMANCE OF TOURISM SECTOR

INDICATORS	VALUE	GROWTH (PERCENTAGE			
	2012-13	2010-11	2011-12	2012-13	(APRIL-SEPT) H1 OF 2013-14
Foreign Tourists Arrivals (in lakhs)	66.94	10.0	9.7	2.9	4.4
Foreign Exchange Earnings (Rs Crore terms)	99,594	13.7	26.5	19.1	9.4
Foreign Exchange Earnings (US $ million terms)	18,319	17.9	19.5	5.6	1.2

TABLE NO 4

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4. TRANSPORT RELATED SERVICES

AVIATION SERVICES

Air transport currently supports 56.6 million jobs and accounts for over US$ 2.2 trillion of the global gross domestic product (GDP). India is currently the 9th largest aviation market handling 121 million domestic and 41 million international passengers. Today, more than 85 international airlines operate to India and 5 Indian carriers connecting over 40 countries. However, the problems in the Indian aviation sector continued in 2012-13 which is reflected in the performance of the passenger travel. The total number of passengers travelling by air drastically dropped by 4.79 per cent in 2012-13 to 94.8 million, in comparison to 12.05 per cent growth achieved in 2011-12. Out of this, there is a relatively high fall of 5.24 per cent in domestic travel compared to international travel with 4.09 per cent decline. International cargo handled by airlines which fell by 5.66 per cent in 2011-12 fell further in 2012-13 by 8.83 per cent reflecting the worsening external trade situation. However, the total number of passengers travelled by air and cargo handled during the first half of 2013-14 grew by 6.3 per cent and 1.4 per cent compared to the declines of 4.8 per cent and 6.5 per cent, respectively, in 2012-13.

SHIPPING SERVICES

India's total fleet strength in terms of gross tonnage also declined by 7.34 per cent to 10.2 million GT during 2012-13. While, gross tonnage of Indian fleets declined during 2012-13, the business of ship scrapping in India sharply increased by more than three times with scrapping of 69 ships in 2012-13 as compared to only 20 ships in 2011-12. However, during first half of 2013-14, there has been increased by 0.5 per cent in gross tonnage with an addition of 22 ships in Indian fleet strength and reaching a total number of ships at 1,186 as on Sept 30, 2013.

PORT SERVICES

During 2012-13, Port traffic handled by all Indian ports grew by 2.20 per cent over the previous year to reach 934.01 million tones as a result of the increase in port capacity. In 2012-13, the 9.75 per cent growth of port traffic handled by non- major ports compensated the decline in growth by 2.57 per cent in major ports. The three ports-related performance indicators for major ports show improvement in 2012-13. The average output-per-ship-berth-day improved to 13,149 tonnes in 2012-13 compared to 10,575 tonnes in 2011-12. The average pre-berthing detention time (PBDT) for major ports declined from 2.05 days in 2011-12 to 0.49 days in 2012-13. The average turn round time (TRT) also marginally improved to 3.94 days in 2012-13 compared to 4.56 days in 2011-12. This greater efficiency of ports may be due to slow down of external trade as well as increase in Indian port capacity during 2012-13.

India's 12 big ports, which account for about 58 per cent of the total cargo shipped through the country's ports, handled 321.1 million tonnes (MT) of goods during 2013-14 (April-Oct). Container cargo volumes at these 12 ports stood at 4.34 million standard containers (TEUs) during April-Oct 2013, as per the data of the Indian Ports Association (IPA).Rail transport services**:** The performance indicator of rail transport services, the freight traffic by railways increased by 4.2 per cent to reach 1, 010 million tonnes in 2012-13 whereas, the net tonne kilometer of railways declined by 3.9 per cent to 641.8 billion. However, recent data for the

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first half of 2013-14 shows an increase of 6.2 per cent in freight traffic as well as a 2.7 per cent increase in the net tonne kilometer over the corresponding period of previous year.

STORAGE SERVICES

The warehousing services sector plays an important role in the Indian economy. Warehousing services are an integral part of both inbound and outbound logistics as the goods produced have to be stored in different geographical locations before shipping/dispatch as per demand/order inflows. The warehousing sector also provides ancillary services like handling, transportation, pest control, farmer extension schemes, dedicated warehousing at doorsteps and consultancy. As per the Central Warehousing Corporation (CWC), the storage capacity has reached 106.3 lakh MT at the end of 30th Sept 2013 with 86 per cent utilization.

REAL ESTATE SERVICES

As per the Central Statistical Office (CSO) data, the 'real estate and ownership of dwellings and business services' sector valued at Rs 5,343 billion in 2012-13 accounted for 9.7 per cent of the overall GDP at factor cost at 2004-05 prices. The contribution of this sector has increased by 0.7 per cent in last 9 years driven by increase in economic growth. There was decline in contribution to GDP in 2010-11 due to slow growth to 6 per cent witnessed in this sector, but the sector regained its position in 2011-12 and 2012-13 with growth of 10.3 and 9.3 per cent respectively. The growth of construction sector with as share of 8.1 per cent to GDP decelerated in 2011-12 to 5.6 per cent and further decelerated to 4.3 per cent in 2012-13 and to 2.8 per cent in Q 1 of 2013-14 and 4.3 per cent in Q2 of 2013-14.

As per the Centre for Monitoring Indian Economy (CMIE)'s economic outlook, the real estate and construction sectors are among the largest contributors to the exchequer. In the year 2011-12, the sector contributed Rs. 120 billion to the exchequer. The real estate sector of India is expected to post annual revenues of US$ 180 billion by 2020 as compared to US$ 66.8 billion in 2010-11, registering a compound annual growth rate (CAGR) of 11.6 per cent. In fact, the demand is expected to grow at a CAGR of 19 per cent between 2010 and 2014, with tier I metropolitan cities projected to account for about 40 per cent of this. As per National Skill Development Council's Report 'Human resources and skill requirements in the building, construction and real estate services sector (2022)', this sector currently employs 145 million employees and would require additional 10.47 million people by 2022. According to estimates by the Credit Rating Information Services of India Limited (CRISIL), the demand-supply gap in India's housing sector will stand at 75.5 million units by the end of 2014.

SOME SELECT BUSINESS SERVICES

IT AND ITES SERVICES

India's total IT industry's (including hardware) share in the global market stands at 7 per cent; in the IT segment the share is 4 per cent while in the ITeS space the share is 2 per cent. As per a report by Gartner, IT spending in India is projected to reach US$ 71.5 billion in 2013, an increase of 7.7 per cent as compared to US$ 66.4 billion projected for 2012.The enterprise software market in India is expected to reach US$ 3.92 billion in 2013, registering a growth of 13.9 per cent over 2012 revenue of US$ 3.45 billion. The IT- Business Process Management (BPM) sector remains the largest The IT- Business Process Management (BPM) sector remains

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the largest foreign exchange earning sector with the exports of this sector contributing 52.3 per cent to India’s total services exports of US $ 145.68 billion in 2012-13. However, with the uncertain international economic conditions, the growth of IT-BPM service revenues (both software and hardware) decelerated from 14 percent in 2011-12 to an estimated 7.5 percent reaching US$108.4 billion in 2012-13 as per NASSCOM data.

ENGINEERING AND CONSULTANCY SERVICES

The Indian engineering sector is of strategic importance to the economy owing to its intense integration with other industry segments. The total exports of Indian engineering goods sector stood at US$ 56.7 billion during 2012-13 and are expected to grow to US$ 125 billion by 2013-14. Exports from the engineering segment have registered a compound annual growth rate (CAGR) of 11.0 per cent over the period 2008-13. The engineering industry has been de-licensed and enjoys 100 per cent foreign direct investment (FDI). In engineering consultancy, by having comparative advantage of lower cost, Indian engineering service providers enjoy a crucial place, with about 23 per cent of the overall engineering and R&D outsourcing pie as stated by management consulting firm Zinnov. The cost of engineering services in India is approximately one eighth of UK and one third of South East Asian Countries. India's exports in the R&D and product engineering segment are currently US$ 16.3 billion and are poised to grow exponentially over the coming years.

5. RESEARCH AND DEVELOPMENT (R & D) SERVICES

India was ranked seventh globally in terms of research and development (R&D) investments in 2012. Its R&D investments are expected to increase to US$ 45.2 billion in 2013 from US$ 38 billion in 2011. India ranks ninth globally in the number of scientific publications and 12th in the number of patents filed. By 2020, the global share of publications is expected to double and the number of papers in the top 1 per cent journals will quadruple from the current levels. However, as per the Global Innovation Index (GII) 2013, India’s rank has slipped by 2 positions from 2012 and is now ranked at 66th among the 142 most innovative countries.

HEALTH CARE SERVICES

The Indian healthcare industry, which comprises hospitals, medical infrastructure, medical devices, clinical trials, outsourcing, telemedicine, health insurance and medical equipment, is expected to reach US$ 160 billion by 2017. On the back of continuously rising demand, the hospital services industry is expected to be worth US$ 81.2 billion by 2015 as per industry estimates. The Indian hospital services sector generated revenue of over US$ 45 billion in 2012. This revenue is expected to increase at a compound annual growth rate (CAGR) of 20 per cent during 2012-2017, according to a business research and consultancy firm RNCOS report titled, ‘Indian Medical Device Market Outlook to 2017’. The hospital and diagnostics centre sector in India received foreign direct investment (FDI) worth US$ 2.02 billion, while ‘drugs & pharmaceuticals’ and ‘medical & surgical appliances’ industry received FDI of US$ 11.39 billion and US$ 717.61 million, respectively during April 2000 to August 2013. India is fast becoming the preferred destination for high-end pathology and diagnostic services. The highly fragmented diagnostics and pathology labs market in India is at US$ 3.4 billion; according to a report by Price water house Coopers. An increasing number of hospitals from the UK, US, Middle East and neighboring countries are tying up with Indian diagnostic centres to conduct

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laboratory tests. The Indian diagnostic services market is expected to grow at a compound annual growth rate (CAGR) of around 26 per cent during 2012-2015 on the back of huge investments, fast expansion into tier II & III cities, and strong government support strengthening the healthcare infrastructure in the country. According to RNCOs research report "Booming Clinical Trials Market in India", the number of clinical studies by domestic and global players has sharply risen. India, over the last decade, has developed significant capabilities in clinical trials, along with certain capabilities in project management and data management.

BANKING AND FINANCIAL SERVICES

India's Rs 77 trillion (US$ 1.25 trillion)-banking industry is the backbone of the economy. The sector remained strong even after the global financial crises and which shook most of the developed economies. Indian banking sector is expected to become fifth largest in the world by 2020 as per the report prepared by KPMG in association with the Confederation of Indian Industry (CII). Bank credit is expected to grow at a compounded annual growth rate (CAGR) -15- of 17 per cent in the medium term, eventually leading to higher credit penetration in the economy. A robust insurance sector is a boon to a country's economy. Industry body CII projects the growth rate for Indian insurance industry in 2013-14 at around 5 per cent. It also projects that 60 per cent of non-life insurance companies would record an average growth of more than 10 per cent. Increasing the FDI limit from 26 per cent to 49 per cent in the sector is being viewed as a major factor to push the insurance density in India. The Insurance Regulatory and Development Authority (IRDA) estimated that the insurance business in India would touch Rs 4 lakh crore (US$ 65.32 billion) by the end of 2013-14.

EDUCATION AND SKILL DEVELOPMENT

Education and skill development are crucial for reaping the demographic dividend. The market size of Indian education sector is expected to increase to Rs 602,410 crore (US$ 95.80 billion) by 2014-15 on the back of strong demand for quality education, according to a report by India Ratings. Indian education sector's market size in 2011-12 was estimated at Rs 341,180 crore (US$ 54.20 billion). The sector grew at a compounded annual growth rate (CAGR) of 16.5 per cent during 2004-05 to 2011-12. Considering the importance of education and skill development, the Government of India has set itself an aggressive target of achieving 30 per cent gross enrolment ratio (GER) in higher education by 2020, which translates into doubling the GER in the next eight years. According to the Ministry of Human Resource and Development (HRD) data, enrolments have increased from 15.5 million (GER of 12.4 per cent) in 2006-07 to 17.3 million (GER of 15 per cent) in 2009-10 and further increased to 27.5 million (GER 19.4 per cent) in 2010-11. Realizing the fast growth of education sector in India, many private companies are looking for relevant acquisitions and alliances in this space. Major investments are being seen in the areas of pre-schools, private coaching and tutoring, teacher training, development and provision of multimedia content, educational software development, skill enhancement, IT training and e-learning. The private education sector is estimated to reach US$ 70 billion by 2013 and US$ 115 billion by 2018, according to a consulting firm Technopak.

TELECOM AND RELATED SERVICES

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Telecom sector is another sunrise sector in which India has made a mark with the second largest telephone network in the world, next to China. The Indian telecom industry has been the flag-bearer of the Indian liberalization /reforms process driving connectivity from a meager 0.8 per 100 persons in 1994 to over 73 per hundred persons today. As per Industry estimates, telecom sector contributed 6.9 per cent of GDP in 2012-13 providing employment to more than 5.7 lakh employees. However, total telecom connections declined to 899.86 million as on 30th Sept 2013 as compared to 965.5 million as on 30th June, 2012. This decline in telecom user base has been primarily due to removal of inactive mobile telephone connections by the service providers. Teledensity (the number of telephones per 100 population) which is an important indicator of telecom penetration, increased from 18.22 per cent in March 2007 to 73.01 per cent as on 30th Sept 2013, with urban teledensity at 144.02 per cent and rural at 41.70 per cent, providing the best possible services at one of the most affordable rates globally. Moreover, the Telecom sector's revenue grew by 13.4 per cent to reach US$ 64.1 billion in 2012-13.

RECENT POLICY MEASURES IN SERVICES SECTOR

The government has been taking many policy reforms in services sector. Some of the recent reforms are as follows:

- The budget 2013-14 has set aside of Rs 14,000 crore for capital infusion into banks with a plan to leverage by asking banks to raise additional equity capital from the open market, in proportion to the non-promoter shareholding in each bank. Besides there are many other measures taken in the financial services sector like allowing Banks to open branches in tier-I cities without seeking the Reserve Bank of India’s prior approval in each case subject to fulfilling certain inclusion criteria in underserved areas in proportion to their expansion in the urban areas.
- To help R & D services, India plans to set up a dedicated Rs 5,000 crore (US$ 806.45 million) fund – India Inclusive Innovation Fund – to boost scientific innovations that can improve the life of the common man. The Union Government will initially contribute Rs 100 crore (US$ 16.13 million) to this fund. Under the Union Budget 2013-14, a sum of Rs 4,727 crore (US$ 762.42 million) for medical education, training and research has been allocated. In addition, Rs 3,415 crore (US$ 550.81 million) for agricultural research and Rs 200 crore (US$ 32.26 million) has been set aside to fund organizations that will scale up Science and Technology (S&T) innovations.
- To help the shipping sector, in Budget 2013-14, Ships and vessels have been exempted from excise duty. Consequently, there will be no CVD on imported ships and vessels.
- To help the IT sector, the government has notified safe harbour rules which aims to remove uncertainties related to transfer pricing. This will be applicable for 5 assessment years starting from assessment year 2013-14. Accordingly the ceiling of Rs. 100 crore on transactions in the routine nature of IT and ITeS activities has been removed and transactions upto Rs.500 crore has been provided safe harbour margin of 20 per cent and transactions above Rs.500 crore has been provided safe harbour margin of 22 per cent. Similarly, the ceiling of Rs.100 crore provided for transactions
- The government has also taken many policy initiatives recently to liberalize the FDI policy for the services sector.

POLICY ISSUES IN SERVICES SECTOR

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There are two major set of issues in services sector. The first is related to market access issues for India's services abroad and second is related to Domestic regulations and policy issues in India.

MARKET ACCESS FOR INDIA'S SERVICES EXPORTS

There are a number of market access barriers, some visible and some less visible which hinder India's services exports. Some examples are as follows: In the case of Business Services, access to the US market, remains non-transparent and unsatisfactory as licensing of professional service suppliers is generally regulated at State level. In addition to this, there are the Buy American provisions. In the case of legal services while some of the states, namely, New York, Texas, Washington D.C., and California allow overseas lawyers to practice within the state, the system and requirements are set by the concerned state bar associations and therefore differ from state to state. In the case of shipping, in US the market access obstacles are many like the many types of assistance in US to its domestic shipping sector such as a minimum of 50% of government shipments for US registered ships, limitation of use of ships built in US in internal waters, huge subsidies etc.

In the case of construction and related engineering services and urban planning and landscape services**,** the "Buy American" or "Buy local" legislations passed in many states of US have gone to the extent of even insisting on the materials used (i.e. cement) to be domestically manufactured for public works projects financed by state funds. In the case of financial services, particularly in insurance, overseas companies face 56 jurisdictions in US each of which has its own system of licensing, solvency and - 20- regulations with visible discrimination like need to be licensed in another state before seeking a license in a state. In the case of Port services, there is the issue of Harbour Maintenance tax (HMT) and Harbour services fee in US of 0.125% . While US has stopped collecting HMT on exports, it is still being collected on imports.UK Government's plan to seek 3,000 pounds refundable bonds from Indians applying for UK visas in the immediate future is the latest issue and a matter of concern. However, as of now, this plan was dropped by UK government.

USA proposed law which makes US visas restrictive for Indian companies is also a major concern. The proposed immigration reform legislation in the United States include S. 744, the Border Security, Economic Opportunity, and Economic Modernization Act of 2013; HR 2131, the SKILLS Visa Act; and HR 15, the Border Security, Economic Opportunity, and Immigration Modernization Act. On the positive side, these bills would increase the number of H-1B visas available to technology companies so that they would have greater access to high skilled talent to help their businesses grow. The bills also seek to eliminate counterproductive backlogs in the green card process that prevent many talented people from becoming permanent US residents. However, in the process of addressing these critical issues, there are serious concerns about provisions of the bills that would undermine the intent of the bills, and would impose numerous restrictions and discriminatory practices that could create long term damage to US businesses and the US economy. The provisions of greatest concern are the following.

Proposed ban on contracting for services of H-1B and L-1 workers for visa dependent companies: Both S 744 and HR 15 would implement a ban on contracting for the services of H-1B and L-1 workers for any employer with more than fifteen percent of its workforce on H-1Bs or L-1s. This is a substantial concern. Many companies engage vendors to develop, implement

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and maintain complex technology systems, and the complexity of these systems often requires the services of highly skilled individuals who may hold H-1B or L-1 visas. In particular, with a global delivery model, it is critical that some of the employees of the companies spend time on-site at
- 21- client locations. These employees are often in the United States on H-1B or L-1 visas. This provision unnecessarily hinders the ability of businesses to organize and deploy their workforces when and where they need them to serve US customers. Equally alarming is the fact that, the provision essentially dictates to U.S. customers which consulting companies they can use. This restriction is ostensibly to prevent H-1B and L-1 workers from being used as "labor for hire." In any event, the visa status of a particular employee should not be a factor in what projects that individual may participate, and the proposed ban on "contracting for" the services of an H-1B or L-1 worker could directly control how companies can utilize their workers. This would be a sea change in the U.S. government's control of operations of private companies, and could have negative effects for India as well as US. Ironically, this restriction also penalizes companies in the technology consulting industry that perform work in the US, while benefitting consulting companies that outsource most of the work abroad. Companies that essentially shift all of the work outside of the United States and thus do not utilize a significant number of H-1B or L-1 visas, for instance, are put in a better position than companies that perform substantial work in the United States by bringing talent to the US to supplement their US workforce. Creating an incentive for technology consulting companies to shift work offshore is not a positive economic policy even for the United States.

Limits on Total Percentage of H-1B and L-1 Workers: S 744 and HR 15 would also impose arbitrary limits on the percentage of H-1B and L-1 workers that could make up a company's workforce in the US. The limits would be:

- October 1, 2014 – September 30, 2015 – no more than 75%
- October 1, 2015 – September 30, 2016 – no more than 65%
- October 1, 2016 and after – no more than 50%

This provision is tempered somewhat by an exception in the bills such that "intending immigrants" -- defined as those employees for whom the green card process had been started by the company-- would count as US workers and would not count toward the H-1B or L-1 population for purposes of determining percentages. It is critical that this intending immigrant's concept remain in the bills, so that employers are not penalized because of the green card backlog or processing delays. It is because of the backlog and these delays that some companies need to keep extending H-1B or L-1 status for - 22- Employees who are going to be permanent additions to the US workforce as soon as their green card applications are approved. In calculating a company's total H-1B or L-1 population, those intending immigrants for whom the green card process has been started should be counted as US workers.

Border Security Fee Increases: S 744 and HR 15 would also arbitrarily impose unreasonably high visa fees on companies with more than 30% of their US workforce on H or L visas. Under the bills, new visa fees would rise to $5,000 beginning in FY 2015 through FY 2024 for employers with more than 30% and less than 50% H-1B and L-1B workers. For FY 2015 through FY 2017, there would be a $10,000 fee for employers with more than 50% and less than 75% H-1B and L-1B workers.

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Increases to Above-Market Wages for H-1B and L-1 Workers: All three of the proposed bills would significantly increase wage requirements for employees on temporary work visas, such as H-1Bs and L-1s, to wages that are well above the market rate in the United States. Under the proposal, even entry-level workers would have to be paid at least 80% of the mean wages for the occupation, regardless of what the data actually shows entry-level wages to be. The bills would also effectively prohibit the use of independent compensation surveys, meaning that the US government's wage data would be the only source to show the market rate, which has not always been reflective of US market wages. The practical effect of this change would be dramatic. For example, the required wage for an entry-level Software Engineer in the Newark, New Jersey area would increase from around $71,000/year to more than $97,000/year, and required wages for a middle-tier Software Engineer in the Newark area would increase from around $96,000/year to almost $122,000/year. For some companies, this would mean that employers could be forced to pay non-US workers more than their US workers. All these changes are proposed even when it is well documented that there exists a shortage of qualified highly-skilled workers in the United States, particularly in science, technology, engineering, and mathematics fields, and it is for this reason that many companies go to the significant expense of sponsoring foreign workers for H-1B and L-1 visas. A government-imposed requirement to pay above-market wages effectively penalizes employers for making the decision to keep jobs in the United.

6. CONCLUSION

This is only an indicative list and not an exhaustive list of issues, policies and domestic regulations. Removing some of the restrictions and addressing the policy issues mentioned here could help in the growth of the different services. A targeted approach with focus on big ticket services could lead to exponential gains for the services sector in particular and for the economy in general.

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