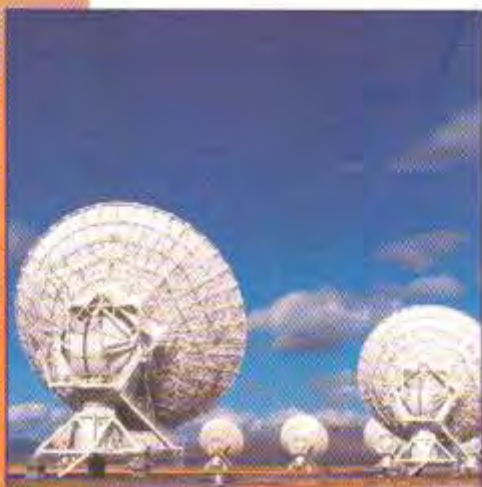


India's Services Sector - An Analysis

Working Paper Series
Paper No. 51



 **एक्झिम बैंक**
EXIM BANK
भारतीय निर्यात-आयात बैंक
EXPORT-IMPORT BANK OF INDIA

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WORKING PAPER NO. 51

INDIA'S SERVICES SECTOR - AN ANALYSIS

EXIM Bank's Working Paper Series is an attempt to disseminate the findings of research studies carried out in the Bank. The results of research studies can interest exporters, policy makers, industrialists, export promotion agencies as well as researchers. However, views expressed do not necessarily reflect those of the Bank. While reasonable care has been taken to ensure authenticity of information and data, EXIM Bank accepts no responsibility for authenticity, accuracy or completeness of such items.

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Executive Summary

Introduction

Services sector plays a very essential role in the development of the Indian economy, and is often referred to as the backbone in contributing to overall economic growth. The sector is currently regarded as a crucial aspect of international trade, and the inclusion of the services sector in the Uruguay Round of Trade Negotiations led to the General Agreement on Trade in Services (GATS).

The services can be traded along four modes of supply:

- Mode 1-Cross border trade: from the territory of one member into the territory of another member;
- Mode 2- Consumption abroad: arises when the consumer travels to the territory of the service supplier, for instance to avail tourism, education or health services;
- Mode 3- Commercial presence: by a service supplier of one member, through commercial presence in the territory of another member;
- Mode 4-Presence of natural persons: by a service supplier of one member, through the presence of a member in the territory of any other member.

Global Scenario

Globally, services GDP during the year 2014 was estimated at US\$ 48.9 trillion and it constituted approximately 62.7 per cent share of the aggregate

GDP. The United States ranked first in services exports as well as aggregate services GDP in the world, with the services GDP estimated at nearly US\$ 13.6 trillion during the year 2014. China ranked second in world GDP, as also under the services GDP which is estimated at US\$ 4.9 trillion. Services occupied 47.1 per cent share in the total GDP of China. Japan was the third leading country in terms of services GDP in the world, followed by Germany, the UK, France and Italy. During the year 2014, India was ranked at 9th position in terms of total GDP, and at 10th position in terms of services GDP, globally.

As per Global Employment Trends 2014 Report, during the year 2013, the services sector accounted for more than half of the total employment growth. During the year 2013, the services sector employed 45.1 per cent of the world's workers, and the share of service workers rose by 10.1 percentage points during the same period.

As per the WTO, the world commercial services exports increased by 4.2 per cent by value in 2014 and amounted to US \$ 4.94 trillion. The global services exports have increased at a compound annual growth rate (CAGR) of 7.2 per cent during the ten year period 2005 to 2014, from US\$ 2.63 trillion to US\$ 4.94 trillion in 2014. Significant exporters of services include the United States, the United Kingdom, Germany, France and China. The United States has been the leading exporter of services worldwide and its share in the aggregate global services exports was approximately 14.4 per cent in 2014. The United Kingdom with exports worth US\$ 333.9 billion, accounted for 6.8 per cent of the global exports during the year 2014. Service exports from Germany, France and

China constituted shares of nearly 5.5 per cent, 5.4 per cent and 4.5 per cent in the global exports, respectively.

The leading global importers of services in 2014 were the United States (with a share of 9.8 per cent in the total global imports of services), followed by China (7.9 per cent), Germany (6.8 per cent) and France (5 per cent). India was ranked at the tenth position among the global importers of services during the year 2014.

Indian Scenario

India's services industry has been evolving as the leading sector with considerable contribution to the nation's income, trade, investments and employment. As per India's National Accounts Statistics, the services sector accounted for 53 per cent of India's gross value added at basic prices (current prices) in 2014-15. The share of services in the gross value added has been rising over the years from 48.5 per cent in 2011-12, which rose to 50 per cent in 2012-13 and increased further to 51.3 per cent of the aggregate value added in 2013-14.

During the year 2014-15, Maharashtra was the leading State in services output among the States, registering a services growth of nearly 15.8 per cent. The share of services in the gross state domestic product was highest in Chandigarh with a share of 88.4 per cent, followed by Delhi with around 87.5 per cent.

According to a Report by A T Kearney, India held the first position globally as the ideal offshoring destination in the world, in the year 2014, followed by China and Malaysia. This superiority in position over others can be attributed to India's competence in the areas of IT, BPO and voice services.

Category Wise Services Trade

The major categories of services include transport, travel, construction, insurance and pension services, financial services, charge for the use of intellectual property, telecommunications, and computer and information services, personal, cultural and recreational services along with government goods and services.

Transportation Services

The exports of transportation services have increased at a CAGR of 5 per cent during the period 2010 to 2014 from US\$ 785 billion to US\$ 955 billion. The European Union has been the leading exporter of these services globally with a share of 43.3 per cent in aggregate exports. The other significant transportation services exporting countries are the United States, Singapore, Japan, China, Korea, Hong Kong, Norway, Russia and India.

India's exports in transportation services were valued at US\$ 17.5 billion during the year 2014-15, exhibiting an increase of 0.5 per cent. The exports of transportation services by India decreased at a CAGR of 1.5 per cent, from US\$ 18.3 billion in 2011-12, to nearly US\$ 17.5 billion in 2014-15.

Travel Services

During the year 2014, the global travel services exports were estimated at US\$ 1240 billion, registering a growth of 4.6 per cent as compared to the previous year. The European Union has been the leading exporter of travel services globally, and the exports during the year 2014 showed an increase of 5.5 per cent in comparison to the previous year. Value of exports increased from US\$ 403.1 billion in 2013 to nearly US\$ 425.1 billion, during the year 2014. The United States, with a share of 14.3 per cent in the aggregate

exports, is the second largest in exports of travel services. The other significant travel services exporters are China, Thailand, Hong Kong, Australia, Turkey, Malaysia, India and Singapore.

Globally, the value of travel services exports aggregated to US\$ 20.3 billion in 2014-15, accounting for nearly 13.1 per cent share in the total services exports. Exports of travel services have increased by 13.5 per cent during the same period, as compared to the previous year. The value of travel services exported has increased at a CAGR of 3.3 per cent from US\$ 18.5 billion in 2011-12 to US\$ 20.3 billion in 2014-15.

Construction Services

The global exports of construction services during the year 2014 were valued at US\$ 110 billion, registering a year-on-year growth rate of 10 per cent in comparison to the previous year. The European Union as a bloc is the largest exporter of construction services internationally and had nearly 31.2 per cent of the share of global exports, during the year 2014. Other significant construction service exporting countries are Korea, Japan, Russia, the United States, Singapore, Switzerland and Iran.

India's exports of construction services were valued at US\$ 1.6 billion, during the year 2014-15. These exports have grown at a CAGR of 26 per cent from US\$ 0.8 billion in 2011-12 to approximately US\$ 1.6 billion during the year 2014-15. India's import of construction services has been stable at US\$ 1.2 billion during the period 2012-13 to 2014-15.

Financial Services

The global exports of financial services, during the year 2014, were valued at US\$ 415 billion,

registering a rise of approximately 3.8 per cent relative to the previous year. The European Union as a bloc, with a share of approximately 54.2 per cent, ranks first among global exporters of financial services. Other major exporters of financial services internationally are the United States, Switzerland, Singapore and Hong Kong.

Indian exports of financial services were estimated at US\$ 5.7 billion during the year 2014-15, and the imports during this period were valued at US\$ 3.6 billion. The exportation in financial services has decreased at a CAGR of 1.7 per cent during the period 2011-12 to 2014-15 and net exports are valued at US\$ 2.1 billion during the year 2014-15.

Telecommunications, Computer and Information Services

The global exports of telecommunication, computer and information services have increased at a year-on-year growth rate of 7 per cent and were valued at US\$ 460 billion during the year 2014. As in the case of majority of other services, the European Union as a bloc leads among exporters of telecommunication, computer and information services globally. With more than half of the global share, exports of telecommunication, computer and information services from the European Union increased by 6.6 per cent during the year 2014. India is the second largest exporter of these services and its share has remained stable internationally.

The exports of telecommunication, computer and information services in India were valued at US\$ 75.3 billion during the year 2014-15. The exports have increased at a CAGR of 5.6 per cent during the period 2011-12 to 2014-15. The exports of these services accounted for around 48.5 per cent of the export of total services from India.

Other Business Services

The European Union is the leading exporter of other business services, and the EU has exported services worth US\$ 526.6 billion during the year 2014. The United States was the second largest exporter in this category and the value of exports increased from US\$ 120 billion in 2013 to US\$ 128 billion in 2014. The other significant exporters of other business services are China, India and Singapore.

The exports of other business services accounted for 18.3 per cent of the aggregate exports of services from India. These exports have grown at a CAGR of 5 per cent during the period 2011-12 to 2014-15.

Challenges and Strategies

Market Access

Market access restrictions include licensing agreements, licensing procedures, qualification requirements, qualification procedures and technical standards and many other such barriers. In the case of Business Services, access to the US market, remains non-transparent as licensing of professional service suppliers is generally regulated at the State level. In addition to this, there are the Buy American Preferences under 49 U.S.C. § 50101, that requires all construction and related engineering services and urban planning and landscape services in the United States to source and use materials, such as cement, steel etc. from domestically manufactured companies, for public works projects, financed from the State funds.

In the case of Port services, there is the Harbour Maintenance tax (HMT) and Harbour services fee in the US, of 0.125 per cent, which is a Federal tax imposed on shippers based on the value of goods

being shipped through ports. In the case of financial services, particularly in insurance, overseas companies face 56 jurisdictions in the US, each of which has its own system of licensing, solvency and regulations with visible discrimination, such as need to be licensed in another State before seeking a licence in a State.

The 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, and Immigration Modernization Act. The proposed VISA rules of the US, different domestic regulations in trading partner countries like licensing, state level regulations in different services tax, are among the major market access issues.

The policies should ensure fair treatment towards companies immaterial of the volume of visa usage or the kind of business model used. Those policies which have a discriminating impact lead to rendering comparative advantage to a few firms at the cost of others. While India has to diligently negotiate under the bilateral agreements, status of the existing Mutual Recognition Agreement (MRAs) needs to be also taken into account to address restrictive market access policies. Negotiations should have the objective of removing barriers to trade, such that free flow of Indian services can take place globally.

Competitiveness and Regulatory Issues

An analysis of the Organisation for Economic Cooperation and Development's (OECD) TiVa (trade in value added) data reveals that the share of total services value added in India's gross exports increased from 48 per cent in 1995 to 57.5 per cent in 2011. However, an industry-wise

decomposition reveals that competitiveness and VAD contribution in exports growth is concentrated mainly in business services and distribution services. Contribution of traditional services (VAD) in exports has been declining.

The OECD trade restrictiveness index further reinstates the regulatory bottlenecks faced by the companies in the services sector having bearing on their competitiveness. The sectors with the highest STRI scores (i.e most restricted) are rail freight transport, legal services and air transport.

With reference to tax and trade policy, the concerns raised by the companies often include use of 'net' instead of 'gross' foreign exchange criteria for export benefit schemes. Moreover, multiple taxation in some sectors and regulatory and tax related complications for business closures are other areas of concern. Furthermore issue of collateral has been attributed as one of the key deterrent to growth of credit flow in the sector.

The two broad areas where policy focus is needed to enable service orientation and to enhance linkages between services, include strengthening and sustaining advantage in knowledge-intensive business services and broadening competitiveness in services to cover those segments, which can directly enhance connectivity and efficiency in trade. Towards achieving this, strategies should include addressing regulatory barriers (domestic as well as international), which raise the costs of doing business, restrict competition, and affect quality across a range of services. It should also include eliminating restrictive regulatory environment in several services.

Investments in key areas, such as transport and digital infrastructure, innovation and IP, human capital and skill development are vital to build up capacity for enhancing India's servification

ability. Upgrading quality to meet international benchmarks by harmonizing standards within the country, and mutual recognition of qualifications internationally may help increase as well as sustain trade.

Nodal Agency

In India, many services are under the purview of the State Governments, or are jointly regulated by the Central and the State Governments. In the case of certain services, the regulatory framework extends across various government ministries, agencies and departments inducing obstacles in adhering to the procedures and requirements. Multiplicity of regulatory bodies creates multiplicity of regulations and the requirement of multiple clearances. The absence of an Apex Ministry for the rapidly developing services sector is an important issue to be tackled for the growth of the sector. While the Services Export Promotion Council has been created to promote services exports, creation of an apex agency for the services sector, which is responsive to the requirements of the stakeholders in sub-sectors, and ensuring transparency and free flow of information, may be an approach going forward.

Data on Services

The absence of availability of required data poses difficulty for the Government in its decision making on matters related to domestic reforms, and participating in international trade negotiations. There is limited availability of disaggregated data for various services because of the invisible nature of trade in services. There are certain services, such as the retailing sector, where it is extremely exhausting to collate data due to the inherent attributes of the industry. In order to improve the data collection in the services sector, it is of prime importance to conduct elaborate and intricate

surveys to track the activities in the informal sector. Models practiced in the developed countries, in this regard, may be followed.

Ease of Doing Business

India has been ranked 142 among 189 countries in the World Bank's report on Ease of Doing Business falling two places from the previous year's ranking of 140 during the year 2014. In the recent years, the registration fees for startups, though have been lowered; besides, the Government of India has been active in undertaking reforms and making efforts to upgrade India's position on various business indices. However, it is important for India to surpass its competitors in order to secure a better place in the Doing Business Rankings by the World Bank.

Availability of Infrastructural Facilities

India was ranked at 54th position in the World Bank's Logistics Performance Index (LPI), in 2014, out of 160 countries. India's logistics infrastructure has limitations in meeting the rapidly growing freight traffic. The rising economic growth has been putting more pressure on the already exhausted logistics network.

Talent Pool Requirement

According to the GCI Report 2015-16, India scores relatively low and ranks 105th among 140 countries in gross enrolment for secondary education, and ranks 86th in gross enrollment for tertiary education. India also scored relatively low in the availability of specialized training. In order to improve India's performance in this regard some strategies has been suggested. Integration of research institutions and business schools with global schools and institutions may also help in improving the quality of training and education in the country. The quality of education being

delivered must be in accordance with the demand in the employment market. Industrial trainings may be made mandatory in the college and university curriculum in alignment to the requirements of various services sector. The Government may consider increasing public funding and encourage private investments towards professional courses.

Retention of Talent Pool

Retaining skilled workforce is a major challenge for the firms in the services sector. The problem resulting due to the loss of proficient and trained human capital is reported to have long term unfavourable impact on the firms. Some strategies have been presented to ensure retention of the work force. Creating conducive environment in the organisation for building up of the intellectual resources and professional growth of the workforce may be fruitful. Moreover regular revision of remuneration and fair compensation for the employees can prevent attrition. Acknowledgment of the employees and appreciating them for their efforts can be a strategy to combat high attrition rates. Avoiding overburdening and ensuring lifework balance can also help in this regard.

Research and Development

Given the significance of research and development in servification of India's goods and services, there is a need for enhanced focus in the area. This would require capitalizing on the science and technology investments that are already in place. Prioritizing public R&D expenditure and encouraging increased private investments and public-private partnerships may help in strengthening and streamlining investment situation in the area. There is a need to create a strong connect between scientific institutions and industry, with a mandate of effective technology transfer.

Data Protection

It is imperative that the Indian KPO units recognize the legal obligations of protecting the private information thoroughly while undertaking off-shoring assignments. It is extremely important for Indian outsourcing firms to assure American and European organisations and corporations regarding data security. There is no specific legislation on privacy and data protection in India. However, the Information Technology Act, 2000 contains specific provisions intended to protect electronic data. Data Security Council of India (DSCI) is a non-profit Section 25 company, established by NASSCOM, as a self-regulatory organization to promote data protection through best practices and standards, in line with the evolving global regulatory landscape. One of the key recommendations in this area may be amendment of the IT Act by the Government of India. Additionally, adopting a system whereby each Indian IT-BPO provider must obtain and maintain DSCI certification in order to establish itself as a viable option to American and European companies looking to form an outsourcing relationship.

WTO and Free Trade Agreements

India has become a part of a number of free trade agreements to bring about additional ease in services trade. Agreements signed by India covering services, include ASEAN-India Framework Agreement for Comprehensive Economic Cooperation Agreement (CECA), India Singapore Comprehensive Economic Cooperation Agreement (August 2005), India-Korea Comprehensive Economic Partnership Agreement (January 2010), Comprehensive

Economic Cooperation Agreement between India and Malaysia (July 2011) and Comprehensive Economic Partnership Agreement between India and Japan (August 2011). The quantitative limitations on services, such as the number of hospitals being set up, or educational institutes being established also need to be modified through the negotiations. Negotiations in the WTO should have the objective of removing the barriers to trade, such that free flow of Indian services can take place globally.

Outlook

According to the World Bank's India Development Update Report, the World Bank projects India's GDP growth to expand to 7.5 per cent in 2015-16, followed by further acceleration to 7.9 per cent in 2016-17 and 8 per cent in 2017-18. As per the Economic Survey 2015-16, according to advanced estimates, the services sector accounting for 53.3 per cent of India's gross value added at basic prices (current prices), grew by 9.2 per cent (constant prices), marginally lower than in 2014-15. A major driver behind the growth rate in the previous year 2014-15, has been the services sector, which performed better than the manufacturing sector. Although the merchandise exports stagnated in 2014-15, it was the growth in the exports of services sector which had a favourable impact on the current account balance. The services sector, through its backward and forward linkages with other sectors of the economy, is estimated to grow at an average of 10.5 per cent during FY2016-FY2018. There are certain reforms that have been taken by the Government of India (GoI), which is envisaged to have a positive impact on the performance of the services sector.

1. Introduction

The services sector plays a crucial role in the progress of the global economy and the growth and developments of many countries. In some countries, services sector is the backbone in contributing to the overall economic growth, job creation, and poverty reduction. While earlier, services were considered as non-tradable and were ignored in trade agreements and statistics, it is currently regarded as a crucial aspect of international trade. Their inclusion in the Uruguay Round of Trade Negotiations led to the General Agreement on Trade in Services (GATS). Services sector have become the subject of multilateral trade negotiations. Services sector renders assistance to the economy as a whole and more specifically to the manufacturing industry, through finance, logistics and communication. Economic growth can be propelled by boosting international trade in services, as the sector supports in stimulating the growth of the manufacturing sector. The competence of countries in merchandise trade depends on the availability of low-cost and high quality services, including telecommunications, financial, transport, logistics and distribution.

Under the GATS, the definition of services trade is four-pronged, depending on the territorial presence of the supplier and the consumer at the time of the transaction. The services can be traded along four modes of supply:

- Mode 1-Cross border trade: from the territory of one member into the territory of another member;
- Mode 2- Consumption abroad: arises when the consumer travels to the territory of the service supplier, for instance to avail tourism, education or health services;
- Mode 3- Commercial presence: by a service supplier of one member, through commercial presence in the territory of another member;
- Mode 4-Presence of natural persons: by a service supplier of one member, through the presence of a member in the territory of any other member.

The services trade is largely being considered as the new frontier for the developing and the least developed countries to expand their presence in international trade. However, inclusion of the less developed countries into the global services map by way of boosting the trade still remains a challenge.

Consequently, it becomes mandatory to augment the public and private sector support for furthering the development of the services sector, and also in ensuring the optimum utilization of resources to stimulate the contribution of the services sector in the aggregate growth of the economy. Given the multifaceted contribution of services to the national economy and trade, it is critically important to design and implement a services-driven development strategy within a coherent and comprehensive policy framework, ensuring linkages with other policy areas, and overall national development objectives¹.

¹USDA

2. Global Scenario

OVERVIEW

The global services GDP during the year 2014 was estimated at US\$ 48.9 trillion and it constituted approximately 62.7 per cent share of the aggregate GDP. The world services GDP has registered a nominal increase of 2.5 per cent while the share of services GDP in overall GDP has remained stable during the year 2014, as compared to the previous year. The United States ranks first in services as well as aggregate GDP in the world. During the year 2014, the overall GDP of the

United States was nearly US\$ 17.3 trillion, and the share of services GDP in the aggregate GDP was approximately 78.6 per cent. China ranks second in world GDP, as also under services GDP which is estimated at US\$ 4.9 trillion. Services occupied 47.1 per cent share in the total GDP of China. Japan's services GDP, which formed 69.6 per cent of the total GDP was the third leading country in terms of services GDP, followed by Germany, the UK, France and Italy. During the year 2014, India ranked 9th in terms of total GDP and 10th in terms of services GDP, globally.

Table 2.1: Performances in Services: International Comparison (2014)

Country	Overall GDP (US\$ trillion)	Rank in GDP	Services GDP (US\$ trillion)	Rank in Services GDP	Share of Services in Total GDP (%)
The United States	17.3	1	13.6	1	78.6
China	10.4	2	4.9	2	47.1
Japan	4.6	3	3.2	3	69.6
Germany	3.9	4	2.4	4	61.5
The UK	3.0	5	2.1	5	70.0
France	2.8	6	2.0	6	71.4
Brazil	2.3	7	1.4	8	60.9
Italy	2.1	8	1.4	7	66.7
India	2.1	9	1.0	10	53.0**
Russia	1.8	10	0.9	12	50.5
Canada	1.8	11	1.2	9	66.7
Australia	1.5	12	1.0	11	66.7
Republic of Korea	1.4	13	0.8	14	57.1
Spain	1.4	14	0.9	13	64.3
Mexico	1.3	15	0.7	15	53.8
World	78.0		48.9		62.7

Source: UN National Accounts Statistics

*GDP in current prices

Construction sector excluded in Services GDP

** Central Statistics Organisation (CSO)

Among the top fifteen nations in terms of services GDP, China displayed maximum increase of 12 per cent during the year 2014, followed by the United Kingdom and India. Japan, Brazil, Russia, Canada and Australia registered a decline in services GDP during the same period. During the period 2010-14, the compound annual growth rate of services GDP was the highest in China followed by India and Republic of Korea. Services GDP in India increased by 9.3 per cent in the year 2014, and the CAGR during the period 2010 to 2014 was around 7.7 per cent.

Table 2.2: Services GDP Growth Rate (2014)

Country	Services GDP (US\$ Trillion) 2014	Y-o-Y Growth		CAGR 2010-14
		2010	2014	
The United States	13.6	3.4	4.2	3.6
China	4.9	18.7	12	16.9
Japan	3.2	6.9	-9.2	-4.6
Germany	2.4	-3	3.5	3.1
The UK	2.1	2.8	10.6	5.3
France	2.0	-1.9	0.8	1.6
Italy	1.4	-3.3	0.5	0.4
Brazil	1.4	29.6	-3.2	1.7
Canada	1.2	15.7	-3.4	2.1
India	1.0	25.7	9.3	7.7
Australia	1.0	25.3	-4.1	3.8
Russia	0.9	23.2	-11	4.2
Spain	0.9	-4.9	0.4	0.2
Republic of Korea	0.8	18.1	8.4	6.8
Mexico	0.7	16.5	1.7	5.4

Source: UN National Accounts Statistics

*GDP in current prices

Construction sector excluded in Services GDP

As per Global Employment Trends 2014, during the year 2013, the services sector accounted for more than half of the total employment growth. During the year 2013, the services sector employed 45.1 per cent of the world's workers, and the share of service workers rose by 10.1 percentage points during the same period. The share of services in total employment was the highest in the United States, followed closely by the United Kingdom and Canada.

Table 2.3: Share of Services in Total Employment

Country	2014 (%)
The United States	79.9
China**	38.5
Japan	70.0
Germany	70.5
France	75.7
The UK	79.1
Brazil	63.1
Italy	69.5
Russia	65.8
India*	28.5
Canada	78.1
Australia	76.9
Spain	76.3
Republic of Korea	69.7
Mexico	63.6

Source: International Labour Organisation

*Share for 2011-12, sourced from Economic Survey 2014-15

** Share for 2013

TRADE

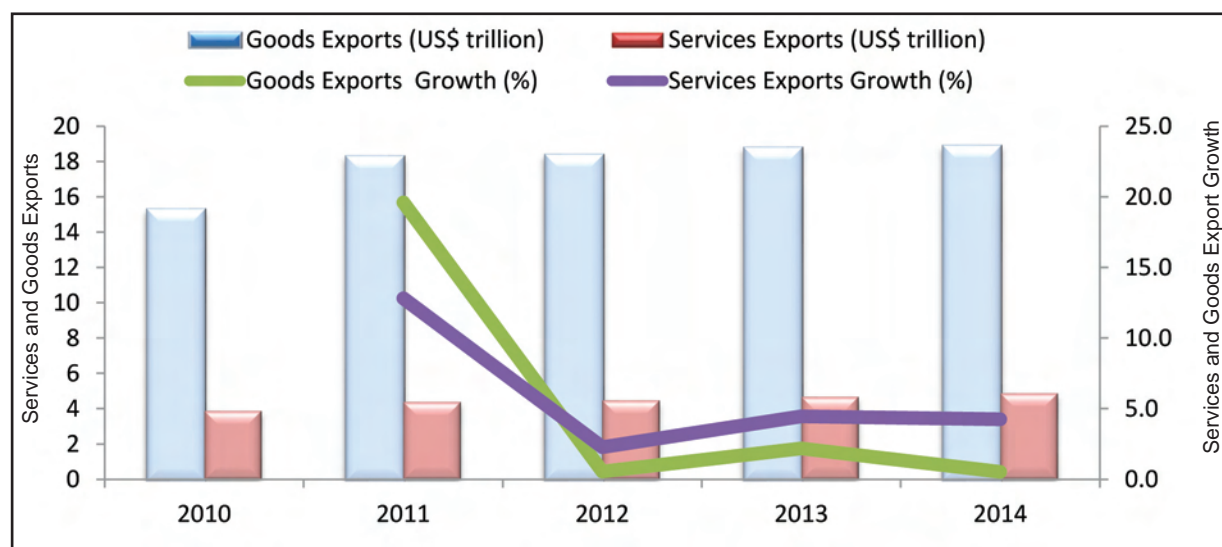
The trade in services has been rapidly increasing worldwide owing to technological advancement and rising ease in cross border business. The global export of services has been expanding and the services exports growth rate has outpaced the growth in the merchandise exports. As can be seen in Exhibit 2.1, the growth rate in the merchandise exports have stagnated over the recent years; however, the growth in services exports have been displaying a rising trend. During the year 2014, the year on year growth rate of the merchandise exports was merely 0.5%, while the year-on-year growth rate in the services sector amounted to 4.2%.

As per the WTO, the value of world commercial services exports increased by 4.2% in 2014 and amounted to US \$ 4.94 trillion. The global services exports have increased at a compound

annual growth rate (CAGR) of 7.2% during the ten year period 2005 to 2014, from US\$ 2.63 trillion to US\$ 4.94 trillion in 2014. A positive growth in the services exports can be observed during the period 2005 to 2008, post which in 2009, there was a negative growth rate owing to the global economic recession. However, subsequent to this period exports in the services sector have consistently displayed positive growth.

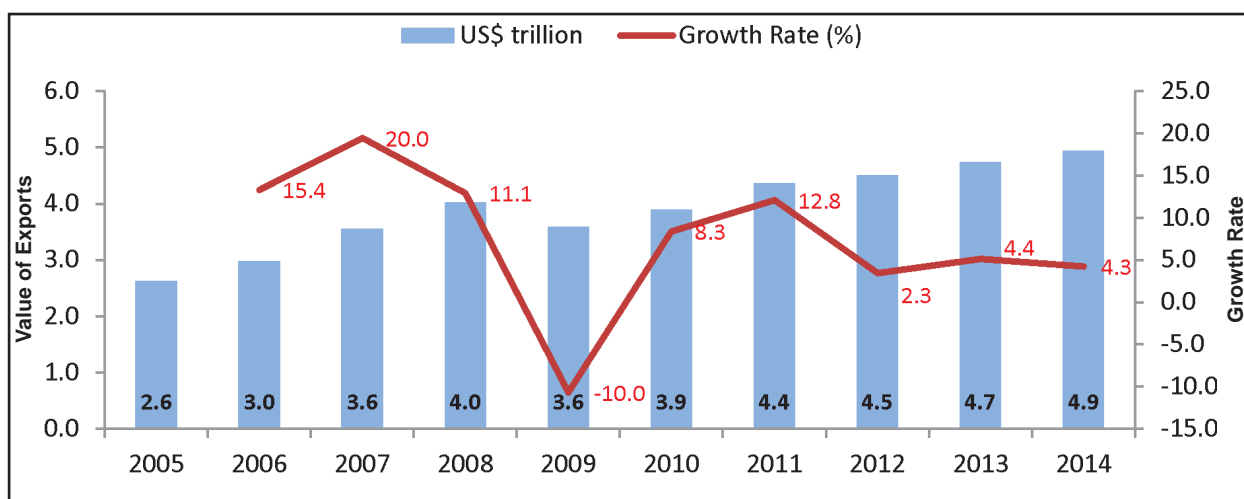
While the year-on-year growth rate in the services exports of developed economies was 4.7% in the year 2014, in the case of developing economies it was slightly lesser at 4%. A major increase in the export of services by the least developed countries can be observed in Table 2.4. Among the developed and the developing economies, Asia has displayed the largest growth rates; however, a decline in the growth rates of transition economies can be noted.

Exhibit 2.1: Global Goods and Services Exports and Growth Rates



Source: UNCTADSTAT

Exhibit 2.2: Global Export of Services



Source- UNCTADSTAT

*Total Services include goods related services, transport, travel and other services which include construction, insurance and pension services, financial services, charges for use of intellectual property, telecommunications, computer and information services, other business services, personal, cultural and recreational services, Government goods and services

Table 2.4: World Export of Services - Region-wise

Regions	2014 (US\$ billion)	Y-O-Y Growth (%)
Developing Economies :		
Africa	99.8	3.4
America	180.5	3.2
Asia	1163.9	4.1
Oceania		
Developed Economies :		
Europe	2306.4	4.8
America	797.0	2.4
Asia	196.5	16.3
Oceania	66.4	-0.4
Least Developed Countries	40.9	7.2
Transition Economies	125.9	-6.9

Source: UNCTADSTAT, Note- Data for Oceania under developing economies not available

Major Exporters of Global Services

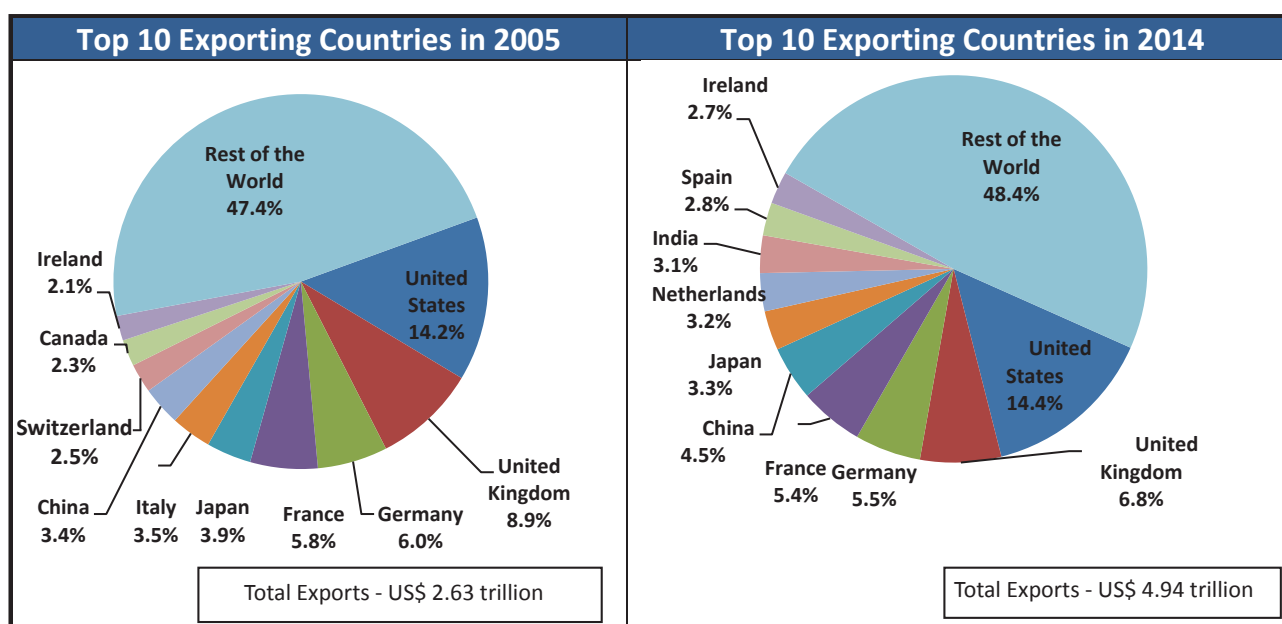
The significant exporters of total services have been nearly the same set of countries in 2005 as well as in 2014, which include the United States, the United Kingdom, Germany and France. However, China has replaced Japan as being the fifth largest exporter of services in 2014 as compared to 2005.

The United States has been the leading exporter of services worldwide during the 10-year period, from 2005 through 2014. USA's share in the aggregate global services exports has almost remained unchanged from 14.2% in 2005 to 14.4% in 2014. The value of export of services from the United States has increased at a CAGR of 5.9% as the value of exports rose from US\$ 563.3 billion in 2010 to US\$ 709.4 billion in 2014. The global share of services exports by the United Kingdom has been declining over the

years; however, in value terms the UK's services exports has been displaying considerable rise as can be observed in Table 2.5.

Germany with a share of 5.5% in the global services exports during the year 2014 has been the world's third largest exporter of services. The services exports from Germany registered a CAGR of 4.9% valuing US\$ 272.4 billion in 2014. Amongst the top five service supplying countries globally, France has displayed the highest growth as the exports increased at a CAGR of 7% during the 5 year period 2010 to 2014 from US\$ 201.7 billion to US\$ 264.3 billion. China, the fifth largest exporting country of services globally, exported services worth US\$ 223.5 billion in 2014. The other significant exporters of services in the year 2014 were Japan (3.3% share in global export of services), the Netherlands (3.2%), India (3.1%), Spain (2.8%) and Ireland (2.7%).

Exhibit 2.3: Leading Services Exporting Countries in the World (2005 and 2014)



Source- UNCTADSTAT

Table 2.5: Major Services Exporting Countries

Country	2010	2011	2012	2013	2014	CAGR
	US\$ billion					%
The United States	563.3	627.8	654.9	687.4	709.4	5.9
The United Kingdom	272.3	304.8	309	319.6	333.9	5.2
Germany	225.1	248	240.6	260.8	272.4	4.9
France	201.7	236.7	237.3	254.9	264.3	7.0
China	171.5	184.8	216.2	207.7	223.5	6.8
Japan	131.1	137.5	134.2	135.2	162.5	5.5
The Netherlands	124.7	137.1	131.2	142	156.8	5.9
India	117.1	138.5	145.5	148.6	154.6	7.2
Spain	112.9	130.9	122.8	128.9	135.9	4.7
Ireland	90.2	104.8	109.9	122.5	133.9	10.4
World	3890.5	4362.1	4505.5	4742.5	4940.4	6.2

Source- UNCTADSTAT

Major Importers of Global Services

The leading global importers of services in 2014 were the United States (with a share of 9.8% in the total global imports of services), followed by China (7.9%), Germany (6.8%) and France (5%). India was ranked at the tenth position among the

global importers of services. Among these major importers, the highest year-on-year growth rate was exhibited by Ireland, followed by China and Japan. However, the compound annual growth rate for services imports during the period 2010 to 2014 was highest for China and amounted to nearly 18.6%.

Table 2.6: Major Importers of Services

Country	2014 (US\$ billion)	% of world imports	Y-O-Y growth in 2014
The United States	478.3	9.8	3.5
China	383.5	7.9	15.8
Germany	328.1	6.8	1.1
France	244.2	5.0	5.9
The United Kingdom	194.9	4.0	-1.4
Japan	191.9	3.9	12.3
The Netherlands	165.6	3.4	8.4
Ireland	141.9	2.9	16.0
Singapore	129.8	2.7	0.4
India	125.0	2.6	-1.0
World	4860.3	100.0	4.7

Source: UNCTADSTAT

3. Indian Services Sector

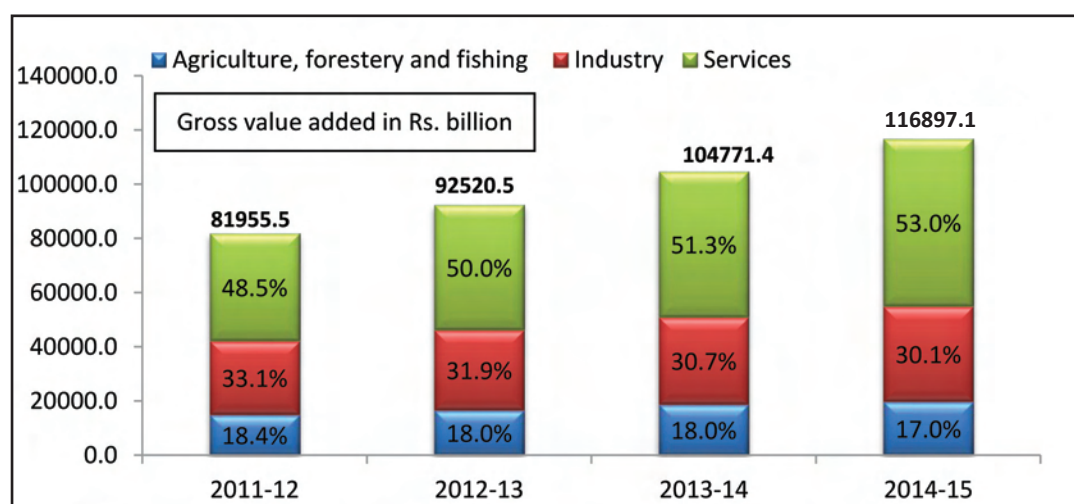
Since the last two decades, India's services industry has been evolving as the leading sector with considerable contribution to the nation's income, trade, investments and employment. India's services sector remains the major propellant of economic growth as India is being led in the progression path from an agrarian based economy to a services-based one, with the services sector contributing approximately 72.4% of the GDP growth in 2014-15.

India has experienced a rapid growth in its services sector in the previous decade and this trend is expected to continue in the future. An amalgamation of demand and supply side factors has driven the growth of the services sector. High income elasticity for final product services fuelled demand, whereas increased

levels of foreign direct investment and constant supply of technically skilled workforce ensured the necessary resources for the growth of the services sector². Additionally, India was able to seize the opportunities offered by the growth in foreign demand, arising from the Y2K-related requirement for IT skilled professionals and later followed by large-scale off-shoring of business processes³.

As per India's National Accounts Statistics, the services sector accounted for 53% of India's gross value added at basic prices (current prices) in 2014-15. The share of services in the gross value added has been rising over the years from 48.5% in 2011-12, which rose to 50% in 2012-13 and increased further to 51.3% of the aggregate value added in 2013-14.

Exhibit 3.1: Percentage of Agriculture, Industry and Services in Gross Value Added at Current Basic Prices ; 2011-12 Prices



Source- Central Statistics Organisation (CSO)

² Banga, Rashmi 2005

³Thirwell, Mark 2006

FDI IN SERVICES SECTOR

The services sector has attracted considerable FDI Equity Inflows in the country over the years. As per the latest estimates of Department of Industrial Promotion and Policy (DIPP), the combined FDI share of top five services sectors was 43.1% of the cumulative FDI inflows during the period April 2000 to February 2015. During the year 2013-14, a decline in the FDI inflows can be observed in the services sector, including the construction development and hotel & tourism services. However, significant rise in the FDI inflows have been displayed in the telecommunications and computer software and hardware sectors.

With the recent developments of opening up of the market and relaxing of the Government norms and rise in the ease of doing business, there has been a considerable rise in the FDI inflows in the country. The Government has raised FDI cap in

the insurance sector to 49% from 26%, and the policy for other sectors, such as defence, railways and medical devices has also been relaxed. The high growth in services FDI inflows is mainly due to considerable rise in three major categories; computer software & hardware and services which includes financial, banking, insurance, outsourcing and R & D.

INDIA'S SERVICES TRADE

The services sector in India has flourished substantially and has been recognized globally for its growth and development. India's trade in services has been expanding considerably and it has been contributing immensely to contain India's trade deficit. A rise in the services exports has been instrumental in multiplying job opportunities and reallocating labour to high productive sectors. A transformation in the composition of services trade in India can be noticed over the years, as

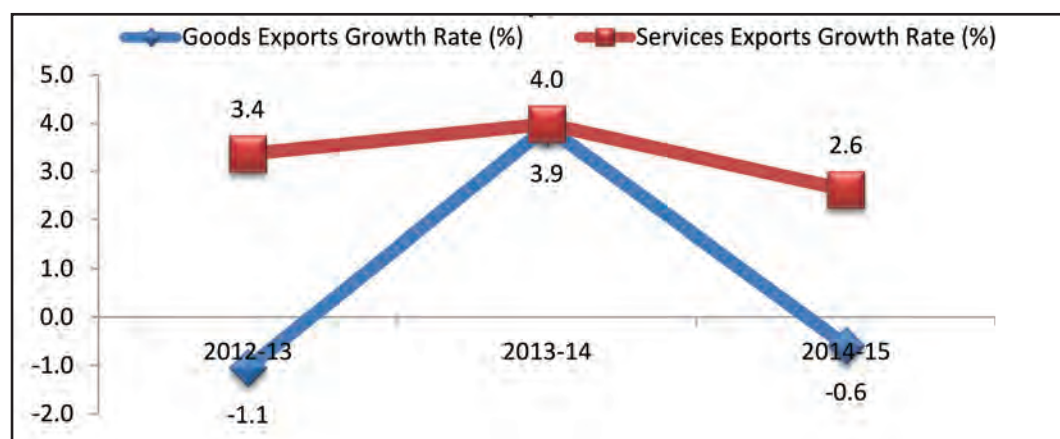
Table 3.1: Top 5 Service Sector Components attracting FDI Equity Inflows
(From April 2000 to September 2015)

Sector	FDI Inflows	% of Total Inflows
	(US\$ billion)	(%)
Services Sector	45.4	17.11
Construction Development	24.2	9.11
Computer Software & Hardware	18.2	6.85
Telecommunications	17.7	6.68
Hotel & Tourism	8.5	3.19

Note-Services Sector Includes Financial, Banking, Insurance, Non-Financial/Business Outsourcing, R&D, Courier, Tech. Testing Analysis

Construction Development includes Townships, Housing, Built-up Infrastructure and Construction-Development Projects
Source: DIPP

Exhibit 3.2: Year-on-Year Growth Rate of Merchandise and Services Exports



Source: RBI

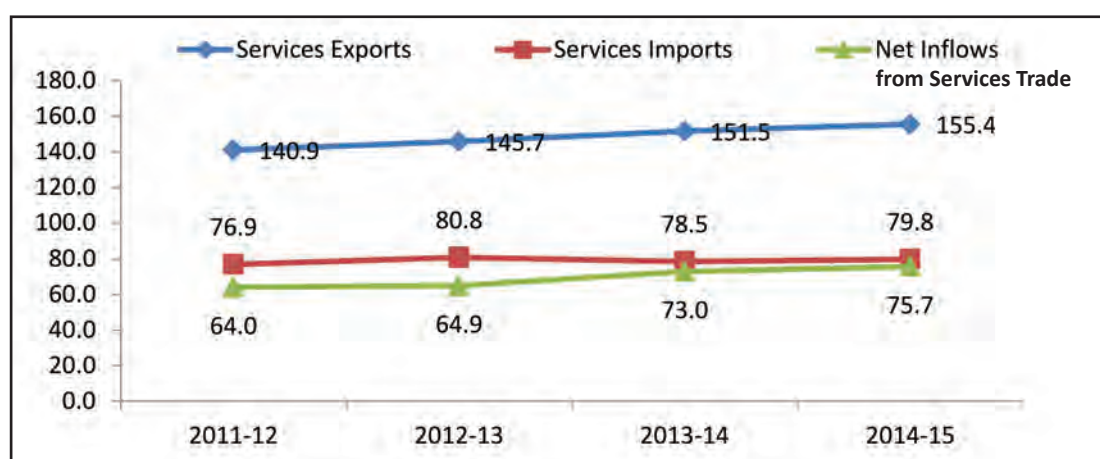
it changed from travel and transport services to more knowledge based and business services⁴ and that India has export potential in skill-based and labour intensive services⁵.

The year-on-year growth rates displayed in Exhibit 3.2 suggest that the services exports have performed relatively better as compared to the merchandise exports. During the year 2012-13, the year-on-year growth rate for the services sector was 3.4%, while the merchandise exports

declined by 1.1% during the same period. In the following year 2013-14, the year-on-year growth rates in both the goods and the services exports was nearly the same. However, in 2014-15, while the services exports rose, the year-on-year growth rate in goods exports declined by 0.6%.

Services exports have increased at a compound annual growth rate of 3.3% as the value of exports rose from US\$ 140.9 billion to US\$ 155.4 billion during the period 2011-12 to 2014-15. The

Exhibit 3.3: Exports, Imports and Net Inflows from Services Trade in India (US\$ billion)



Source: RBI

⁴ Chanda 2002⁵ Ministry of Finance 2007

services imports have risen at a CAGR of 1.2%, as the value rose from US\$ 76.9 billion in 2011-12 to nearly US\$ 79.8 billion in 2014-15. During the year 2014-15, both the services exports and imports increased at a year-on-year growth rate of 2.6% and 1.6% respectively, and the net inflows during that period were valued at US\$75.7 billion. The net inflows have risen at the rate of 3.7% during the year 2014-15.

STATE WISE COMPARISON OF SERVICES

The services sector holds significant importance in majority of the States in India. During the year 2014-15, Maharashtra was the leading State in services output among the States, registering a growth of nearly 15.8 per cent. The share of services in the gross state domestic product in

the year 2014-15 in the State of Tamil Nadu was around 61.6 per cent. The share of services in the gross state domestic product was highest in Chandigarh with a share of 88.4 per cent, followed by Delhi with around 87.5 per cent.

GLOBAL SERVICES LOCATION INDEX

According to A T Kearney⁶, India held the first position globally as the ideal offshoring destination in the world in the year 2014 followed by China and Malaysia. This superiority in position over others can be attributed to India's competence in the areas of IT, BPO and voice services. As per National Association of Software and Service Companies (NASSCOM), the IT - BPM sector employs more than 3.7 million people and accounts for more than 45% in India's total services exports.

Table 3.2: State wise Comparison of Services Domestic Product (2014-15)

State	Gross State Services Domestic Product	Share of services in aggregate state domestic Product	Year-on-year growth rate
	Rs billion	%	%
Maharashtra	10758.2	63.8	15.8
Tamil Nadu	6016.5	61.6	16.8
Uttar Pradesh	5048.5	51.7	13.8
West Bengal	4820.6	60.2	14.2
Karnataka	4149.3	59.1	15.9
Delhi	3946.5	87.5	16.3
Gujarat*	3350.8	43.8	14.6
Andhra Pradesh	2693.1	51.8	13.7
Rajasthan	2623.6	45.7	14.5
Kerala*	2622.1	66.2	17.7

Source: CSO Data

*indicated 2013-14 data

⁶ The Global Services Location Index by A.T. Kearney ranks the leading offshore locations preferred by business leaders worldwide. The index ranks 51 countries which are selected based on the following criteria; corporate input, current remote services activity, and government initiatives to promote the sector. They were evaluated against 25 measurements across three major categories: financial attractiveness, people skills and availability and business environment

Table 3.3: Top 10 countries in the Global Services Location Index

Rank	Country	Financial Attractiveness	People Skills and Availability	Business Environment	Total
1	India	3.14	2.71	1.19	7.04
2	China	2.26	2.54	1.36	6.15
3	Malaysia	2.72	1.43	1.84	5.98
4	Mexico	2.67	1.61	1.61	5.90
5	Indonesia	3.15	1.56	1.16	5.87
6	Thailand	3.01	1.42	1.44	5.87
7	Philippines	3.06	1.48	1.21	5.75
8	Brazil	1.81	2.25	1.63	5.69
9	Bulgaria	2.99	0.97	1.66	5.62
10	Egypt	3.20	1.36	1.06	5.62

Source: A T Kearney Global Services Location Index, 2014

4. Category-wise Services Trade

According to the Economic Survey 2015-16, the services sector has been a well performing sector for the Indian economy. The growth prospects of the services sector is promising as indicated by estimates like the Nikkei/Markit Services PMI (Purchasing Manager's Index) for India which rose to 54.3 in January 2016 from 53.6 in December 2015, the highest figure since June 2014.

The major categories of services include transport, travel, construction, insurance and pension services, financial services, charge for the use of intellectual property, telecommunications, and computer and information services, personal, cultural and recreational services along with government goods and services.

Telecommunication, computer and information services have consistently been the leading services exports from India, and its share in India's total export of services in the year 2014-15 was nearly 48.5%. During the year 2014-15, the telecommunications exports have increased at a year-on-year growth rate of 4.6%.

The category of other business services majorly includes the following components, viz., R&D services, professional & consulting services, technical services, and trade-related services. The exports of other business services declined at a CAGR of 0.04% during the period 2012-13 to 2014-15.

Table 4.1: Category wise Services Exports and Share in Aggregate Services Exports

Export of Services	2013-14		2014-15		Y-O-Y
	Value	Share in Service exports	Value	Share in Service exports	
	(US\$ million)	(%)	(US\$ million)	(%)	(%)
Transport	17380	11.5	17476	11.2	0.6
Travel	17,922	11.8	20334	13.1	13.5
Construction	1339	0.9	1613	1.0	20.5
Insurance and Pension Services	2121	1.4	2201	1.4	3.8
Financial Services	6650	4.4	5661	3.6	-14.9
Charges for the use of intellectual property	585	0.4	529	0.3	-9.6
Telecommunications, computer and information services	72010	47.5	75334	48.5	4.6
Personal, cultural & recreational activities	1323	0.9	1192	0.8	-9.9
Government goods & services	488	0.3	543	0.3	11.3
Other Business Services	28482	18.8	28422	18.3	-0.2
Others	2809	1.9	1862	1.2	-33.7
Total Services Exports	151474		155448		2.6

Source: RBI

* Totals may not tally due to rounding off

Table 4.2: Category wise Services Imports and Share in Aggregate Services Imports

Import of Services	2013-14		2014-15		Y-O-Y
	Value	Share in Service imports	Value	Share in Service imports	
	(US\$ million)	(%)	(US\$ million)	(%)	(%)
Transport	14792	18.8	16177	20.3	9.4
Travel	11810	15.0	15306	19.2	29.6
Construction	1236	1.6	1153	1.4	-6.7
Insurance and Pension Services	1116	1.4	1119	1.4	0.3
Financial Services	5814	7.4	3580	4.5	-38.4
Charges for use of the intellectual property	3980	5.1	4820	6.0	21.1
Telecommunications, computer and information services	3928	5.0	4094	5.1	4.2
Personal, cultural & recreational activities	831	1.1	1440	1.8	73.3
Government goods & services	979	1.2	961	1.2	-1.8
Other Business Services	27189	34.6	27644	34.7	1.7
Others	6525	8.3	3217	4.0	-50.9
Total Services Imports	78510		79765		1.6

Source: RBI

TRANSPORTATION SERVICES

Transport Services covers all transport services sea, air, land, internal waterway, space and pipeline, performed by residents of one economy for those of another and involving the carriage of passengers, movement of goods (freight), rental of carriers with crew, and related support and auxiliary services.

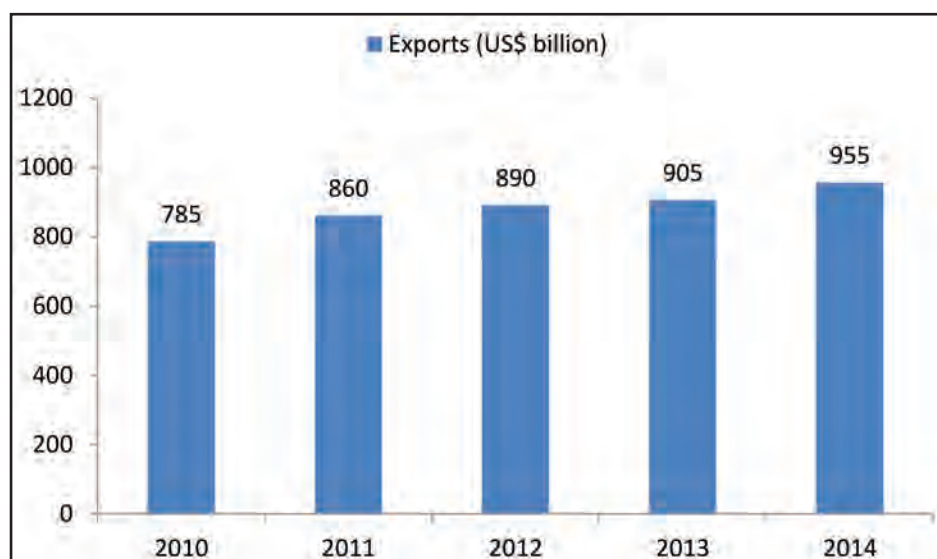
The rising merchandise trade and the international air passenger traffic have been the growth drivers of the transport services. The global crisis in 2008, caused a substantial fall in the services exports; however, they started to recover prior 2010. The world export of transportation services was valued at US\$955 billion during the year 2014. The exports of these services have increased at a CAGR of 5 per cent during the period 2010 to 2014. During

the year 2014, the exports of transport services has also increased by year-on-year growth rate of 5.5 per cent.

Major Exporters and Importers of Transportation Services

Europe is among the leading region in the exports of transportation services globally. The exports in this region have increased at a year-on-year growth rate of nearly 8.1 per cent during the year 2014. Exports from European Union (EU) showed an increase of 5.1 per cent during the year 2014, in comparison to the previous year. Asia is the second leading region in exports of transportation, and its share in the global exports in 2014 was estimated at 26 per cent. Among the Asian countries, the largest exporter of transportation services in the year 2014 was Singapore, followed by Japan

Exhibit 4.1: World Export of Transportation Services



Source: International Trade Statistics (ITS) 2015

and China. North America is the third leading region, with the United States being a significant transportation service exporter globally.

The United States, with a share of 9.4 per cent in the aggregate exports, is the second largest in

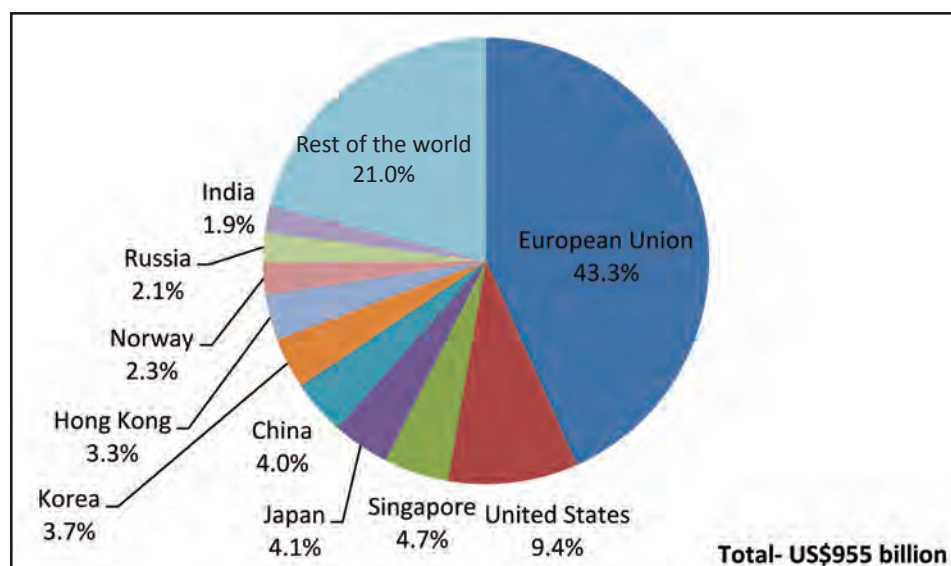
the world, in exports of transportation services, and had a year-on-year growth rate of 3.9 per cent during the year 2014. The other significant exporting countries in transportation services, besides Singapore, Japan, and China, are Korea, Hong Kong, Norway, Russia and India.

Table 4.3: Region-wise Export and Import of Transportation Services, 2014 (US\$ billion)

Region	Exports	Region	Imports
North America	104	North America	132
South and Central America	29	South and Central America	54
Europe	468	Europe	403
CIS Nations	41	CIS Nations	28
Africa	29	Africa	71
Middle East	30	Middle East	113
Asia	253	Asia	423
Total	955	Total	1225

Source: ITS 2015

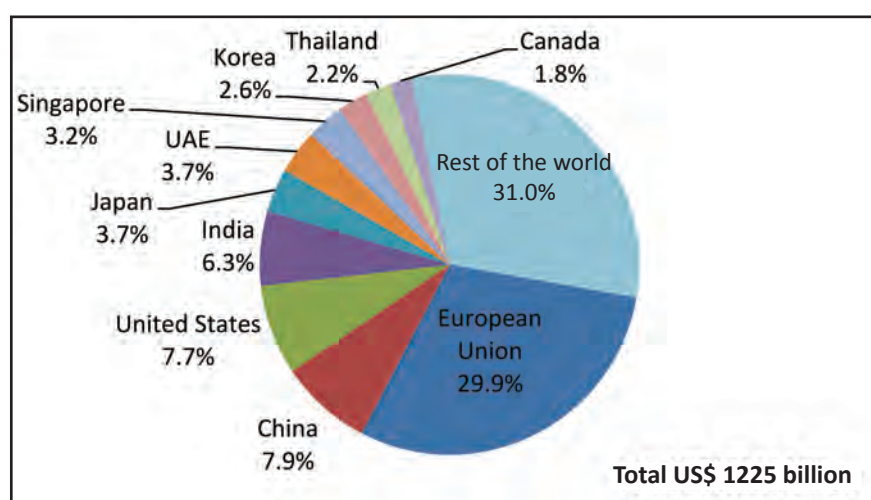
* Totals may not tally due to rounding off

Exhibit 4.2: Major Exporters of Transportation Services (2014)

Source: ITS 2015

The imports of transportation services in the European Union during the year 2014 was estimated at US\$ 366.3 billion, registering an increase of nearly 4.8 per cent in comparison to

the previous year. The other major transportation services importing countries are China, the United States, India, Japan, UAE, Singapore, Korea, Thailand and Canada.

Exhibit 4.3: Major Importers of Transportation Services (2014)

Source: ITS 2015

Indian Scenario

India's exports in transportation services were valued at US\$ 17.5 billion during the year 2014-15, exhibiting an increase of 0.5 per cent. The exports of transportation services by India decreased at a CAGR of 1.5 per cent, from US\$ 18.3 billion in 2011-12, to nearly US\$ 17.5 billion in 2014-15. The imports of transportation services have registered a growth of approximately 9.4 per cent during the year 2014 and were valued at US\$ 16.2 billion.

TRAVEL SERVICES

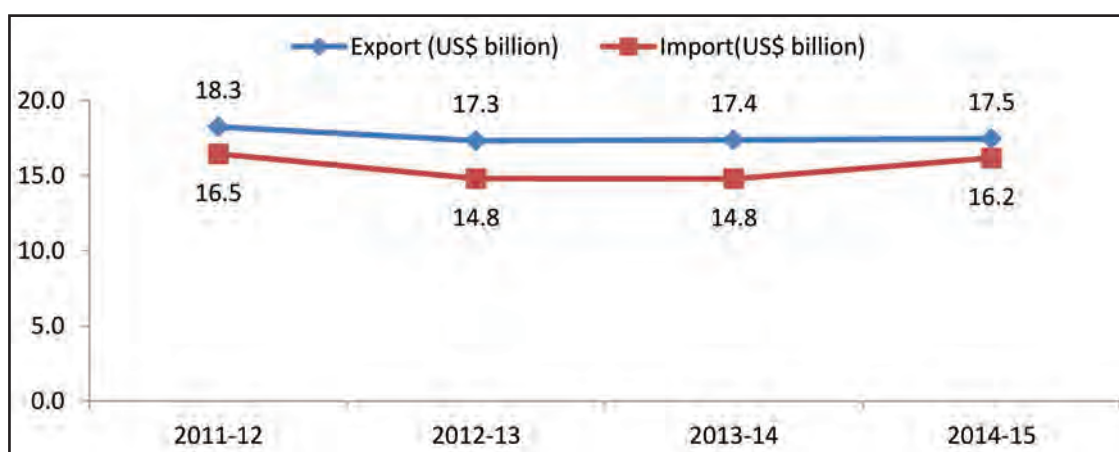
As per the International Trade Statistics, travel credit involves those goods and services which are acquired by the non-residents from an economy, during visits to that economy, for their own use or to give away. While travel debit refers to those goods and services which are acquired from other economies by residents of the reporting economy during visits to other economies. Examples of such goods and services are lodging, food and

beverages, entertainment, transportation (within the economy visited), gifts and souvenirs.

According to statistics, owing to an increase in tourist arrivals from abroad, the earnings of least-developed countries from travel services have risen by 11 per cent on average per year, since 1995, and have reached US\$ 15 billion during the year 2014. The world exports of travel services have increased at a CAGR of 7.2 per cent during the period 2010 to 2014. During the year 2014, the global travel services exports were estimated at US\$1240 billion, registering a growth of 4.6 per cent as compared to the previous year.

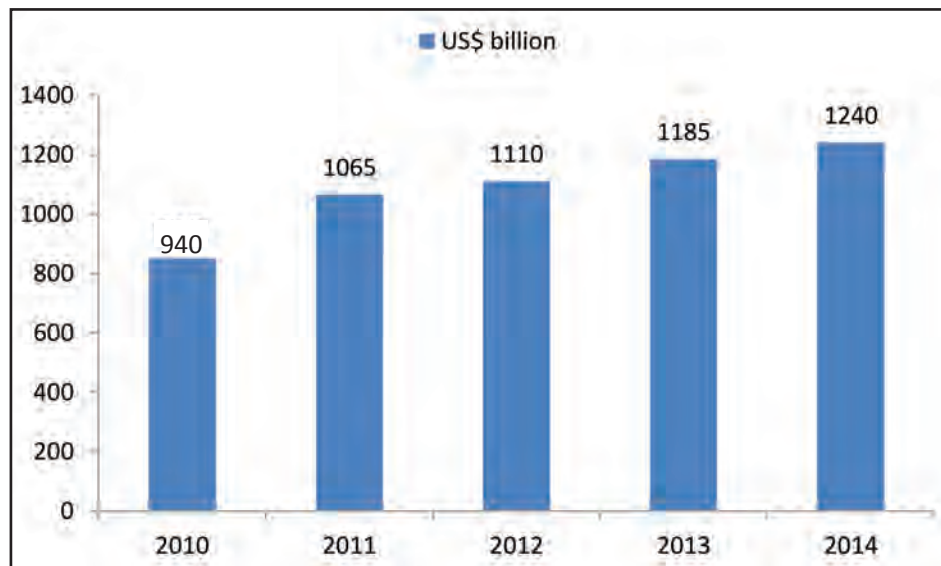
As regards the world export of travel services, Europe is the largest exporter with a share of nearly 39 per cent in the global exports. The credit receipts through export of travel services in the European region increased by 5.2 per cent during the year 2014. Asian region is the second largest in terms of export of travel services to the world, followed by the North American region.

Exhibit 4.4: India's Export and Import of Transportation Services



Source: RBI

Exhibit 4.5: World Export of Travel Services



Source: ITS 2015

Table 4.4: Region-wise Export and Import of Travel Services, 2014 (US\$ billion)

Region	Export	Region	Import
North America	212	North America	155
South and Central America	55	South and Central America	51
Europe	483	Europe	422
CIS Nations	23	CIS Nations	65
Africa	43	Africa	26
Middle East	52	Middle East	87
Asia	372	Asia	360
Total	1240	Total	1165

Source: ITS 2015

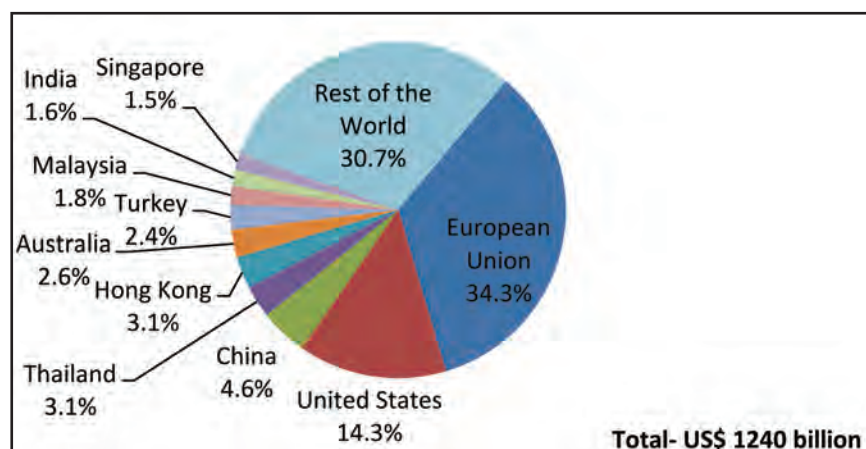
* Totals may not tally due to rounding off

Major Exporters and Importers of Travel Services

European Union is the leading exporter of travel services globally, and the exports during the year 2014 showed an increase of 5.5 per cent in comparison to the previous year, with an increase in the value of exports from US\$ 403.1 billion in 2013

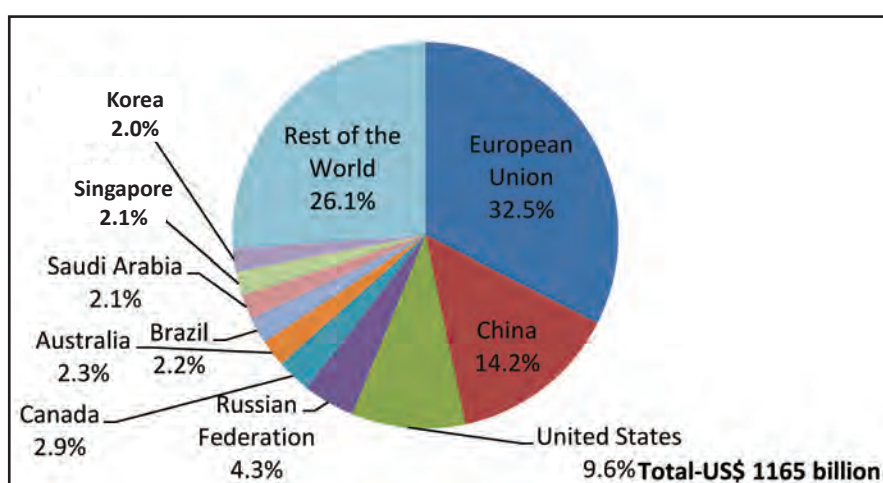
to nearly US\$ 425.1 billion during the year 2014. The United States, with a share of 14.3 per cent in the aggregate exports, is the second largest in exports of travel services, and had a year-on-year growth rate of 2.8 per cent during the year 2014. The other significant travel services exporters are China, Thailand, Hong Kong, Australia, Turkey, Malaysia, India and Singapore.

Exhibit 4.6: Major Exporters of Travel Services (2014)



Source: ITS 2015

Exhibit 4.7: Major Importers of Travel Services (2014)



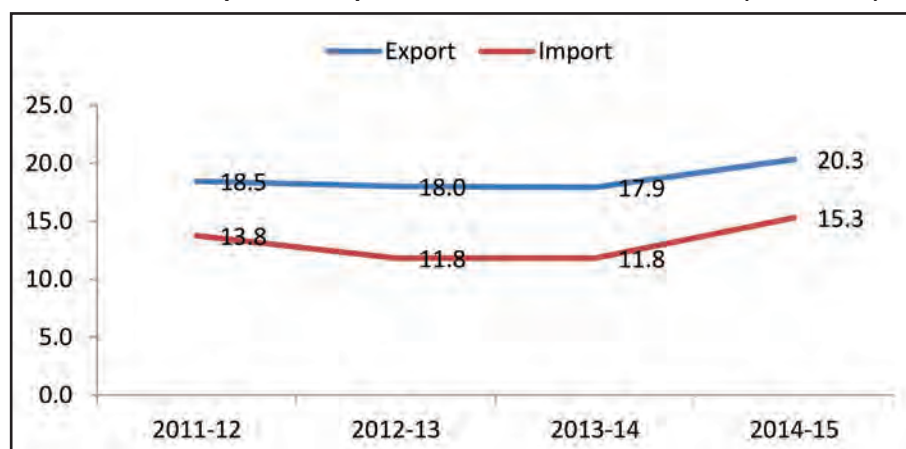
Source: ITS 2015

The imports of travel services in the European Union during the year 2014 was estimated at US\$ 378.6 billion, registering an increase of nearly 6.4 per cent in comparison to the previous year. The other major importing countries of travel services are China, the United States, Russia, Canada, Australia, Brazil, Saudi Arabia, Singapore and Korea.

Indian Scenario

As per ITS 2015, globally, India was the tenth largest exporter of travel services during the year 2014. India held the eleventh position in export of travel services during 2013 as well as in 2012; however, in the following year betterment in position can be observed. The value of travel services exports aggregated to US\$ 20.3 billion in 2014-15, and it

Exhibit 4.8: Export and Import of Travel Services from India (US\$ billion)



Source: RBI

accounted for nearly 13.1 per cent share in the total services exports. Exports of travel services have increased by 13.5 per cent during the same period, as compared to the previous year. The value of travel services exported has increased at a CAGR of 3.1 per cent from US\$ 18.5 billion in 2011-12 to US\$ 20.3 billion in 2014-15.

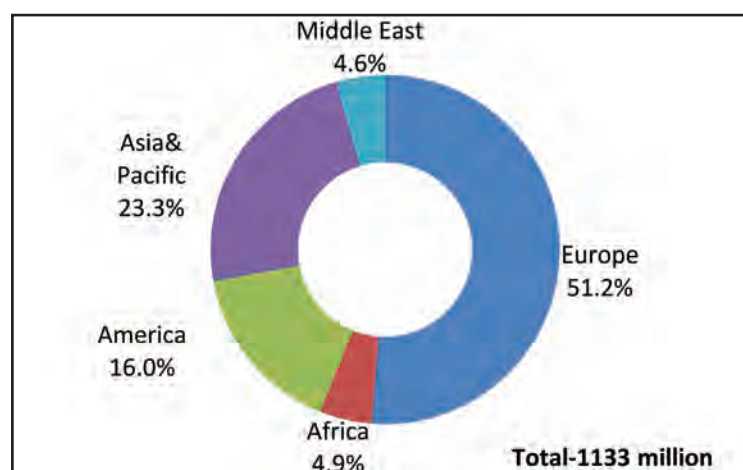
TOURISM

The international tourist arrival worldwide during the year 2014 was estimated at 1133 million, registering a rise of nearly 4.2 per cent. The arrival of international tourists globally has increased at

a CAGR of 4.6 per cent during the period 2010 to 2014.

Europe is the leading nation and attracted the highest number of international tourists during the year 2014. The tourist arrivals in Europe increased at a year-on-year growth rate of 2.4 per cent in the same year. Asia and the Pacific region attracted nearly 264 million tourists in the year 2014, exhibiting a growth rate of 5.7 per cent as compared to the previous year. America region, constituting 16 per cent share in the aggregate international tourist arrivals, had a year-on-year growth of 8.4 per cent during the year 2014.

Exhibit 4.9: Region-wise International Tourist Arrivals



Source: India Tourism Statistics 2014

Table 4.5: Top 10 Countries in International Tourist Arrivals⁷

Country	Rank	International Tourist Arrivals	Share
		(million)	(%)
France	1	83.8	7.4
The United States	2	74.8	6.6
Spain	3	65.0	5.7
China(Main)	4	55.6	4.9
Italy	5	48.6	4.3
Turkey	6	39.8	3.5
Germany	7	33.0	2.9
The UK	8	32.6	2.9
Russia	9	29.8	2.6
Mexico	10	29.3	2.6
India	41	7.7	0.7
World		1133	100

Source: India Tourism Statistics 2014

France ranks first in international tourist arrivals followed by the United States, Spain, China, Italy and Turkey. Mexico overtook Thailand's position during the year 2014, and ranked tenth. India ranked forty first with a minor share of 0.7 per cent in the aggregate international tourist arrivals worldwide. However, India's share in international tourist arrivals has been rising as the share is reported to have increased from 0.4 per cent in 1998 to 0.7 per cent in 2014.

The USA, with tourism receipts of worth US\$ 177.2 billion held the first position accounting for approximately 14.2 per cent of the global tourist receipts. Spain, the second largest in this category, registered a growth rate of 4 per cent as compared to the previous year. France is the third

Table 4.6: Top 10 Countries in International Tourism Receipts

Country	Rank	Tourism Receipt	Share
		(US\$ billion)	(%)
The United States	1	177.2	14.2
Spain	2	65.1	5.2
France	3	57.4	4.6
China	4	56.9	4.6
Macao	5	50.8	4.1
The UK	6	46.6	3.7
Italy	7	45.5	3.6
Germany	8	43.3	3.5
Thailand	9	38.4	3.1
Hong Kong	10	38.4	3.1
India	15	20.2	1.6
World		1249	100

Source: India Tourism Statistics 2014

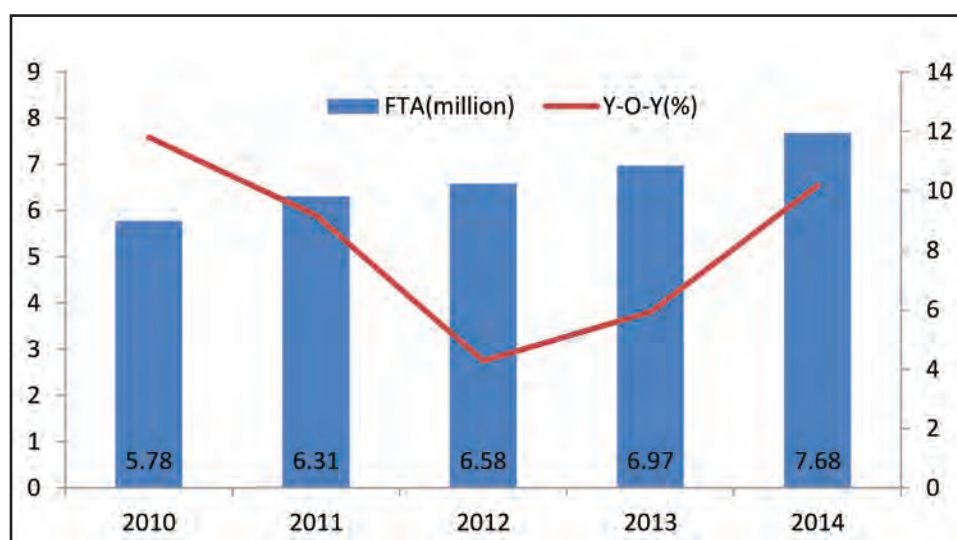
largest country in international tourist receipts, followed by China. India held the fifteenth position and its share in international tourism receipts from the world has risen from 0.7 per cent in 1998 to 1.6 per cent in 2014.

Indian Scenario

Tourism has been an important driver for economic growth and employment generation in India. As per the World Travel and Tourism Council (WTTC), the total contribution of travel and tourism to GDP was INR 7.6 trillion during the year 2014, accounting for nearly 6.7 per cent of the GDP. The aggregate contribution of travel and tourism to employment was 36.7 million jobs in the same period.

⁷Tourism receipts means money paid by visitors when visiting a country whereas tourism arrivals is just numbers of visitors.

Exhibit 4.10: Foreign Tourist Arrivals in India

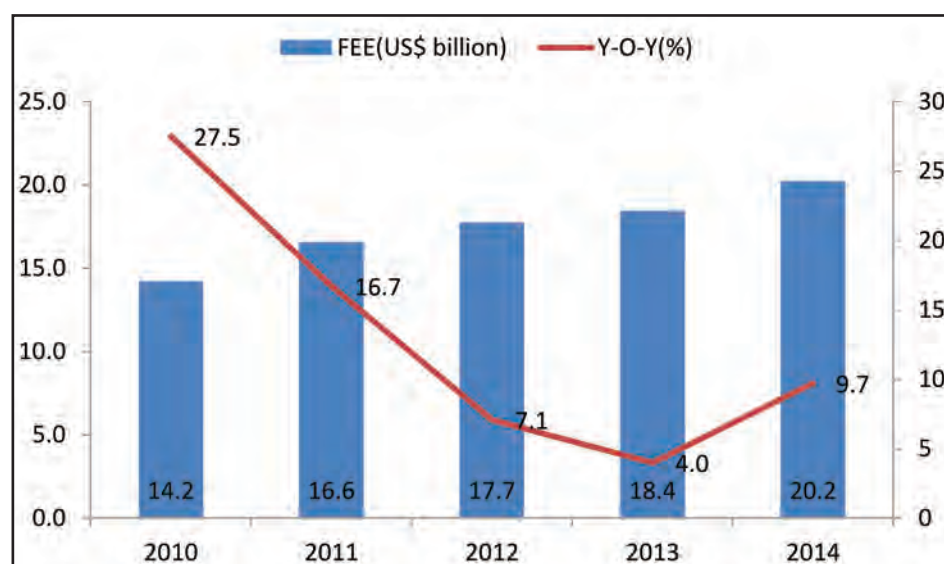


Source: India Tourism Statistics 2014

The foreign tourist arrivals (FTA) in India have been increasing and were estimated at around 7.68 million during the year 2014. FTA in the country has been displaying an increasing trend, as they rose from 1.28 million in 1981 to 1.68 million in 1991, and to around 2.54 million in 2001. During the period 2010 to 2014, foreign tourist arrivals have increased at a CAGR of 7.4 per cent as the

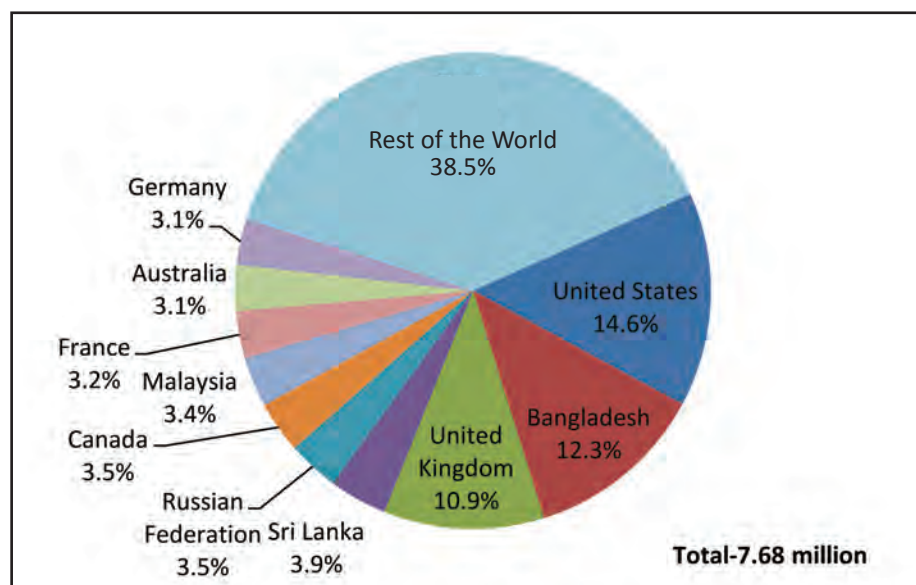
FTAs rose from 5.78 million to 7.68 million. The year-on-year growth rate of international tourist arrivals in India has increased substantially from 5.9 per cent in 2013 to nearly 10.2 per cent in 2014. While the growth rate of international tourist arrivals globally during the year 2014 was 4.2 per cent, the increase of international tourist arrivals in India during the same period was much higher.

Exhibit 4.11: Tourist Receipts in India



Source: India Tourism Statistics 2014

Exhibit 4.12: Top 10 Source Countries for FTAs in India



Source: India Tourism Statistics 2014

The tourist receipt from India during the year 2014 was valued at US\$ 20.2 billion, registering a year-on-year growth rate of 9.7 per cent. India held the fifteenth position globally in international tourism receipts and its share was nearly 1.6 per cent during the year 2014.

The USA is the leading source country for foreign tourist arrivals in India, and the arrivals have increased at CAGR of 8.2 per cent during the period 1981 to 2014. The share of tourist arrivals from the USA in the aggregate tourist arrivals have declined from 15.6 per cent in 2013 to 14.6 per cent in 2014. Bangladesh has improved in ranking from the third position in 2013 to the second position in 2014. There has been a year-on-year growth rate of 79.6 per cent in the FTAs from Bangladesh in the year 2014. The United Kingdom is the third largest among the countries, which generates tourism business for India. During the year 2014, the tourist arrivals from the United Kingdom have increased at year-on-year growth rate of 3.6 per cent. However, the share of the United Kingdom in

aggregate tourist arrivals has declined from 11.6 per cent to 10.9 per cent. Other countries from which India receives large number of tourists are Sri Lanka, Russian Federation, Canada, Malaysia, France, Australia and Germany.

OTHER COMMERCIAL SERVICES

As per the BPM6 definition, the aggregate category, 'Other Commercial Services' include the following components:

- Construction
- Insurance and Pension services
- Financial Services
- Charges for the use of Intellectual Property
- Telecommunications, computer and information services
- Other Business Services
- Personal, cultural and recreational services
- Government goods and services

Construction Services

Construction covers the creation, renovation, repair, or extension of fixed assets in the form of buildings, land improvements of an engineering nature, and other similar engineering constructions, such as roads, bridges, dams, and so forth. It also includes related installation and assembly work, site preparation, specialized services, such as painting, plumbing, and demolition, and management of construction projects. Construction also covers the acquisition of goods and services by the enterprises undertaking construction work from the economy of location of the construction work. Construction can be divided into (i) construction abroad and (ii) construction in the compiling economy⁸.

The global exports of construction services during the year 2014 were valued at US\$ 110 billion, registering a year-on-year growth rate of 10 per cent in comparison to the previous year. Among the regions, Asia is the highest in ranking with a share of nearly 46.4 per cent in the exports of construction

services worldwide. During the year 2014, Asian exports of construction services increased by 6.3 per cent and its share has increased marginally in 2015. Europe is the second leading nation in exportation of construction services globally, registering a 10.8 per cent rise relative to the previous year.

Major Exporters

The European Union as a bloc is the largest exporter of construction services internationally and had nearly 31.2 per cent of the share of global exports. The share of the European Union fell from 32.2 per cent in 2013 to about 31.2 per cent in 2014. Korea was the second leading exporter of construction services with exports worth US\$ 17.1 billion during the year 2014, displaying a decline of approximately 16 per cent as compared to the previous year. Other significant construction service exporting countries are China, Japan, Russia, the United States, Singapore, Switzerland and Iran. India ranked tenth among the global exporters in 2014.

Table 4.7: Region-wise Export and Import of Construction Services, 2014 (US\$ billion)

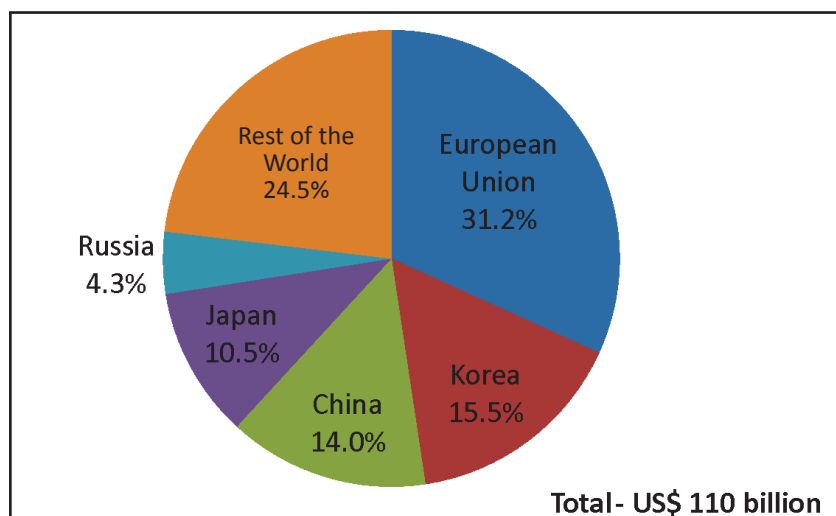
Region	2014		2013	
	Value (US\$ billion)	Share (%)	Value (US\$ billion)	Share (%)
North America	3	2.7	3	3.0
South and Central America	1	0.9	0	0.0
Europe	41	37.3	37	37.0
CIS Nations	7	6.4	8	8.0
Africa	2	1.8	2	2.0
Middle East	3	2.7	3	3.0
Asia	51	46.4	48	48.0
Total	110	100	100	100

Source: ITS 2015

* Totals may not tally due to rounding off

⁸International Trade Statistics 2015

Exhibit 4.13: Major Exporters of Construction Services (2014)



Source: ITS 2015

Indian Scenario

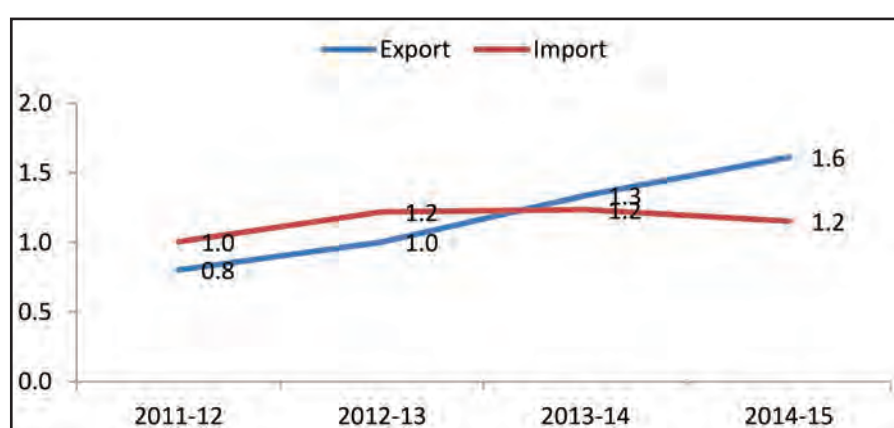
India's exports of construction services were valued at US\$ 1.6 billion during the year 2014-15. Exports of construction services have increased at a year-on-year growth rate of 23.1 per cent during the year 2014-15. These exports have grown at a CAGR of 26 per cent from US\$ 0.8 billion in 2011-12 to approximately US\$ 1.6 billion during the year 2014-15. India's import of construction services has been stable at US\$ 1.2 billion over a period of time. The net receipts from construction

services, thus, were estimated at US\$ 0.4 billion during the year 2014-15.

Financial Services

As per the WTO, the *financial services* cover financial intermediary and auxiliary services, except insurance and pension fund services, provided by the banks and other financial corporations. They include deposit taking and lending, letters of credit, credit card services, commissions and charges related to financial leasing, factoring, underwriting,

Exhibit 4.14: India's Export and Import of Construction Services (US\$ billion)



Source: RBI

and clearing of payments. Also included are financial advisory services, custody of financial assets or bullion, financial asset management, monitoring services, liquidity provision services, risk assumption services other than insurance, merger and acquisition services, credit rating services, stock exchange services, and trust services. Financial services may be charged for by: (i) explicit charges; (ii) margins on buying and selling transactions; (iii) asset management costs deducted from property income receivable in the case of asset-holding entities; or (iv) margins between interest payable and the reference rate on loans and deposits (called financial intermediation service charges indirectly measured – FISIM).

The global exports of financial services, during the year 2014, were valued at US\$ 415 billion, registering a rise of approximately 3.8 per cent relative to the previous year. Europe is the leading region in the exports of financial services globally, and its share was estimated at around 59.8 per cent during the year 2014. The exports of European financial services have risen by 3.8

per cent during this period. North America is the second largest financial services exporting region occupying 22.9 per cent share globally. Asia is the third largest in this category and the exports from this region have grown by 12.3 per cent during the year 2014.

Major Exporters

The European Union as a bloc, with a share of approximately 54.2 per cent, ranks first among global exporters of financial services. The share of the European Union has increased marginally during 2014 as compared to the previous year. The export of financial services by the United States increased by 3.8 per cent during the year 2014, and was valued at US\$ 87.3 billion during this period. However, the exports of financial services from Switzerland, the third largest exporter of financial services globally, has declined by 8.3 per cent during the year 2014. Other major exporters of financial services in the world are Singapore and Hong Kong.

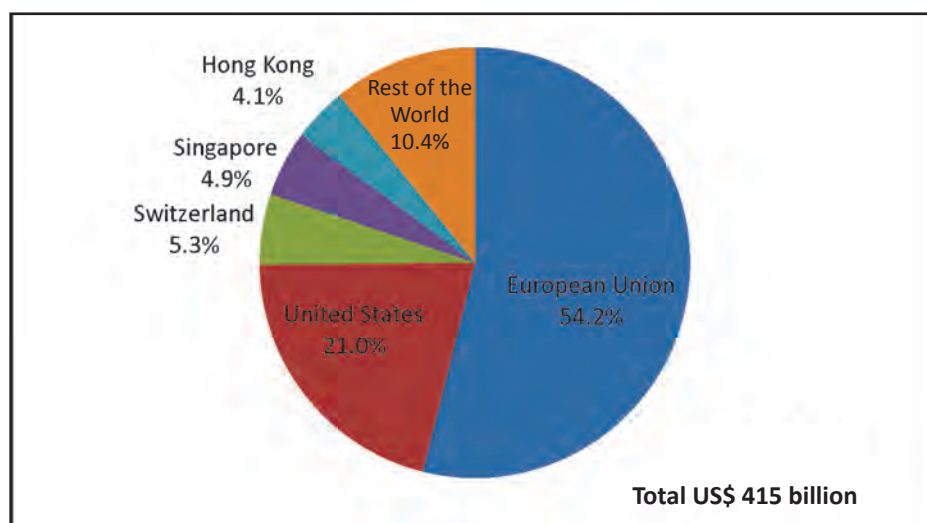
Table 4.8: Region-wise Export and Import of Financial Services (US\$ bn)

Region	2014		2013	
	Value	Share	Value	Share
	(US\$ bn)	(%)	(US\$ bn)	(%)
North America	95	22.9	92	23.0
South and Central America	3	0.7	5	1.3
Europe	248	59.8	239	59.8
CIS Nations	2	0.5	3	0.8
Africa	2	0.5	2	0.5
Middle East	3	0.7	3	0.8
Asia	64	15.4	57	14.3
Total	415	100.0	400	100.0

Source: ITS 2015

* Totals may not tally due to rounding off

Exhibit 4.15: Major Exporters of Financial Services (2014)



Source: ITS 2015

Indian Scenario

Indian exports of financial services were estimated at US\$ 5.7 billion during the year 2014-15, and the imports during this period were valued at US\$ 3.6 billion. The exports of financial services have declined by 14.9 per cent, while the imports have fallen by 38.4 per cent in the year 2014, as compared to the previous year. The exportation in financial services has decreased at a CAGR of 1.7 per cent during the period 2011-12 to 2014-

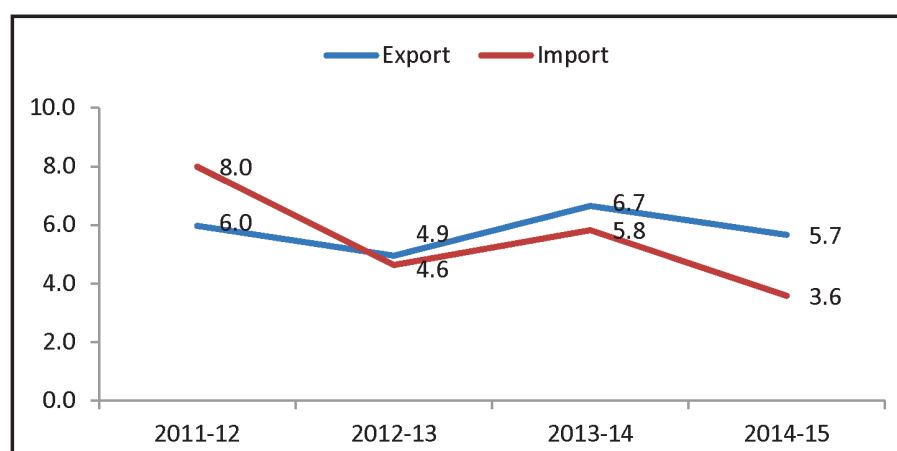
15 and net exports are valued at US\$ 2.1 billion during the year 2014-15.

Telecommunications, Computer and Information Services

Telecommunications, computer and information services cover :

- (i) Telecommunications services encompassing the broadcast or transmission of sound,

Exhibit 4.16: India's Export and Import of Financial Services (US\$ bn)



Source: RBI

images, data, or other information by telephone, telex, telegram, radio and television cable transmission, radio and television satellite, electronic mail, facsimile, and so forth, including business network services, teleconferencing, and support services;

- (ii) Computer services consisting of hardware and software-related services and data-processing services;
- (iii) Information services including news agency services, such as the provision of news, photographs, and feature articles to the media as well as database services.

The global exports of telecommunication, computer and information services have increased at a year-on-year growth rate of 7 per cent and were valued at US\$ 460 billion during the year 2014. Europe with a share of 59.3 per cent in the global exports, registered an increase of 6.6 per cent in the export of these services during this period. Asia being the second largest exporter of

telecommunications, computer and information services, exported services worth US\$ 105 billion during the year 2014. North American exports of telecommunication, computer and information services remained stable in 2014, and constituted for approximately 9.6 per cent share of the aggregate exports.

Major Exporters

As in the case of majority of other services, the European Union as a bloc leads among exporters of telecommunication, computer and information services globally. With more than half of the share worldwide, the exports of European telecommunication, computer and information services increased by 6.6 per cent during the year 2014. India is the second largest exporter of these services and its share has remained stable internationally. The exports of telecommunication, computer and information services from the United States increased by 2.4 per cent during the year 2014 and accounted for 7.4 per cent of the share globally.

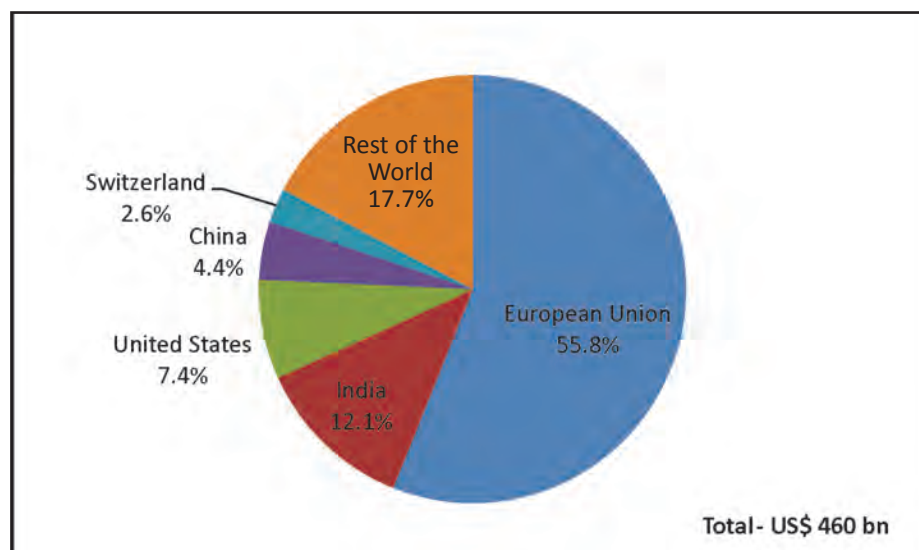
Table 4.9: Region-wise Export and Import of Telecommunication, Computer and Information Services (US\$ bn)

Region	2014		2013	
	Value	Share	Value	Share
	US\$ bn	%	US\$ bn	%
North America	44	9.6	44	10.2
South and Central America	9	2.0	9	2.1
Europe	273	59.3	256	59.5
CIS Nations	9	2.0	8	1.9
Africa	6	1.3	6	1.4
Middle East	12	2.6	12	2.8
Asia	105	22.8	97	22.6
Total	460	100	430	100

Source: ITS 2015

* Totals may not tally due to rounding off

Exhibit 4.17: Major Exporters of Telecommunication, Computer and Information Services



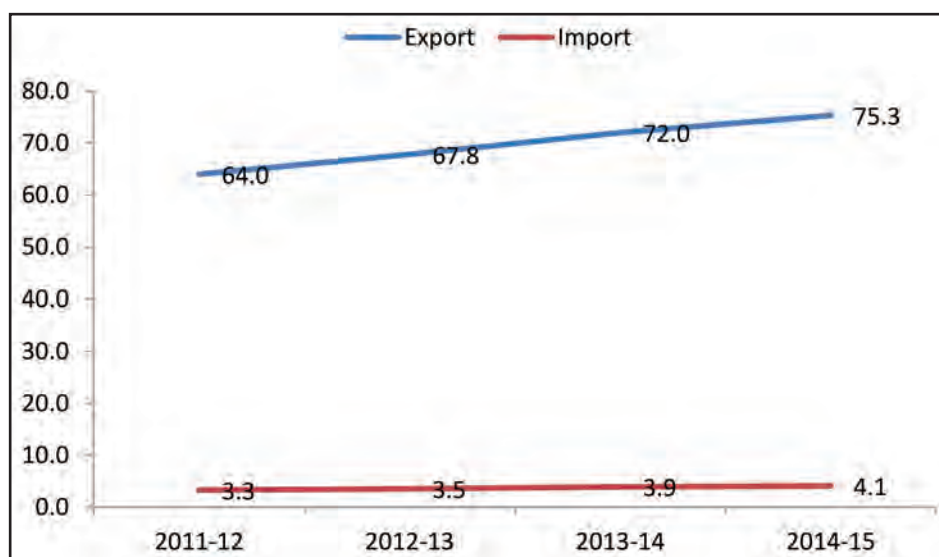
Source: ITS 2015

Indian Scenario

The exports of telecommunication, computer and information services were valued at US\$ 75.3 billion during the year 2014-15. The exports have increased at a CAGR of 5.6 per cent during the period 2011-12 to 2014-15. The imports were valued at US\$ 4.1 billion during the year

2014-15, and the imports have increased at a CAGR of 7.5 per cent during this period. The net exports of telecommunication, computer and information services were estimated at US\$ 71.2 billion. The exports of these services accounted for around 48.5 per cent of the export of total services from India, mainly on account of software services.

Exhibit 4.18: India's Export and Import of Telecommunication, Computer and Information Services (US\$ bn)



Source: RBI

Other Business Services

Other business services include

- (i) Research and development services,
- (ii) Professional and management consulting services and
- (iii) Technical, trade-related and other business services.

Research and development services consist of services that are associated with basic and applied research, and experimental development of new products and processes.

Professional and management consulting services include

- legal services, accounting, management consulting, managerial services, and public relations services
- Advertising, market research, and public opinion polling services.

Technical, trade-related, and other business services include:

- architectural, engineering, and other technical services;
- waste treatment and de-pollution, agricultural, and mining services;
- operating leasing services;
- trade-related services; and
- other business services

Europe is the leading bloc among the regions in the export of other business services. Its share in the global exports has risen from 50.2 per cent in 2013 to approximately 51.1 per cent in 2014. The exports of services from Asia have increased by 9.6 per cent during the year 2014. North America, the third largest exporter in this category, exhibited a slight decline in its share from 14.3 per cent in 2013 to 13.9 per cent in 2014. However, the value of exports have displayed an increase of 4.7 per cent during the year 2014, as it rose from US\$ 149 billion in 2013 to around US\$ 156 billion in 2014

Table 4.10: Region-wise Export and Import of Other Business Services (US\$ bn)

Region	2014		2013	
	Value	Share	Value	Share
	US\$ bn	%	US\$ bn	%
North America	156	13.9	149	14.3
South and Central America	40	3.6	40	3.8
Europe	572	51.1	522	50.2
CIS Nations	22	2.0	25	2.4
Africa	14	1.3	12	1.2
Middle East	18	1.6	19	1.8
Asia	297	26.5	271	26.1
Total	1120	100.0	1040	100.0

Source: ITS 2015

* Totals may not tally due to rounding off

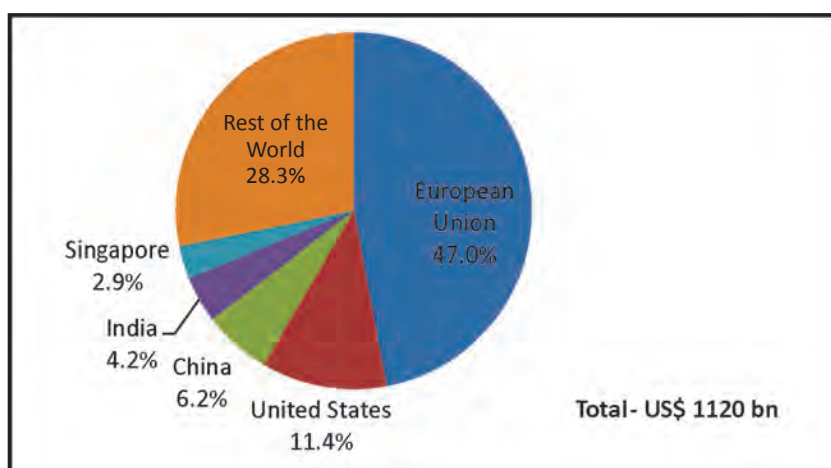
Major Exporters

European Union is the leading exporter of other business services and exported worth US\$ 526.6 billion during the year 2014. The exports by the European Union have risen by 9.3 per cent during the year 2014, as compared to the previous year. The United States was the second largest exporter in this category and the value of exports increased from US\$ 120 billion in 2013 to US\$ 128 billion in 2014. The other significant exporters of other business services are China, India and Singapore.

Indian Scenario

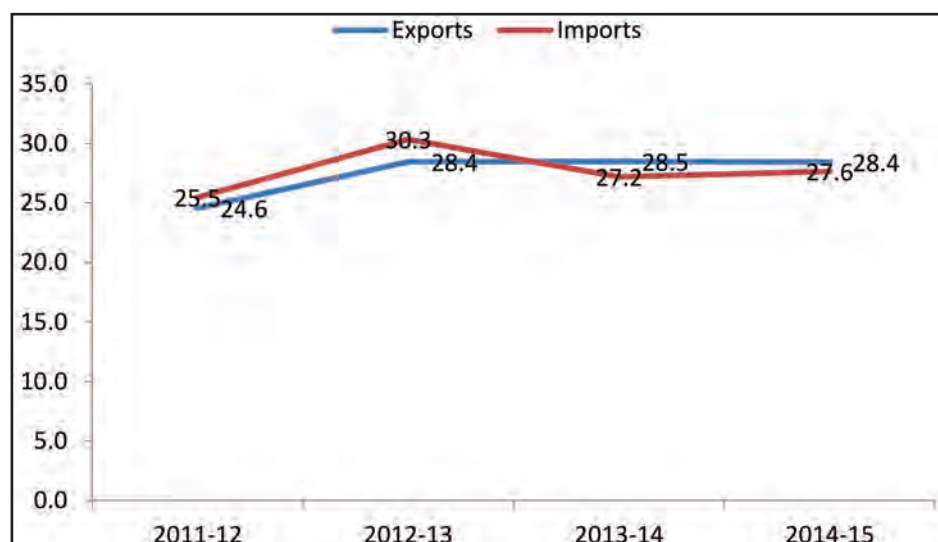
The exports of other business services accounted for 18.3 per cent of the aggregate exports of services from India. These exports have grown at a CAGR of 5 per cent during the period 2011-12 to 2014-15. The imports of other business services were estimated at US\$ 27.6 billion and grew by US\$ 0.4 billion as compared to the previous year. The net receipts of other business services have, thus, been estimated at US\$ 0.8 billion in the year 2014-15.

Exhibit 4.19: Major Exporters of Other Business Services (2014)



Source: ITS 2015

Exhibit 4.20: India's Export and Import of Other Business Services (US\$ bn)



Source: RBI

5. Performance of Select Sectors

KNOWLEDGE PROCESS OUTSOURCING INDUSTRY

Evolution of the KPO Industry

The KPO industry is an extension of the Business Process Outsourcing (BPO) industry, which involves higher added value process chains, whose success is contingent upon the skills, domain knowledge, expertise and experience of the worker carrying out the activity. It is defined as a higher-end version of outsourcing of business processes that require significant domain expertise. It includes outsourcing of jobs requiring knowledge and information, which is undertaken by proficient professionals in another country or by a subsidiary of the same organisation in a different physical location to reduce the cost.

The IT services industry initiated the outsourcing and offshoring of IT-BPO services in the early 1990s with the view of providing assistance in developing complex systems and facilitating the management of a business process. However, further globalisation and expansion of economies laid the foundations for the emanation of new services in industries like BFSI (Business, Financial Service and Insurance), Retail, Healthcare and Utilities. Thus the BPO Industry has led to the evolution of the KPO industry due to the necessity of quicker and unique product development and recognition of new growth opportunities.

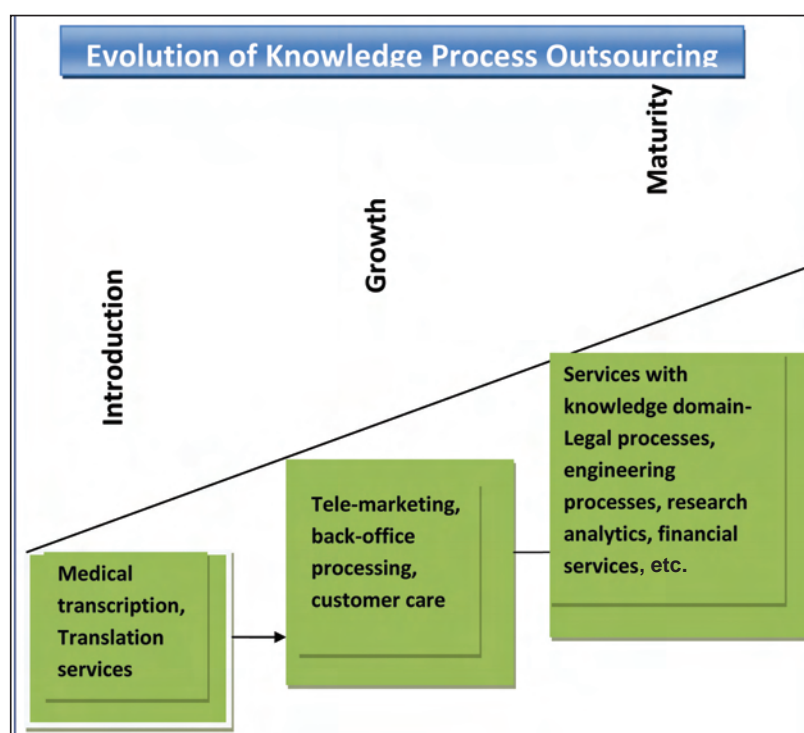
Difference between the BPO and KPO Industry

As per a study by KPMG, KPO industry provides opportunities for firms to outsource their core work

to locations those possess highly qualified and relatively cheap workforce. The KPO industry lays a lot of emphasis on intellectual arbitrage, which is the major line of demarcation between the BPO and the KPO industry, both of which give importance to cost arbitrage. The KPO is a more refined and skilled extension of BPO, such that while the KPO industry offers domain expertise rather than just process expertise.

The KPO industry requires more skilled and qualified employees than the BPO industry. The objective behind the emergence of the KPO industry includes both the supply of value added knowledge and cost competitiveness. In order to gain comparative advantage an industry outsources its knowledge related activities.

Exhibit 5.1: Evolution of Knowledge Process Outsourcing



Source: Exim Bank Study

There are various differences between the BPO and the KPO industry. One of the major points of distinction related to the human resources is the requirement of skill set in the employees. While the KPO industry demands highly skilled business

experts who are knowledgeable in their particular field of outsourcing such as doctors or lawyers, the BPO industry hires comparatively less skilled employees.

Table 5.1: Distinction between KPO and BPO Industry

Parameter	KPO	BPO
Primary Value Proposition	Generating Revenues	Cost arbitrage process improvements and process efficiency via learning curve and economies of scale across one or more clients
Staff Skill Sets	Advanced studies and industry recognized certifications, such as Chartered Financial Analyst (CFA), Chartered Accountant (CA), Legal Professionals, Actuarial Studies, and Masters in Statistics, Engineering and Master of Business Administration (MBA)	Undergraduates in commerce and finance
Process Complexity	High complexity, judgement based work	Basic processes involving standard procedures and templates
Staff Retention Policies	<ul style="list-style-type: none"> Equity and equity linked incentives Technical excellence and globally accredited certifications such as CFA and Fellow of Institute of Actuaries Lateral movement across various industry groups Professional growth into client relationship management path 	Focus is on monetary incentives such as annual bonuses and increments. However, some BPOs have started focusing on advanced education via MBA programs to retain staff
Regulatory Issues	<ul style="list-style-type: none"> Strict conflict of interest management particularly with respect to insider training Focus on intellectual property ownership and management issues 	<ul style="list-style-type: none"> Focus is on Data Protection and Privacy Law issues relating to customer data Compliance requirements such as SAS 70
Scalability Driver	Staff capabilities and expertise	Staff numbers, volume and accuracy of output
Control over IP	Key controls required over IP protection	IP is generally not an issue
Sample Activities	Equity Research-initiation of uncovered stocks and valuation modelling	Finance and Accounting outsourcing-accounts receivable and payables, HR

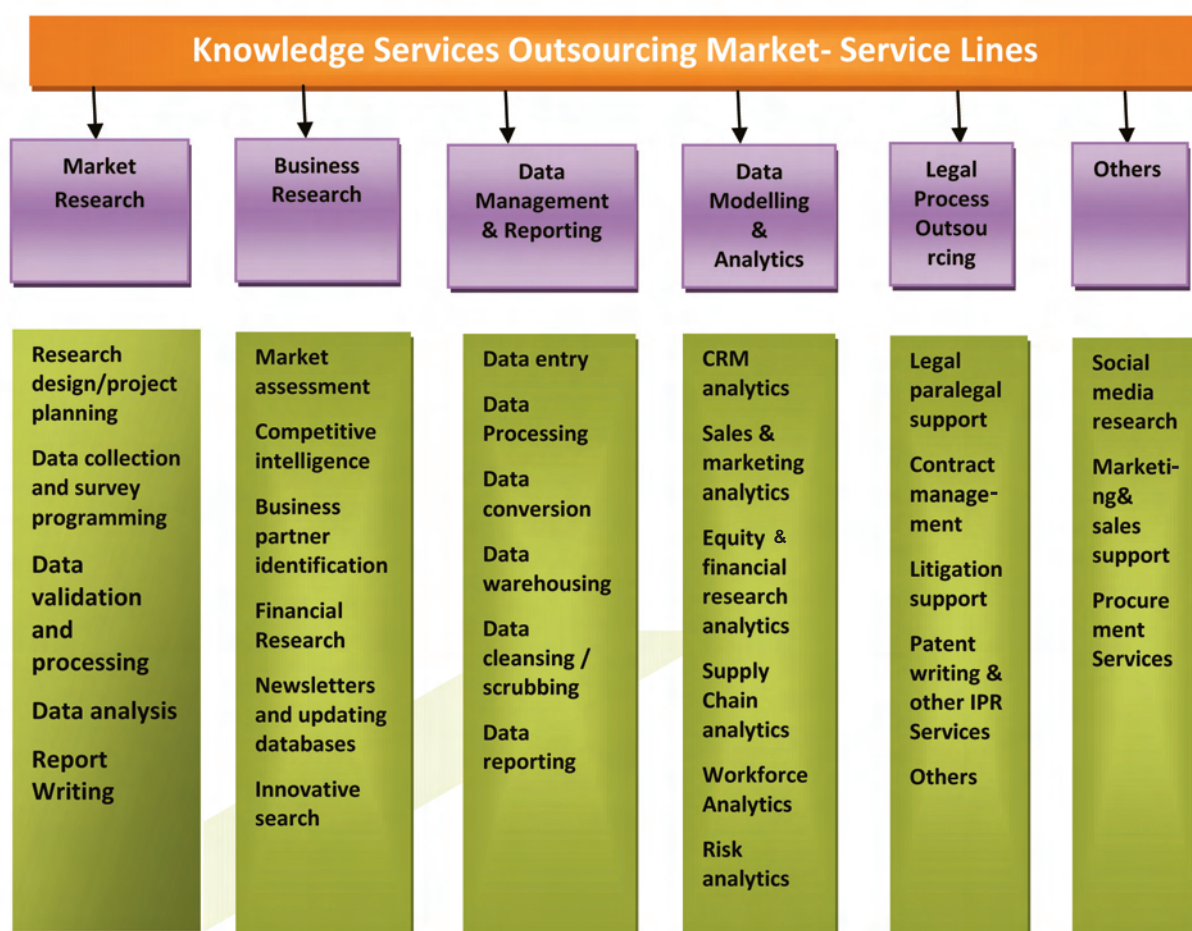
Source:KPMG

Segments of the KPO Industry

The supremacy of the KPO industry is not only limited to the IT (Information Technology) or the ITES (Information Technology Enabled Services) but also includes other sectors like legal processes, engineering services, research and development, market research, business intelligence and data/information management, consultancy, and financial services research. The KPO industry provides services where solutions are reached at through exhaustive methodologies and it necessitates the usage of in-depth analysis and comprehensive management.

The service providers need to be competent and efficient and well versed with problem solving skills to face the upcoming challenges. The employees working for the KPO industry need to have specialised skills and particular domain expertise to enable them to garner insights and analysis. While services, such as the legal process outsourcing industry and the business and market research services industry have displayed massive expansion in the previous years, the animation and simulation services industry are expected to exhibit huge growth potentials in the near future.

Exhibit 5.2: KPO Industry Segmentation



Source: Industry reporting, Crisil Global Research & Analytics

Global Size of Industry

According to the TechNavio analysis, the global KPO market was valued at US\$ 16.21 billion in 2013 and is expected to reach US\$ 46.03 billion by 2018, growing at a CAGR of 23.12% during the period. During the economic recession in 2008 and 2009, the global economy witnessed detrimental effects as the firms in the USA and Europe were curtailing their cost and this expense minimization practise caused them to restrict their outsourcing operations. However, positive growth prospects have been exhibited by the industry ever since then, and increased demand from developed economies has been forecasted. This advancement in the industry is anticipated to occur owing to the demand from developed western economies, such as the US, the UK and other European nations where the availability of skilled labour is diminishing.

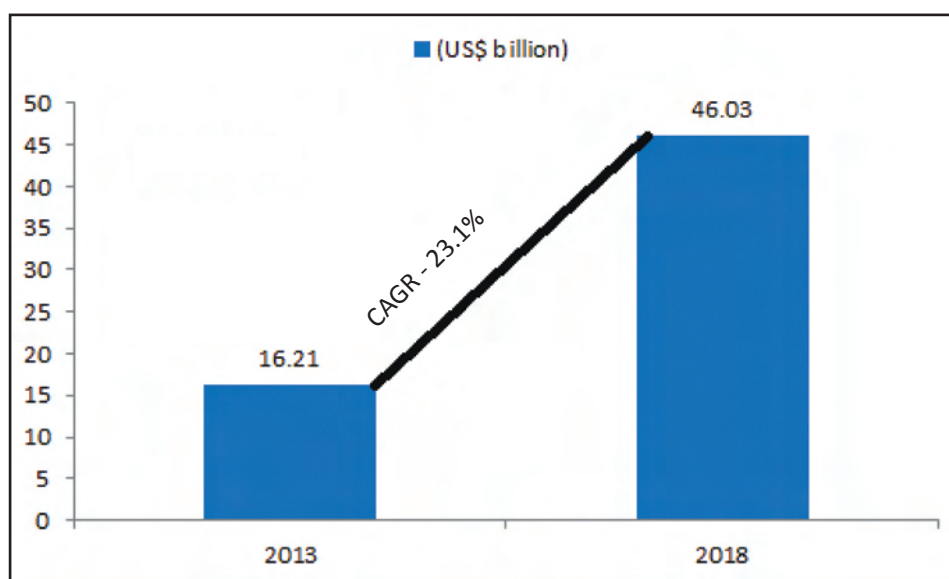
Indian KPO Industry

As per a study by ASSOCHAM, India claimed around 70% of the global KPO market in 2013 in

spite of tough competition by Latin American, East European and Asia Pacific countries. According to TechNavio Analysis, the KPO market in India was valued at US\$ 11.74 billion in 2013 and is expected to reach at US\$ 29.36 billion by 2018, growing at a CAGR of 20.12%. The sector provided employment to nearly 3.5 lakh professionals in 2013 and the projected requirement is that of 6-8 lakh skilled employees by 2015. The small and medium enterprises in Europe and the US are considered to be the major drivers of growth of the KPO industry in India.

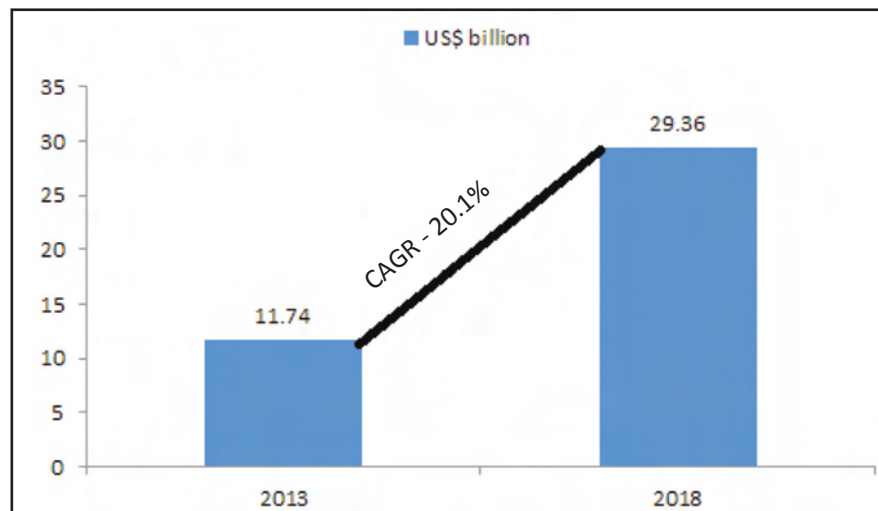
India is facing competition from other renowned outsourcing destinations, such as the Philippines, China and Russia; however, the availability of highly skilled employees at economical wages makes India the most attractive destination for outsourcing. The US, which is the leading purchaser of proficiency based services is experiencing a dearth of analytic professionals, giving India considerable opportunity of further expanding the supply of its knowledge based services.

Exhibit 5.3: Value and Growth Rate of Global KPO Industry



Source: Tech Navio Analysis

Exhibit 5.4: Value and Growth Rate of Indian KPO Industry



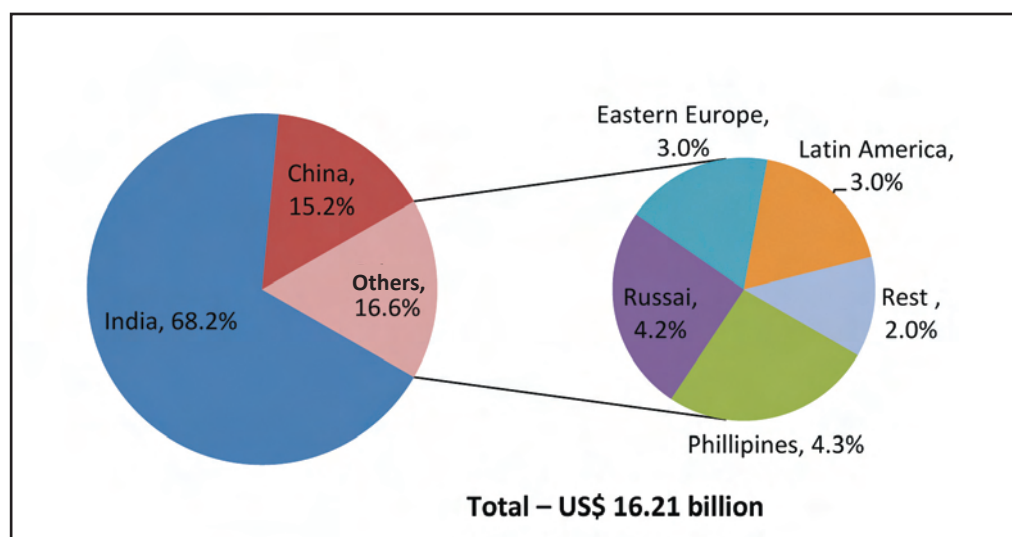
Source: TechNavio Analysis

The expansion of this sector is expected by the augmenting demand for professionals specializing in various fields of knowledge, such as research in the capital and financial markets, legal work and editing jobs for international publishing houses. It has been revealed in the Study that India has been facing competition from the following countries including the Philippines, Russia, China, Poland and Hungary in the spheres of low cost operations, location convenience, sales and marketing capabilities and data security compliance.

India's Share in Global KPO Industry

India is one of the most sought after destination for outsourcing knowledge based services. As per TechNavio Analysis, during the year 2013, India was the most preferred KPO destination globally with 68.2% of the aggregate market share. India was followed by China, the Philippines, Russia, Eastern Europe and Latin America with shares of 15.2%, 4.3%, 4.2%, 3.03% and 3.02%, respectively.

Exhibit 5.5: Share of Global KPO Destinations (2013)



Source: TechNavio Analysis

Major Drivers of Growth for the Industry

- Extension in the significance of information and research to circumvent business obstacles and achieve targets
- The unpredictable market trends demanding competence in providing instant solutions.
- The ascending hardship created due to the pressure of maximizing profit by way of outsourcing non-core jobs with the objective of curtailing cost.
- The progression in the availability of qualified employees with skills and proficiency at relatively low cost in the developing countries.

Indian KPO Business Models

The KPO Industry in India operates majorly through three business models namely Captive Centres, Third Party Service Providers and Virtual Captives.

Captive Centres

As defined by Gartner, captive centers are client-owned-and-operated service delivery centers, typically in a non-domestic, low-cost location, that provides service resources directly to their organization. The personnel in a captive facility are legal employees of the organization, not the vendor. Thus, a multinational company sets up captive centres in countries where skilled talent pool is available at less exorbitant rates. These captive centres are liable to operate only for the parent company and the cost of setting it up is also borne by the parent company. The establishment of

captive centres necessitate huge investments and the time taken to recover cost is also large. Some examples of captive centers in India are Goldman Sachs, UBS, Morgan Stanley, DeutscheBank, and JP Morgan.

Third Party Service Providers

The Third party service provider stands out as more favourable option for companies when the cost incurred in setting up of a captive centre is high and the magnitude of operations are not adequately large. Third party service providers do not have major infrastructure requirements and are beneficial as they display promptness in clarifying specifications and managing the work exigencies. Additionally, it offers skills and expertise in analysis and carrying out operations that may not be available in-house. The foremost assistance available in this business model is that operations can be ramped up as per the situation. Some third-party KPO service providers in India are Evalueserve, Aranca, and Global Research and Analytics Irevna, a division of CRISIL.

Virtual Captives

This is a hybrid business model which performs the function of both the captives and the third party service providers. The rates of this kind of a business model is lesser since a majority of the duty of operations as well as the risks involved lies with the client. The absence of long term investment makes it a viable option for many companies. It enables the delivery of better quality services at reduced costs and higher transparency.

Table 5.2: Prominent Indian KPO Industries and Skills Required

Segment	Services	Skill Set Required
Legal Services	Reviewing transactional & litigation documents; drafting contracts; research memoranda & due diligence reports; prosecuting patent violators; negotiations	Knowledge in US/UK laws; adept in legal application; ability to reason & research
Engineering R&D	3D modelling; conversion: 2D to 3D; finite analysis; computational fluid dynamics analysis; technical specifications for tenders; value engineering	CAD/CAM; drafting & modelling; product design
Market research & analytics	Secondary & primary research; conversion of findings to knowledge; writing & editing; formatting client reports	Statistical tools; research techniques; report writing & presentations; database research
Writing & content development	Editorial; content delivery; digitization of content; data enrichment & warehousing; pre-press work; proofreading; template designing; text composition	English communication skills; journalism; experience in writing
Pharma R&D	Research & development; drug discovery; clinical research	Doctors; master's degree in science, PhDs
Healthcare Services	Diagnostic; genetic profiling; oncology tests; HIV& allergy	Medical degree; specialized subject knowledge
Education & training	K-12; private tutors; curriculum design; pedagogy; content development	Teaching methods/ techniques; cultural sensitivity; online teaching methods

Source: Asian Social Science, Knowledge Process Outsourcing

LEGAL PROCESS OUTSOURCING INDUSTRY

The legal process outsourcing industry takes into account the procedure of availing both high end and low end legal services from an external source. It involves the in-house legal departments of organisations outsourcing the legal work to be done in countries where it can be done at a considerably lower cost. The expenses in acquiring these legal services have shown an invariably rising trend giving considerable fillip to the growth of this industry, in the recent years. The major benefit available in this arrangement is that the legal proceedings can be undertaken in a different country where it is relatively less costly. Additionally, it provides the opportunity of getting access to proficient legal experts in different parts of the world, enabling the firm to add on to its core competencies.

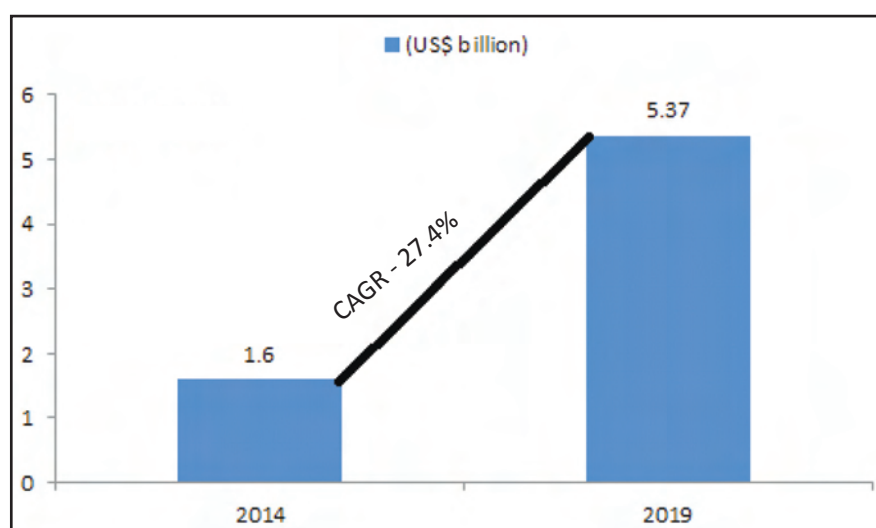
Legal process outsourcing is a very significant segment of the Knowledge Process Outsourcing industry where services are provided to corporate legal departments, law firms and legal publishers. This industry not only implies the rendering of services offered by a lawyer, but patent analysts also form a major part of this sector. This particular

category of the KPO Industry is newly developed in comparison to other services; however, this segment has been growing rapidly in the recent times. The legal services in many parts of the world are expensive and the aggregate cost of identifying the documents, reviewing them and maintaining records is on the rise. Accordingly estimated growth of this industry is immense.

According to TechNavio, the global legal process outsourcing industry was valued at US\$ 1.60 billion in 2014, and is expected to reach US\$ 5.37 billion in 2019, growing at a CAGR of 27.4%. In 2014, America was the largest contributor in terms of overall spending in the global legal process outsourcing market, with a share of 47.5%. The Europe, Middle East and Africa Region (EMEA), accounted for a share of 35%, followed by the Asia Pacific (APAC) Region with a share of 17.5%.

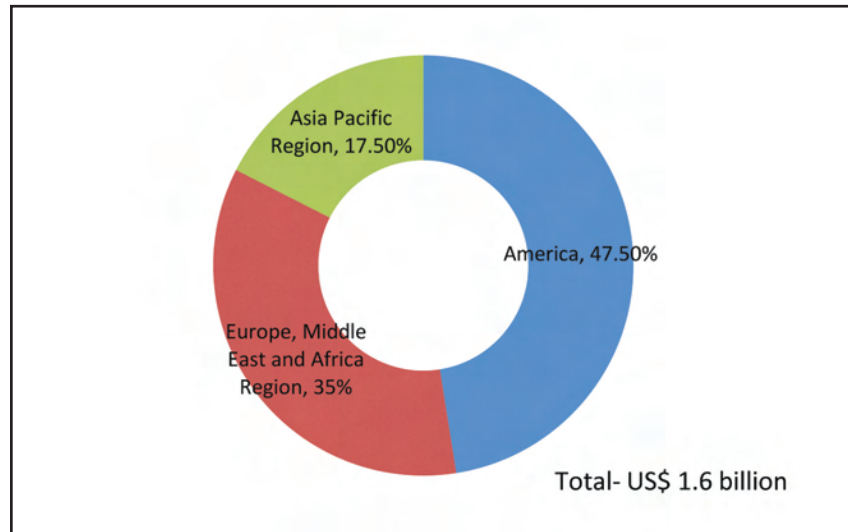
Countries such as India, the Philippines, Malaysia, and Vietnam, are considered to be among the most important outsourcing destinations in the APAC region. India has been a favoured destination for legal process outsourcing for a long time, because it has a good combination of key factors, such as skilled lawyers, proficiency in the English language, and low costs.

Exhibit 5.6: Value and Growth Rate of the Global LPO Industry



Source: TechNavio Analysis

Exhibit 5.7: Global LPO Industry



Source: TechNavio Analysis

Major Segments of Outsourced Legal Services

Paralegal Services – means provision of legal support by managing various aspects of a litigation, including handling preliminary investigations, drafting documents, interrogating witnesses, depositions and trials. Para-legal services are generally required in the fields of business litigation, IPR, mergers and acquisition deals, medical insurance claims, among others.

Document Management Services – services such as legal transcription, coding, data digitization, are included under this head.

Litigation Support – includes document discovery (case studies), organising, reviewing and indexing documents, identifying data pertinent to litigation or corporate due-diligence matters, populating

databases and preparing reports regarding such data.

Intellectual Property Services – safeguarding trademarks and aligning intellectual property assets, patent and trademark search, mapping competitor IPR assets, research on patentability and infringement assessment, patent application drafting and status tracking, IPR management, licensing and commercialization, are included under this head.

Due-diligence Services – include understanding of legal suits employment issues, compliance to local laws, liabilities and contractual commitments, and review of target Company's patent portfolio.

Legal Research – undertaking research in legislative history, analysis of international and administrative case laws are included under this head.

Indian Scenario

As per the Economic Survey 2013-14, the legal services in India have been growing at a steady rate of 8.2% in each of the years from 2005-06 to 2012-13. According to a study by Crisil and Nasscom, the revenues of the LPO industry is estimated to be worth US\$ 1.3 billion globally by 2015. India, over the same period, is expected to have an annual revenue of US\$ 960 million by 2015. The industry got a major boost after the global economic recession period as the number of bankruptcy cases increased and a surge in the regulatory formalities were also witnessed.

India is ranked 50th in the Global Competitiveness Report in terms of judicial independence in 2014-15, while it was ranked 40th in 2013-14 and 45th in 2012-13. In terms of efficiency of the legal framework in settling disputes, India is ranked 57th, which is an improvement from the 62nd position a year ago. Considerable development has been reported with regard to efficiency of the legal framework in challenging regulations; India is ranked 43rd, while its position was 48th in 2013-14 and 52nd in 2012-13.

The Legal process outsourcing industry has been providing numerous opportunities for the lawyers in the country. India is considered as the most preferred destination by foreign countries

for outsourcing their legal assignments. Initial assignments outsourced to India included undertakings and operations requiring less skill and expertise; however, in the recent years the assignments outsourced to India have been necessitating advance legal-know how and expertise.

LPO Services Segmentation

As per the industry sources, The Indian LPO Industry is expected to be worth USD 960 million in the year 2015. The Intellectual Property (IP) services are the major source of revenue in the Indian LPO Industry. According to the TechNavio Analysis, approximately 65-70% of the LPO services outsourced in the year 2010, fell in that category. This was followed by contract management and research, which contributed nearly 20-25% of the aggregate earnings of the Indian LPO Industry in the year 2010. The litigation support services, which involve tasks, such as coding of documents and attorney document review had a share of 10-15% in the aggregate revenue.

Drivers of Indian LPO Industry:

- **Economic Scenario:** Majority of organisations worldwide are under the pressure to reduce

Table 5.3: India's Ranking in the Global Competitiveness Index

Global Competitiveness Index	2014-15		2013-14		2012-13	
	Value	Rank	Value	Rank	Value	Rank
Judicial Independence	4.2	50	4.7	40	4.5	45
Efficiency of Legal Framework in settling disputes	3.8	57	3.8	62	3.8	59
Efficiency of Legal Framework in challenging regulations	3.8	43	3.8	48	3.9	52

Source: The Global Competitiveness Report 2014-15

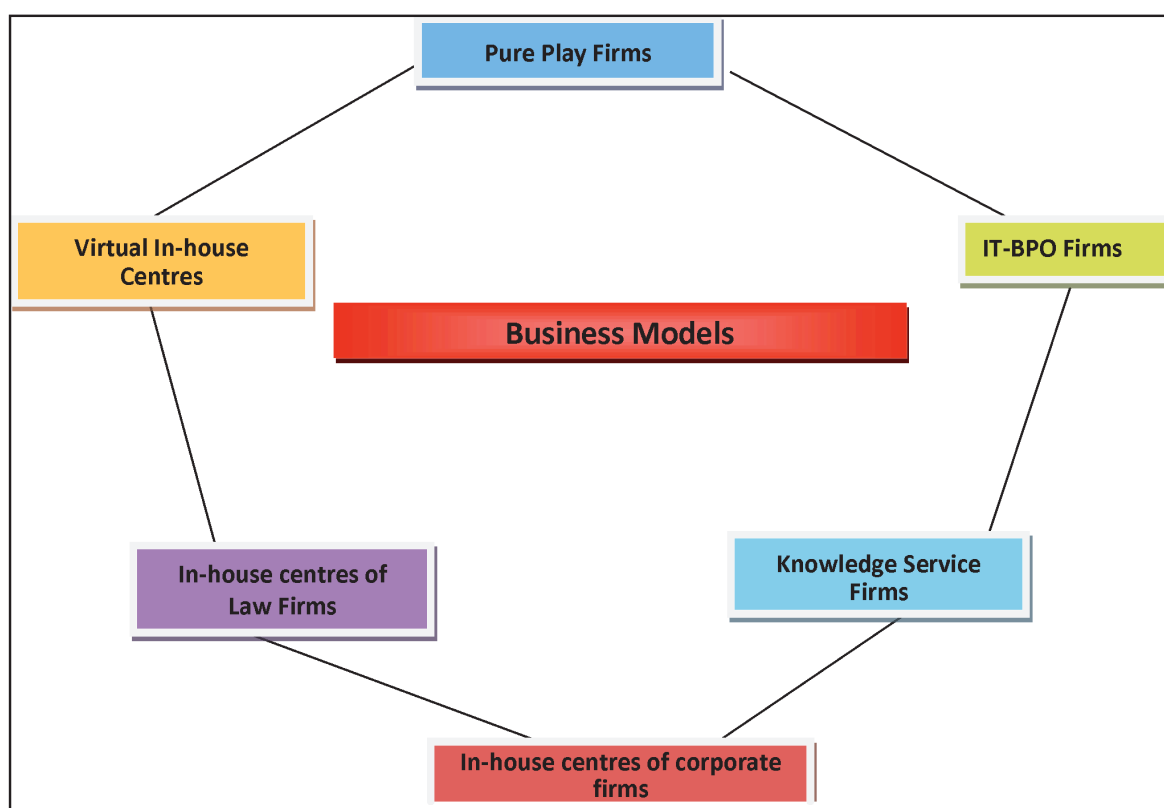
their legal spending. The global downturn and rise in the fines and penalties imposed by authorities has led the firms to give special attention to legal expenditure in this regard. As per the HBR Consulting's 2014 Law Department Survey, the total corporate legal spending went up by a marginal 2% worldwide in 2013. This moderate increase in the legal spending reflects effectiveness in the cost curtailment measures taken by the firms to control legal spending.

- **Globalisation:** Consequent to increasing globalisation, the rise in the trade of goods and services among countries requires them to fulfil various obligations, such as compliances with the laws in the different countries of engagement, necessary sanctions and applications to be made, suggestions for mergers and acquisitions, and legal advice

regarding establishing and structuring of the business. LPOs provide a wide range of services spanning from litigation objective coding and low complexity contract drafting to higher value services, such as legal research, litigation fact finding services, patent drafting, analytics, contract lifecycle management, and obligation management.

- **Cost Advantage:** Cost has been one of the key issues, which make India an attractive destination for outsourcing of legal work, as it is amongst the low cost destinations of outsourcing. The remunerations of legal professionals in India are lower than those of their counterparts in the USA and in the UK. For example, as per the LPO Handbook, even after estimating for the increased cost associated with travel, telecommunication and long distance management, Indian remunerations

Box 1: LPO Business Models



Source: Industry Sources

are reported to be 75% cheaper than those in the USA, and the hourly cost of an attorney can be 10% that of the American counterpart. Additionally, this low cost advantage is further enhanced by Government of India's measures to promote the outsourcing to India, such as tax incentives to promote the outsourcing industry.

- **Talent Pool:** India is second only to the US in terms of stock of competent lawyers. Each year around sixty to seventy thousand lawyers graduate in India. India is a knowledge hub and the legal professionals in the country have inculcated competence in booming fields, such as mergers and acquisitions, infrastructure financing, and public private partnership. The lawyers from renowned law schools in India are in demand worldwide.
- **Language Convenience:** India has many lawyers well versed with the English language and can thus attend to the needs of the clients in the western countries. India's highly educated legal labour pool is capable of performing legal tasks compatible with the demands of the lawyers in the USA and in the UK.
- **Legal System:** The legal system in India is inspired by the legal systems in the USA and in the UK, giving the law graduates in India an upper edge in dealing with litigations and legal issues in those countries. The legal system in India, in the USA and in the UK are rooted in British common law, which facilitates the Indian lawyers to efficiently undertake standard legal works in those countries, such as vetting of contracts, patent registrations or reviewing of documents, without much additional trainings.
- **Technology advancement:** The legal process outsourcing industry in India is

transforming into a very technology based industry. Globally, the number of litigations, proceedings and lawsuits are on the rise, and the bulk of innumerable documentation is increasing immensely, engendering an expansion in the electronically stored data. The analysis and review of legal paperwork collected manually is a cumbersome task, and thus, the scanning and inspection of documents is being increasingly done through usage of technology driven databases. These platforms may enable the delivery of diverse services, such as customised document review, maintaining database for the purpose of contract management, and instruments to integrate work flow.

- **Time zone difference and speed of work:** The 24 hour work cycle increases the speed and efficacy of delivery of assigned tasks. Innumerable legal process outsourcing firms provide 24 x 7 services, and thus, the time zone difference works in favour.
- **Favourable Government Policies:** The Government of India has identified the significant role that the LPO industry can play in India's economic development. Since this sector can lead to considerable increase in employment, revenue and export opportunities for the country, the Government has taken steps to promote the industry by way of, liberalisation and deregulation of policies, relaxing licensing requirements and making foreign technologies more accessible.
- **Positive Movement in the Value Chain:** India was previously considered a low-end destination; however it has moved upwards in the value chain and has been delivering superior quality of work to the clients, requiring immense domain expertise. This advancement in the industry can be attributed to the

availability of superior technological platforms, accuracy in operations and rising number of skilled professionals in the country.

ENGINEERING SERVICES OUTSOURCING

Sourcing select or entire design and engineering requirements of an organization from external service providers may be termed as Engineering Services Outsourcing (ESO). This may be done by contracting required engineering processes to a third party vendor within or outside the country or to a company owned engineering centre (captive centre) located outside the country. The recent economic slump experienced by the economies world over, has led to many changes in the operational methodologies of firms globally. With the objective of making business more economical and the ease of getting access to competent engineering experts from across the globe has enabled the development of engineering services outsourcing. The engineering services outsourcing professionals assist the institutions by delivering advanced engineering solutions at minimal cost and time.

According to the TechNavio Analysis, the Global Engineering Outsourcing Industry was valued at US\$ 29.5 billion during the year 2013, and it is expected to increase at a CAGR of 26.16% and reach the value of US\$ 94.1 billion by 2018.

As per the analysis, America has the maximum demand for outsourcing services and it holds nearly 45.35% share of the global market. A majority of engineering assignments in the American firms are outsourced to countries where they could get dedicated professionals at lesser cost, such as India, China and countries in Eastern Europe. The Europe, Middle East and Africa (EMEA) Region holds 30.81% share in the global market, as there is huge demand for engineering services in this region.

Major Categories of Engineering Services Outsourced:

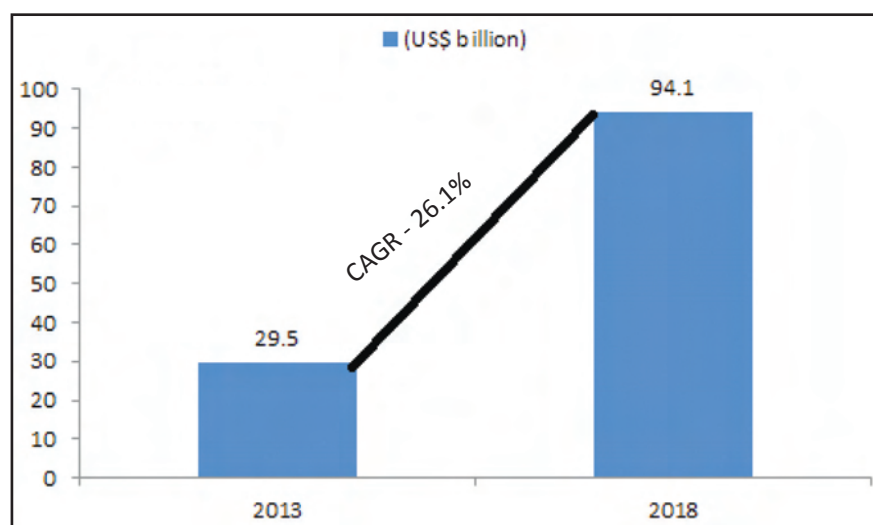
- Drafting and 3D Modelling
- Engineering Analysis
- Product Design and testing
- Design Automation
- Control Engineering
- Manufacturing Engineering
- Embedded Systems Software
- Plant design/Process Engineering
- High Performance computing based engineering
- Re-engineering
- Enterprise Asset Management
- Civil Engineering

Table 5.4 : Major Branches of Engineering Services

Civil	Designing of infrastructure, bridges, buildings
Electrical	Designing of various electrical and electronic systems, such as generators, motors, optical fibres and computer systems
Mechanical	Designing of physical or mechanical systems, such as aero-space products and compressors

Source: Nasscom

Exhibit 5.8: Value and Growth Rate of Global Engineering Services Industry



Source: TechNavio Analysis

Indian Scenario:

India is the most preferred location for engineering offshoring, and as per a customer poll by Booz and Co. companies are currently offshoring complete product responsibilities⁹. The development in the Indian engineering offshoring industry can be attributed to the availability of low-cost labour, affordable real estate, favourable Government regulations, tax breaks and special economic zones. According to the TechNavio Analysis, the Engineering Outsourcing Market in India was valued at US\$ 15.2 billion in 2014 and it is anticipated that the market would grow at a CAGR of 30% and reach the value of US\$ 56.5 billion by 2019. India is among the leading destinations for outsourcing of engineering services worldwide due to its abundant reserve of competent engineers offering engineering solutions at lesser costs to companies in various parts of the world. As per the NASSCOM estimates, the engineering research and development exports of India crossed US\$ 11 billion during the year 2013, registering a growth of nearly 9% in comparison to the exports recorded

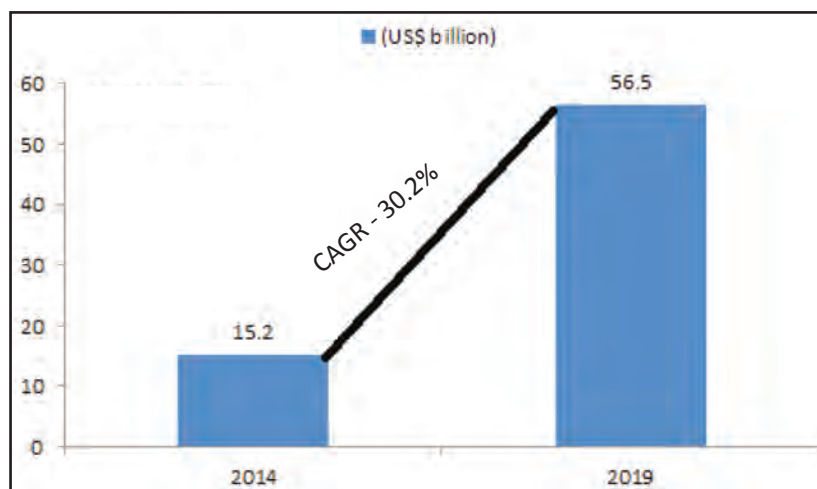
in the previous year. This growth can majorly be attributed to increase in India's competitiveness and gradual decline of skilled engineering workforce in the developed economies.

The engineering services outsourcing industry in India initially started with the objective of curtailing expenses with offering basic operations, such as drafting, modelling and testing. However, over the years, Indian engineers have risen to offer solutions to more complex needs of the clients, whose focus also have shifted towards efficacy and skill from cost arbitrage.

Over the past five years the engineering services outsourcing industry has performed well, owing to the upward movement along the value chain in performance of processes and the enhanced diversification and verticilization in order to meet the dynamic global demands. In terms of projects received by the Indian EPO industry, the maximum number of assignments comes from America, the UK and Japan.

⁹RPT Industry Research Update

Exhibit 5.9: Value and Growth Rate of Indian Engineering Services Outsourcing Industry



Source: TechNavio Analysis

ESO Market Segmentation:

With the recovery of the global economic condition, the aerospace sector has emerged as a significant sector in the outsourcing of engineering services. India is one of the favourable destinations for the maintenance, repair and technological up gradation of aerospace components.

The automotive sector is another area attracting engineering services outsourcing from India. Research and development endeavours related to devices and the increasing demand for advanced features, comforts and advantages has paved the way for outsourcing of Indian engineering services in the automotive sector.

The Indian ESO industry is a significant service provider to the global telecommunications sector. According to the TechNavio Analysis, the services requirement in the sector has been growing rapidly, due to factors, such as convergence, mobility, digitalization, cloud computing, and social media. The ESO services in the sector include PLC management, interoperability,

migration, technologies empowerment, unified communications, virtualization and VAS.

Profile of the Engineering Research and Development Sector:

During the initial stages, the outsourcing operations of engineering R&D were limited to traditional sectors, such as semi-conductor, telecom, automotive and aerospace. However, over the years the operations expanded to other fields, such as medical devices, consumer electronics and energy. A whole range of services are currently offered by the engineering services industry in India that include embedded software and hardware design services, testing verification and validation, prototype building, engineering analysis and modelling, core product development and design services.

Growth Drivers for the Industry:

- **Ecosystem:** The growing globalisation worldwide has made it more connected and the consumers are on a look out for seamless

connectivity and flow of information more than advanced devices. The knowledge sharing experience through the rise in usage of internet and technology is used as a strategic tool, to boost consumer service, diminish the time taken for product development and to share the best practise. This consistently growing demand for technology across the globe has made it convenient for the Indian engineering outsourcing industry to expand manifold.

- **Cost Convenience:** Companies worldwide have been exploring options of outsourcing their engineering tasks to low cost countries, such as India through partnerships or establishment of captive centres. This outsourcing arrangement enables the firms to achieve the most cost-effective way of delivering services along with maintaining the quality of operations. The usage of accurate and rigorous ESO Models can be very adequate for making the tasks cost competent. Due to comparative advantage of low cost, India's engineering services providers contribute around 23% of the overall engineering and R&D outsourcing pie, according to a study by Zinnov. The cost of engineering services in India is approximately one eighth of UK and one third of South East Asian Countries.¹⁰
- **Availability of Skilled Engineering Talent:** The availability of engineering talent is another significant reason for the outsourcing of high-end engineering and design services to India. India holds significant expertise and experience in handling outsourcing opportunities in technology processing segment. Moreover, end user segments of engineering services, such as automobiles, aerospace, construction of industrial plants, electronics and telecom are having vibrant presence in India. India has

the largest amount of engineering graduates with the appropriate skill sets compared to all other emerging, low-cost countries for ESO. As per the data from the Ministry of Human Resources and Development, Government of India, as on October 2013, there were 6214 engineering and technology institutions in India with an intake of approximately 2.9 million students.

- **Government Assistance:** The engineering sector holds key in India because of its significant linkages with other sectors. The Government of India has been extending considerable support to the engineering services industry. The engineering sector has been de-licensed and enjoys 100% FDI, and additionally many SEZs have been launched dedicated to aerospace industry in Bengaluru and Hyderabad. Tax incentives are also being provided to the investors, those have been giving major fillip to the sector.
- **Mergers and Acquisition Activities:** Various global companies have been acquiring captive customers in India. Moreover Indian firms have been further enlarging their operations and extending its base abroad. These mergers and acquisition activities are also having a positive effect on the industry.
- **Value Chain and flexible business models:** The operational standards performed by the Indian engineering outsourcing professionals are getting higher with the professional competence, diverse capabilities and greater adaptability. In the recent years, besides cost competence the Indian engineering services are also getting recognised globally for their notable quality of work. The business models followed also have been displaying modification as the fixed deal engagement models are

¹⁰Emerging Global Economic situation opportunities and policy issues for services sector.

being replaced by partnership models, such as revenue sharing and risk sharing models.

- **Established Relationships created through ITES-BPM Sector:** The Indian IT services and business process management industry has transformed India's image on the global platform and has given a recognition worldwide. It has also been able to drive the economic growth. India is now considered as the world's largest outsourcing destination in the sector. This prior success in the outsourcing industry has smoothened the path for development of the engineering services industry.

CONSULTANCY SERVICES INDUSTRY

The consultancy services industry refers to the synthesis of various operations and applications with the objective of recognizing the complications and obstacles faced by an institution, and consequently delivering solutions and strategies for increasing the competence of the organization. Consultancy service professionals have wide applications among industries of diverse spheres and varied sectors. Consultancy industry includes services offered to institutions by qualified and skilled professionals, who render aid to identify management problems, analyze the difficulties,

Box 2: Exim Bank's Support to Services Sector

Project Exports from India may be broadly classified into four categories viz. Supply contracts on deferred payment terms, Civil Construction, Turnkey and Consultancy Services Contracts.

Exim Bank supports project exports from India by way of funded and non-funded facilities / for overseas turnkey projects, civil construction contracts, technical and consultancy services contracts as well as supplies. Exim Bank is also the principal institution for monitoring of execution of project export contracts. The Bank also from time to time, provides inputs to GOI to facilitate formulation of policy relating to project exports.

Indian companies are present in diverse range of sectors under project export contracts with a high degree of concentration in three major sectors. The EPC Services Sector (ie. engineering, construction, and commissioning of residential/ commercial complex, hotels, hospitals, cement plant, water treatment plant as also mechanical, electrical and plumbing works for civil structures) is the predominant sector, followed by power generation, transmission and distribution sector and then oil and gas sector. Other major sectors where Indian project exporters are active include Construction (ie. civil work for roads, bridges, and dams), Railway, Irrigation, Water Supply and Sanitation, Shipping & Ship building, Consultancy Services and Others (including sugar plant, telecommunication etc.). As on September 30, 2015, the aggregate project exports supported by EXIM Bank amounted to ₹194,654 crore (US\$ 31.24 billion). The consultancy services sector formed nearly 1 percent of the aggregate project exports supported by Exim Bank.

suggest a way out and also engage themselves in execution of the solutions.

The segregation of the consulting services industry has been done on the basis of types of services provided and the nature of industry served. On the basis of this classification the following five sectors have been identified: Management Consulting, Engineering Consulting, Legal Consulting, Socio Economic Consulting and Information Technology Consulting. Some of these verticals overlap with other classifications such as Knowledge Process Outsourcing, Legal Process Outsourcing, Engineering Process Outsourcing, etc. However, one may like to classify that low-end consultancies could be classified as consultancy services, while outsourcing of high-end jobs could be classified under separate categories.

Consultancy services may be provided by firms (engaged in such activities or even independent consultants delivering services on an individual basis), research organisations and educational institutions. There are vivid industries to which these consultancy services are rendered to, examples being agriculture & rural development,

banking & financial services, construction, education, public administration and others.

The global consulting industry¹¹ revenues are anticipated to have reached nearly US\$ 449 billion in 2015, registering a growth rate of 8.2% when compared to the revenues generated in the previous year. The consulting industry worldwide was adversely affected by the global economic slowdown. Companies engaged in delivering divergent consulting services including management firms and consultants rendering accounting advises experienced a sizeable dip in their volume of operations due to various cancellations or delay in projects assigned. However, in the recent years, there has been a recovery in business in the sector with reported rise in the corporate profits.

In the medium to long term, consulting organisations with the focus on augmenting profits, and reducing costs are projected to have growth in their operations. Further, expected expansive modifications, likely to happen in the Government regulations in the USA and in the UK, is also projected to favour the consulting firms.¹² Firms

Table 5.5: Categorization of Consulting Services

Vertical	Services Provider
Management Consulting	Corporate Strategy, Regulatory Strategy, Mergers & Acquisitions, Alliances & Joint Ventures, IT Advisory Services, Audit Services, Restructuring & Cost Optimization
Engineering Consulting	Project Feasibility Studies, Project Cost Estimation, Engineering Design Support, Project Management, Requirement Management, Project Lifecycle Services, Project Appraisal Services, Techno-Economic Viability Studies
Legal Consulting	Tax Consulting, Corporate Legal Services, Legal Documentation Services
Socio Economic Consulting	Environment Impact Assessment Studies, Urban Planning, Rural Development, Renewable Energy
IT Consulting	IT Strategy, IT Performance Improvement, IT Mergers & Acquisitions, IT Project Effectiveness

Source: D&B Research

¹¹Plunkett Research - Includes HR, IT, Strategy, operations, management and business advisory services

¹² Plunkett Research

assisting in corporate expansion into emerging markets, information technology and mergers and acquisitions are expected to see increase in demand for their services. Additionally, consulting firms focusing on reducing employee benefit / cost would also have potential to experience a rise in business.

Indian Scenario:

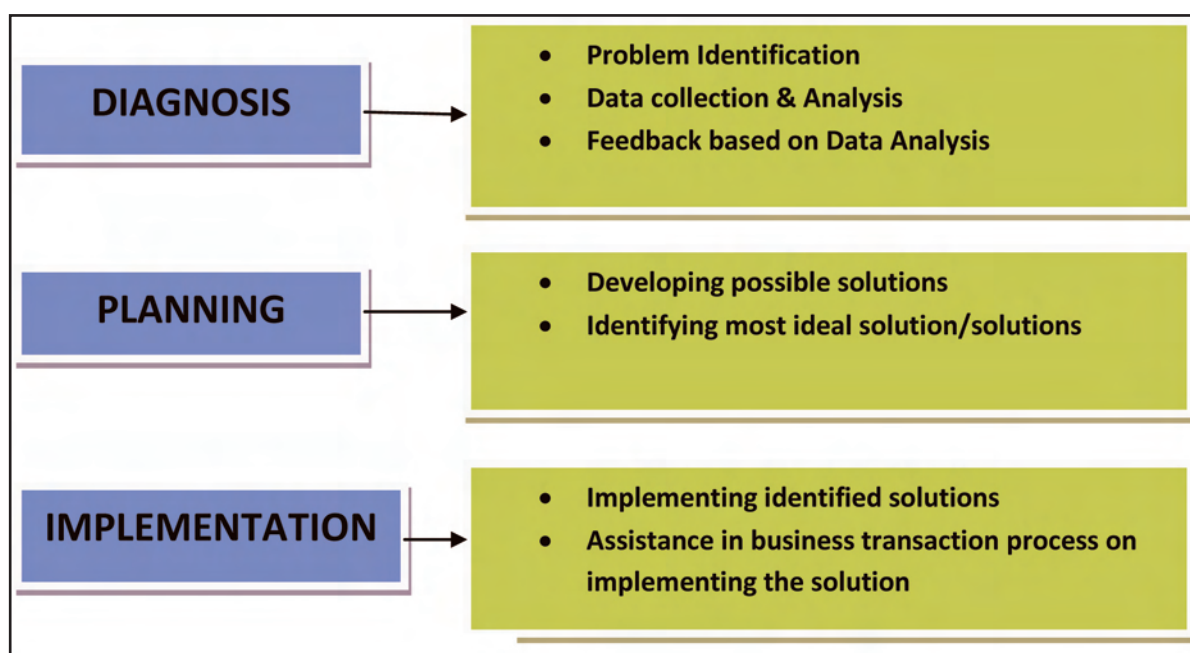
According to a Dun & Bradstreet (D&B) Study, the contribution of the consulting sector towards the national GDP was estimated at nearly INR 270 billion during the year 2014. The services sector has been a large recipient of FDI inflows and as per Department of Industrial Policy & Promotion (DIPP), the cumulative FDI equity inflows from April 2000 to Feb 2015 was valued at US\$ 42 billion. The consultancy services industry has been displaying growth and is considerably recovering after the economic downturn in 2009.

An extension in the volume of operations and the service offerings has been experienced by the Indian consultancy services industry as there has been a rapid increase in the number of clients wanting to avail consultancy services ranging from the agriculture and rural development sector to the information technology and corporate strategy. Tremendous growth has been displayed by the IT consulting industry, wherein progress has occurred in many companies such as Tata Consultancy Services, Wipro and Infosys, which are based in India, and have the ability to compete with firms overseas.

Structure of the Industry

The consulting services Industry in India is wide ranging and consists of both small scale firms operated by a few consultants as well as large multinational firms having substantial global presence.

Exhibit 5.10: Consulting Process



Source: D& B Research

Growth Drivers

- **Opening up of the markets:** Prior to the 1990s, the companies in India were functioning in a closed economic setup and were not exposed to the liberalised markets of the global economy. However, with liberalisation and subsequent modification in the business operations the need for specialist services in diverse areas of business and development rose considerably. The services included introduction of new operational practices and business approaches with enhanced efficiency, corporate image and improved financial performance.
- **Government Initiatives:** Market Access Initiative (MAI) Scheme is an Export Promotion Scheme envisaged to act as a catalyst to promote India's exports of products and services on a sustained basis. The scheme is formulated on focus product-focus country approach to evolve specific market and specific product through market studies/survey. Assistance is provided to Export Promotion Organizations/Trade Promotion Organizations/National Level Institutions/Research Institutions/Universities/Laboratories, and exporters, for enhancement of exports through accessing new markets or through increasing the share in the existing markets. MAI facilitates diversification of markets and entry to new markets, such as those in Latin America, Africa, CIS Region, ASEAN, Australia and New Zealand.

The Market Development Assistance Scheme, operated through the Department of Commerce, Government of India, assists exporters engaged in export promotion activities abroad and provides support to Export Promotion Councils to undertake export promotion activities for their products and commodities.

- **Change in Consumer Preferences:** Over a period of time, change in consumption patterns have been witnessed, wherein variation in demographic pattern, rise in disposable income, and altered consumption and lifestyle patterns have been observed. In order to cater to the burgeoning demands it is essential for organizations to utilize specialized services of consultants who hold expertise in their respective fields.
- **Enhanced emphasis on Quality of Undertakings:** On various occasions the absence of in-house expertise in sales processes or strategy development exercise can be dealt with by bringing in an outside expert. Moreover, a consultant has the ability to articulate options to the management, which the employees of the organisation might not be comfortable in suggesting. Additionally, with the usage of consultancy services, the employees of the firm get an opportunity to focus on their core competencies while the insignificant work can be allotted to the consultants. Consequently, with the increased focus on quality of undertakings, the need for consultancy services have risen manifold, giving major boost to the sector.

Table 5.6: Major Consulting Firms Operating in India

Consulting Vertical	Range of Services
Management Consulting	High-end consulting services which requires a global and macroeconomic perspective. Typical project scope includes market entry, expansion strategy, identification of acquisition targets
	Services which are primarily operational in nature. Typical project scope includes organization restructuring, cost optimization, financial audits
	Technology consulting services. Typical project scope includes IT network management, process automation support
	Boutique Indian consulting firms
Engineering Consulting	Technical consultancy services. Typical project scope includes pre project planning, feasibility studies, project management
Legal Consulting	Corporate legal services
Socio Economic Consulting	Environment impact assessment studies, urban planning, rural development, Renewable energy

Source: D&B Research

6. Challenges and Strategies

The services sector has emerged as the largest and fastest growing sector of the Indian economy. It remained resilient during the global financial crisis; however, the sector registered a subdued growth lately following the Eurozone crisis. Despite being the dominant sector in India's economy, it is faced with several challenges. The challenges are mainly related to market access, domestic regulations and policy issues. Some of the key challenges are discussed in the following sections:

Market Access

Market access barriers have been a long time challenge for the growth of India's service sector exports. These include licensing agreements, licensing procedures, qualification requirements, qualification procedures and technical standards and many other such barriers which deny market access.

In the case of Business Services, access to the US market, remains non-transparent as licensing of professional service suppliers is generally regulated at the State level. In addition to this, there are the Buy American Preferences under 49 U.S.C. § 50101, that requires all construction and related engineering services and urban planning and landscape services in the United States to source and use materials, such as cement, steel etc. domestically manufactured for public works projects financed by the State funds.

In the case of port services, there is the Harbour Maintenance tax (HMT) and Harbour services fee in the US, of 0.125 per cent, which is a federal tax imposed on shippers based on the value of goods being shipped through ports. While the US has

stopped collecting HMT on exports, it is still being collected on imports.

In the case of legal services while some of the States in the USA, 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 financial services, particularly in insurance, overseas companies face 56 jurisdictions in the US, each of which has its own system of licensing, solvency and regulations with visible discrimination, such as need to be licensed in another State before seeking a licence in a State.

The 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, and Immigration Modernization Act. While these Bills envisages increasing the number of H-1B visas available to technology companies so that US has 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 the 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 the US businesses and the US economy. The provisions of greatest concern are the following.

- (1) Proposed ban on contracting for services of H-1B and L-1 workers for visa dependent companies: Both S 744 and HR 15 envisages implementing a ban on contracting for the services of H-1B and L-1 workers for any employer with more than 15 per cent of its workforce on H-1Bs or L-1s, cause for a substantial concern. Many companies engage vendors to develop, implement 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 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 the US customers. Equally alarming is the fact that, the provision essentially dictates to the 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 is anticipated to be a sea change in the U.S. government's control of operations of private companies, and anticipated to have negative effects for India as well as the 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 do not utilize a significant number of H-1B or L-1 visas, for instance, are put in an advantageous 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.

- (2) Limits on Total Percentage of H-1B and L-1 Workers: S 744 and HR 15 are also anticipated to 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 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 towards the H-1B or L-1 population for the purposes of determining percentages. This intending immigrants concept if continued in the bills, may prevent employers from getting penalized due to the green card backlog or processing delays. It is because of the backlog and the delays that some companies need to keep extending H-1B or L-1 status for employees who

envisaged being 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, the intending immigrants for whom the green card process has been initiated are likely to be counted as US workers.

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

(4) Increases to Above-Market Wages for H-1B and L-1 Workers: The proposed bills are anticipated to 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 are proposed to be paid at least 80 per cent of the mean wages for the occupation, regardless of what the data actually shows entry-level wages to be. The bills are projected to also effectively prohibit the use of independent compensation surveys, meaning that the US government's wage data to be the only source to show the market rates, which has not always been reflective of US market wages. The effect of this change is likely to be significant. For example, the required wage for an entry-level Software Engineer in the Newark, New Jersey area is forecast to increase from around US\$71,000 a

year to over US\$ 97,000 a year and required wages for a middle-tier Software Engineer in the Newark area may increase from around US\$96,000 a year to almost US\$122,000 a year. For some companies, this may mean that employers could be compelled to pay non-US workers more than their US workers.

It is well documented that there exists a shortage of qualified highly-skilled workers in the United States, particularly in areas of science, technology, engineering, and mathematics, and it is for this reason that many companies bear 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 the jobs in the United States rather than offshoring them. Such proposals sore the ability of those companies to be competitive with companies in other countries that do not impose such additional government-mandated expense.

(5) Processing Delays and Lack of Predictability in Adjudications: Apart from the proposed legislation, many information technology companies have been facing challenges with processing delays under the existing rules, and with lack of predictability in agency adjudications. Applications that have been routinely approved in the past, for instance, lately, have been suddenly and without explanation denied. This has been causing substantial uncertainty for employers, and impeding business planning.

Policies enacted should be applicable to all companies equitably without regard to volume of visa usage or business model, such as product versus services models. Discriminatory policies that differentiate between and among companies bias the free marketplace and unfairly confer

competitive advantage on some companies at the expense of others¹³.

Competitiveness and Regulatory Issues

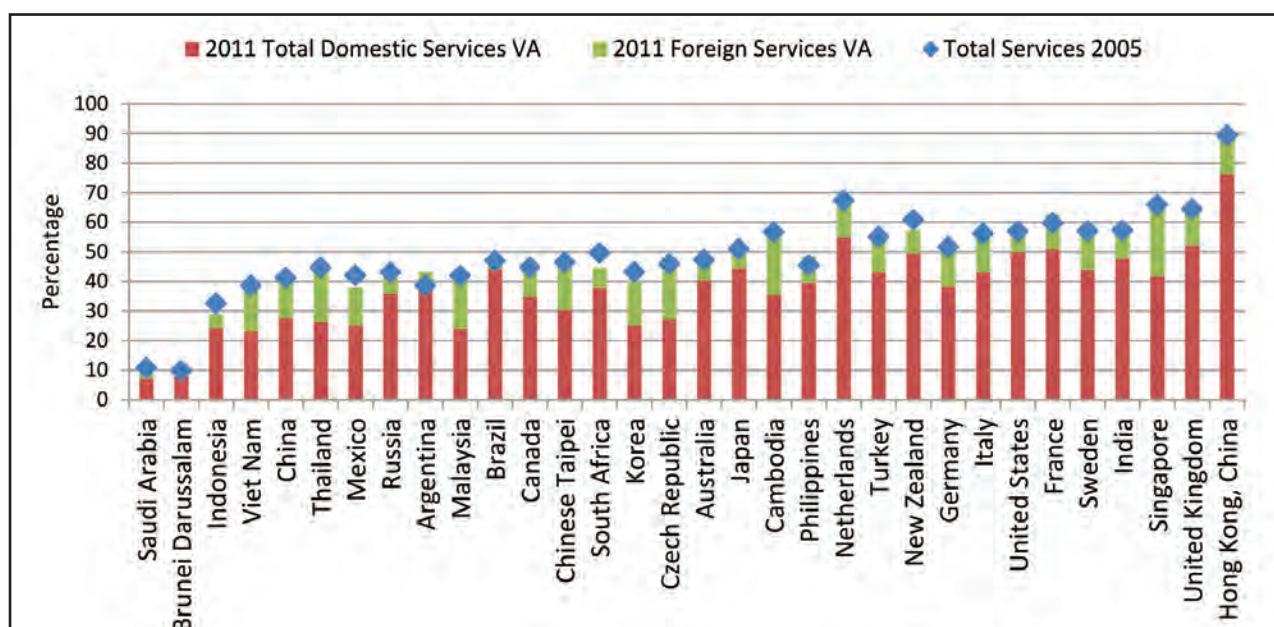
Services have been playing a growing visible role in India's economy. However, this role does not appear to be broad based as competitiveness and integration with the world markets appear to be restricted to a few segments only. Analysis shows, segments that relate to infrastructure capacity and quality have been showing falling shares and declining competitiveness. Professional and business services have been the strength in India's services exports however, competitiveness in these segments also have been declining, lately. Absence of broad-based services in the export growth and competitiveness is indicative of investment-related and regulatory challenges¹⁴.

Trade in Value Added

Embedded contribution of services in India's exports has been significant and estimated to be much more than revealed by the Balance of Payment (BoP) statistics. An analysis of the Organisation for Economic Cooperation and Development's (OECD) TiVa (trade in value added) data reveals that share of total services value added in India's gross exports increased from 48 per cent in 1995 to 57.5 per cent in 2011. This contribution is much above the global average of 38.8 per cent, BRICS average 47.1 per cent, ASEAN average 41.6 per cent, and considerably above OECD average of 56 per cent, during 2011.

An analysis of the economies reveals that only a few other economies in which this share is higher,

Exhibit 6.1: Services Value added Content in Exports by Country

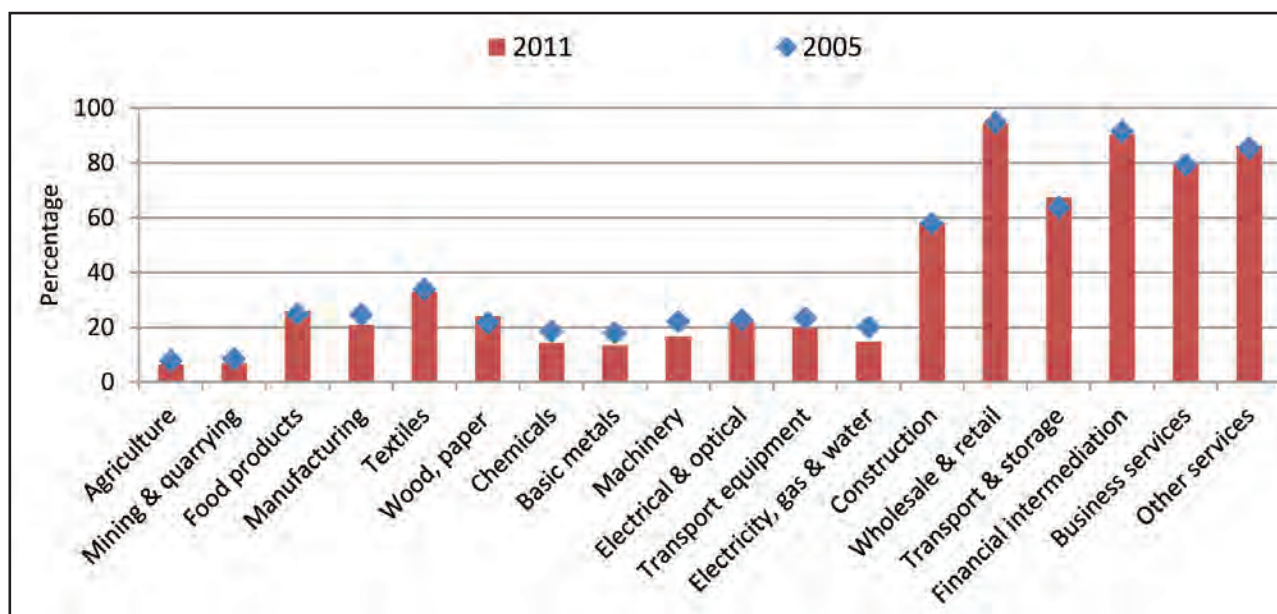


Source: Data extracted from OECD stat. January 14, 2016; Exim Bank Analysis

¹³Working Paper No. 1/2014-DEA:Emerging Global Economic Situation: Opportunities and Policy Issues for Services Sector; Department of Economic Affairs, Economic Division; Ministry of Finance, Gol

¹⁴Rupa Chanda, IIM Bangalore

Exhibit 6.2: Domestic Services Value Added (VAD) in India's Exports, by Sector



Source: Data extracted from OECD stat. January 14, 2016; Exim Bank Analysis

Table 6.1: Revealed Comparative Advantage of India's Select Services Sector

Services Segments	Revealed Comparative Advantage (RCA) ¹⁵			
	2011-12	2012-13	2013-14	2014-15
Transportation Services	0.63	0.58	0.59	0.58
Travel Services	0.51	0.48	0.46	0.52
Construction	0.22	0.29	0.41	0.47
Financial Services	0.56	0.48	0.51	0.43
Insurance & Pension	0.78	0.63	0.52	0.54
Other Business Services	0.66	0.72	0.84	0.81

Note: India is tenth largest exporter of transportation services, seventh largest exporter of financial services, & seventh largest exporter of insurance and pension services in the world, and their RCA has been declining; Increasing RCA was observed in the case of construction, travel and other services. For the year 2011-12 & 2012-13, the world export of insurance services have only been considered, excluding the pension services.

Source: RBI; WTO Database; Exim Bank Analysis

¹⁵To evaluate India's relative strength in export of services vis-à-vis that of the world, Revealed Comparative Advantage (RCA) is computed:

$$RCA = \frac{(I_{\mu}/I_{\beta})}{(W_{\mu}/W_{\beta})}$$

Where:

I_{μ} = India's exports in a particular service

I_{β} = India's total export of services

W_{μ} = World export of that particular service

W_{β} = World export of services

A value of less than unity implies that the country has a revealed comparative disadvantage in the product. Similarly, if the ratio exceeds unity, the country is said to have a revealed comparative advantage in the product

than that of India, are highly services oriented economies, such as Singapore, the United Kingdom, France and Hong Kong.

An industry-wise decomposition reveals that competitiveness and VAD contribution in exports growth is concentrated mainly in business services and distribution services. Contribution of traditional services (VAD) in exports has been declining (Exhibit 6.2). Business, financial and other services have also shown high domestic sourcing content in services. However, competitiveness of these segments too has been declining as revealed by their Revealed Comparative Advantage (RCA).

Embedded contribution of services to India's exports has implications for overall competitiveness for the manufacturing sector as well. While the trends in the analysis suggests India's increased participation in global value chains in services and increased role of goods and services imports in the economy, they also reflects decline of services

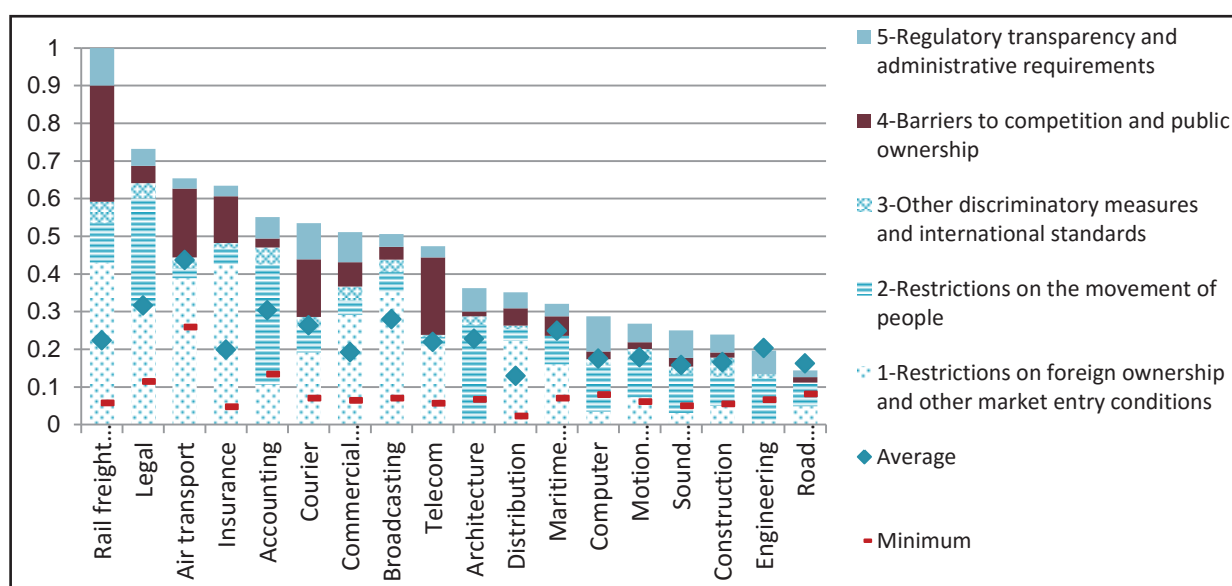
linkage with traditional manufacturing sectors. Services VAD linkages have significantly dropped in many industries, such as chemicals, metals, machinery, transport equipment, electricity, gas and water.

The OECD Services Trade Restrictiveness Indices (STRIs)

The OECD trade restrictiveness index further reinstates the regulatory bottlenecks faced by the companies in the services sector having bearing on their competitiveness. The index, which takes into account 34 OECD countries and six major emerging economies (BRICS+ Indonesia), provides a comprehensive portrait of services trade restrictions based on 16,000 laws and regulations in existence currently, in 40 countries across 18 sectors.

India's score on the STRI index in the 18 sectors is presented in Exhibit 6.3 along with the average

Exhibit 6.3: India's OECD STRI by Sector and Policy Area



Note: The STRI indices take values between zero and one, one being the most restrictive. They are calculated from the STRI regulatory database which contains information on regulation for the 34 OECD Members, Brazil, China, Colombia, India, Indonesia, Latvia, Russia and South Africa. The STRI database records measures on a Most Favoured Nations basis. Preferential trade agreements are not taken into account. Air transport and road freight cover only commercial establishment (with accompanying movement of people).

Source: OECD STRI Database; Exim Bank Analysis

and the lowest score among the 42 countries for each sector.

India has a STRI score above average in 16 out of 18 sectors. The least restricted sectors in India are road transport (establishment only), engineering, and construction. Engineering is not a regulated profession in India. No sector-specific restrictions apply at the national level in road transport and construction. These sectors are thus subject only to the general regulatory environment. The sectors with the highest STRI scores (i.e. most restricted) are rail freight transport, legal services and air transport. Rail freight transport is on the list of prohibited sectors and not open to private investments, and transit rights too are limited. As per the present FDI policy, foreign investment up to 49% is allowed in Scheduled Air Transport Service/ Domestic Scheduled Passenger Airline (SOP). Moreover, as per DIPP Regional Air Transport Service (RSOP) will also be eligible for foreign investment up to 49% under automatic route.

Services account for a higher share of employment than that of GDP in most countries; however, for India, development has been services-export led instead. India needs to identify and address the regulatory bottlenecks and spillovers to broaden its competitiveness in services and services-intensive manufacturing. This is required to sustain its exportability in the world markets.

Tax and Trade Policy

The concerns raised by the companies in the sector in this area often include use of 'net' instead of 'gross' foreign exchange criteria for export benefit schemes. The issue of bank guarantees based on past performance to avail of export promotion benefits in services is another concern that needs

to be addressed. Multiple taxation in some sectors and regulatory and tax related complications for business closures are other areas of concern.

Some Strategies

To move into higher value added manufacturing for the global market, India will need to develop capacity across all intermediate services inputs, not just in select segments. There is need to recognize inter-linkages between goods and services sectors in policy frameworks. The following are the two broad areas where policy focus is needed to enable service orientation and to enhance linkages among services, value creation and exports:

- (i) Strengthening and sustaining advantage in knowledge-intensive business services;
- (ii) Broadening competitiveness in services to cover those segments, which can directly enhance connectivity and efficiency in trade.

Towards achieving this, strategies should include addressing regulatory barriers (domestic as well as international), which raise costs of doing business, restrict competition, and affect quality across a range of services. It should also include eliminating restrictive regulatory environment in several services that are key enablers to participate in global value chains (GVCs) and enhancing manufacturing competitiveness, such as transport and logistics, legal and accounting. Strategy should also include revising India's commitments in such services (especially Mode 3) under the FTAs, which are limited currently. There is also ample scope for liberalization in important intermediate services, which contributes significantly in the competitiveness of the services sector. Strategies should be focused on liberalization efforts.

Investments in key areas are vital to build up capacity for enhancing India's servification ability. Policies should thus focus on investments in crucial areas, such as transport and digital infrastructure. Increased focus should also be on innovation and IP. Investment in human capital towards education, skill development, talent, specialization, vocational trainings, standards, and in improving quality of institutions, may help raise efficiency and enable more efficient coordination of activities within GVCs. Increased focus should be on exploiting India's demographic dividend.

A critical associated concern is to upgrade quality, meet international benchmarks, and enable knowledge and technology transfer in professional and business services. This would require policies towards raising and harmonizing standards within the country, mutual recognition of qualifications, internationalization of the services, and harmonization with international standards.

Nodal Agency

Services sector is heterogeneous. Many services are under the purview of State Governments, or are jointly regulated by the Central and State Governments. In the case of certain services the regulatory framework extends across various government ministries, agencies and departments inducing obstacles in adhering to the procedures and requirements. Multiplicity of regulatory bodies creates multiplicity of regulations and the requirement of multiple clearances. Since services sector is heterogeneous, it is important to identify the most important barriers faced by different services sub-sectors and then undertake sector-specific reforms. It is important to note that there are disparities in performance across the States in various services sector, which largely depends upon the State's policies and infrastructural set up. Further, in the recent years, different services are

increasingly getting integrated by technological developments. The absence of an Apex Ministry for the rapidly developing services sector is an important issue to be tackled for the growth of the sector.

Despite having a strong growth potential in various services sub-sectors, there is no single nodal department for services. An Inter-Ministerial Committee for services has been set up under the aegis of the Department of Commerce, Government of India, which is monitoring the trade in the sector; however, services activities involves concerns beyond trade and it is important to incorporate an appropriate institutional mechanism for the sector. Creation of a nodal agency for the services sector, which is responsive to the requirements of the stakeholders, and ensuring transparency and free flow of information, may be an approach going forward. The nodal agency, while ascertaining consultations with the industry players and stakeholders may also ensure participation in the constitution of new laws and regulations.

Data on Services

Having access to appropriate and elaborate data is of key importance in the advancement of India's services sector and its growth. The absence of availability of required data poses difficulty for the Government in decision making related to domestic reforms, and or participate in international trade negotiations. Non-availability of suitable data also acts as a hindrance in realizing the untapped potential of the sector. Limited availability of appropriate data on employment in the services sector, which involves manpower, leads to obstacle in conducting productivity analyses.

There is limited availability of disaggregated data for various services because of the invisible

nature of services. Government agencies, such as Central Statistical Organisation (CSO) and National Sample Survey Organisation (NSSO) under the Ministry of Statistics and Programme Implementation (MoSPI) and the Reserve Bank of India (RBI) have been gathering and assembling information; however, there are certain services, such as the retailing sector, where it is extremely exhausting to collate data due to the inherent attributes of the industry. The services sector contains innumerable sub-sectors under its umbrella and each category has features which are completely distinct from the other. Retailing, construction and many other services have a major spread in the informal or unorganized employment, where from the synthesis of data becomes a hurdle. In the Balance of Payment data

of RBI the category 'others' needs to be specified in detail.

In order to improve the data collection in services sector it is of prime importance to conduct elaborate and intricate surveys to track the activities in the informal sector. Models practiced in the developed countries, in this regard, may be followed.

There is a need to modify the definition of sub-sectors of services, in accordance with the international definitions provided by agencies, such as the World Bank. Inconsistency in definition leads to complication for having a lucid country-wise analysis among the varied categories in the services sector. A constructive approach to augment the competitiveness in the

BOX - 3 : Sources of Data on Services

The availability of statistical data on services is limited in most countries. At the international level, cross-country, time-series data on services exist in different data sources. These are useful for measuring, computing and assessing key services-related indicators, such as revealed comparative advantage, export concentration, diversification and product space analysis. Useful sources of information include the following :

- UNCTADStat (UNCTAD)
- World Development Indicators (World Bank)
- Balance of payments statistics (International Monetary Fund)
- Trade in Services database (World Bank)
- Trade in Value Added, or TiVA, database (OECD-WTO)

At the national level, given that the large range of data needed for analyses of service sectors is collected by a diverse set of national institutions, surveyors and teams of expert need to consult various national institutions and private sector organizations, including chambers of commerce as well as trade and industry associations. It is important to identify, early in the implementation of activities relating to services policy reviews, the need for additional data which can only be collected through surveys, questionnaires, visits and interviews with sectoral actors.

Eurostat, the repository of data in Europe produces advanced techniques of how to go about building coherent system of National Accounts which provides the criteria used to identify the informal sector, measurement methods to be adopted by the country and the most relevant statistical surveys used to estimate the informal sectors. There is need of additional data and the gap can be supplemented through surveys, questionnaires, visits and interviews with major stakeholders. This collected data can be circulated among the relevant industries as well as the government department for analysis.

Source: Services, development and trade: The regulatory and institutional dimension, UNCTAD

services sector would come by way of attempting a cross country analysis for the various services subsectors in a detailed manner.

Another crucial issue in this regard is the requirement of data on bilateral trade in services with the major trade partners. Suitable databases are required to be maintained to enable the data to be readily available, such that empirical research can be done in this field. The analysis of trends in service trade can create opportunities for the growth in India's services exports competence. The usage of surveys by associated industry associations can come handy for data collection.

Ease of Doing Business

India is among the fastest growing economies in the world and is expected to surpass China in terms of growth rate. However, further advancement in the growth entails efforts to increase the investment attractiveness of the country which would prove instrumental in restoring the confidence of foreign

investors. India has been ranked 142 among 189 countries in the World Bank's report on Ease of Doing Business falling two places from the previous year's ranking of 140 during the year 2014.

India stood at 158 in the ranking of 189 economies on the parameter of ease of starting business. In the recent years, the registration fees for startups, though have been lowered, the resultant paper work for commencing the business is reported to have increased manifolds. In terms of availability of Bank credit, India ranks among the top 100 economies. However, in 2015 a downfall in ranking in this category has also been reported.

Though the Government of India has been active in undertaking reforms and making efforts to upgrade India's position on various business indices, it is important for India to surpass its competitors in order to secure a better ranking in the Doing Business Rankings by the World Bank. The Department of Industrial Policy and Promotion (DIPP) has taken up a series of measures to improve the Ease of Doing Business in India.

Table 6.2: Ease of Doing Business in India: The World Bank Assessment

Parameters	Ranking	
	2015	2014
Starting a Business	158	156
Dealing with Construction Permits	184	183
Getting Electricity	137	134
Registering Property	121	115
Getting Credit	36	30
Protecting Minority Investors	7	21
Paying Taxes	156	154
Trading Across Borders	126	122
Enforcing Contracts	186	186
Resolving Insolvency	137	135

Source: World Bank

Availability of Infrastructural Facilities

The services sector is also affected by the infrastructural and logistics challenges in the country. Ensuring constant power supply and strategic usage of land available is very important to assure and safeguard the favourable outcome of the operations of service sector companies.

As compared to the international logistics network, India's logistics network lags in various criteria leading to an increase in operational cost, more investment of time and lack of certainty in profit making. India ranked 54th position in the World Bank's Logistics Performance Index (LPI), 2014, out of 160 countries. The LPI is an interactive benchmarking tool created to help countries

Box 4: Measures Taken to Improve Ease of Doing Business

- Ease of Filing Applications and Online Payment of Service Charges: Process of applying for Industrial License and Industrial Entrepreneur Memorandum has been made online, through the eBiz website. A total of 14 services are integrated with eBiz portal. Application forms have also been simplified. Integrated process for incorporation of a company has also been issued.
- Limiting Number of Documents for Exports: Notification has been issued to DGFT to reduce the number of documents required for export and import to three.
- Amendment of the Companies Act: Removal of requirements of minimum paid-up capital and common seal for companies, along with simplification of other regulatory requirements.
- Guidance is also provided to states through identification of best practices among states. Priority measures have also been suggested by DIPP for simplifying and rationalizing the regulatory business environment in the states.
- Ease of Business for Defence Products: Large number of parts/components, castings/forgings etc. have now been excluded from the purview of industrial licensing. Moreover, several dual use items, having military as well as civilian applications will not require Industrial License (IL) from defence angle.
- **Measures with respect to obtaining clearances:**
 - o Validity period of ILs has been increased from 2 to 3 years, thereby giving enough time to licensees to procure land and obtain necessary clearances/approvals.
 - o Security clearance on IL applications will now be granted within 12 weeks.
 - o Partial commencement of production is treated as commencement of production of all items in the license, obviating the challenges faced during extension of licenses.
 - o Advanced version of industrial classification will allow businesses to be part of globally recognized classification, and thereby facilitate smooth approvals/registration.
 - o Process of applying for Environment and Forests clearances has been made online.
- **Facilitating Investments:**
 - o FAQs for grant of industrial license have been published on DIPP website.
 - o Checklist with specific time-lines for processing applications filed by foreign investors in cases relating to retail/NRI/EoU foreign investments has been developed and published.
 - o Investor Facilitation Cell has been created to guide, assist and handhold investors.

Source: Department of Industrial Policy & Promotion Government of India

identify the challenges and opportunities they face in their performance of trade logistics and how they can improve their performance.

The index ranges from 1 to 5, with a higher score representing better performance. The international LPI analyses countries in six components namely; the efficiency of customs and border clearances, the quality of trade and transport infrastructure, the ease of arranging competitively priced shipments, the competence and quality of logistics service, the ability to track and trace consignments and the frequency with which shipments reach consignees within scheduled or expected delivery times. In the aggregated 2007 to 2014 LPI, Germany ranked the highest at 4.10, followed by Singapore (4.06) and the Netherlands (4.05). Countries with sustainable logistics like the Netherlands, Vietnam or Indonesia consider logistics as an engine of growth and an opportunity to integrate with the global value chain.

India's logistics infrastructure has limitations in meeting the rapidly growing freight traffic. The rising economic growth has been putting more pressure on the already exhausted network. Moreover, a considerable portion of the infrastructure spending is reported to get misused due to poor implementation making it obligatory to redo the same work. Poor infrastructure has been also adding to the cost of operation for the firms, and has been posing immense challenges in delivering high quality services to the international clients.

Talent Pool Requirement

The performance of the service sector is greatly contingent upon the talent pool in the country in order to maintain its position worldwide. It is mandatory to add on to the qualified professionals having domain knowledge. Along with such efforts it is also important to constantly update the skills of the workforce such that they are able to adjust to the constantly changing demands of the global

Table 6.3: Logistics Performance Index: The World Bank

Economy	2014		2012		2010	
	Rank	Score	Rank	Score	Rank	Score
Germany	1	4.12	4	4.03	1	4.11
Netherlands	2	4.05	5	4.02	4	4.07
Belgium	3	4.04	7	3.98	9	3.94
United Kingdom	4	4.01	10	3.90	8	3.95
Singapore	5	4.00	1	4.13	2	4.09
Sweden	6	3.96	13	3.85	3	4.08
Norway	7	3.96	22	3.68	10	3.93
Luxembourg	8	3.95	15	3.82	5	3.98
United States	9	3.92	9	3.93	15	3.86
Japan	10	3.91	8	3.93	7	3.97
India	54	3.08	46	3.08	47	3.12

Source: World Bank

market. There is a mismatch between the supply and demand of skilled professionals which needs to be taken care of in order to restore India's competence in the services sector.

The Global Competitiveness Index (GCI) Report states that quality higher education and training is crucial for economies to move up the value chain and go beyond simple processes and products. The index measures secondary and tertiary education enrolment rates as well as the quality of education as evaluated by the business leaders. The extent of on-job training is also taken into account as it is beneficial in upgrading the skill of employees.

According to the GCI Report 2015-16, India scores relatively low and ranks 105th among 140 countries in gross enrolment for secondary education, and ranks 86th in gross enrollment for tertiary education. India also scored relatively low in availability of specialized training.

Singapore, although being a small sized economy, has ranked second overall in the global competitiveness index 2015-16, due to its superb performance in the productivity parameters such as education. There is a huge emphasis on education in Singapore which has concomitantly led to the advancement in expertise and competence of the labor force and consequently the growth of the economy. The increased investment in education, research and training has enabled the comprehensive development of the country.

A similar example has been presented by Switzerland, which had the leading position in the overall global competitiveness ranking 2015-16. It has maintained its superior position over the years

and a major driving factor is the well equipped scientific research institutions in the country. The human resources are given highest equality on-job training which enables the work force to expertise in the field of innovation.

India is faced with various obstacles such as the dearth of qualified faculty and also the restraint of updated and quality skill infrastructure which prevents India from having a more desirable ranking in the competitiveness index. As per a report¹⁶ by the British Council, India has a low rate of enrolment in higher education, only 18% compared with 26% in China and 36% in Brazil. Moreover, the education system is faced with problems, such as inappropriate quality and following of an outdated curriculum, which prevents the students from honing their skills to the fullest. Apart from this, the status of research in India is relatively inadequate, owing to the low rate of PhD enrolment in the country creating unsuitable grounds for innovation.

Some Strategies:

Internationalization in Research and Training: Linkages with universities and research institutions internationally can help enhancing the quality of research in the country. India can make significant progress in the field of innovation by way of technology transfer, joint research initiatives and knowledge exchange programmes with other knowledge based economies. These efforts may help make Indian work force globally more competitive. Integration of research institutions and business schools with global schools and institutions may also help in improving the quality of training and education in the country and give out more competent work force.

¹⁶British Council: The future of higher education and opportunities for international cooperation

Table 6.4: India's Ranking in Global Competitiveness Index

Secondary Education Enrollment Rate			Tertiary Education Enrollment Rate		
Country	Rank	Value	Country	Rank	Value
Australia	1	135.5	Greece	1	116.6
Spain	2	130.8	Korea	2	98.4
Netherlands	3	129.9	United States	3	94.3
Denmark	4	124.7	Finland	4	93.7
New Zealand	5	119.5	Australia	5	86.3
India	105	68.5	India	86	24.8
Quality of Education			Extent of Staff Training		
Country	Rank	Value	Country	Rank	Value
Switzerland	1	6.1	Switzerland	1	5.7
Qatar	2	5.9	Luxembourg	2	5.5
Singapore	3	5.8	Malaysia	3	5.5
Finland	4	5.7	Singapore	4	5.4
Belgium	5	5.5	Qatar	5	5.4
India	43	4.2	India	48	4.2

Source: Global Competitiveness Report 2015-16

Making Higher Education more Job Oriented:

The education system and the institutions should provide relevant curriculum to the students to be directly absorbed into the labour market. The quality of education being delivered must be in accordance with the demand in the employment market. Industrial trainings may be made mandatory in the college and university curriculum in alignment to the requirements of various services sector. As an example is the Suranaree University of Technology in Thailand, where a student works full-time as an employee on a worksite as part of the degree programme, is firmly embedded in the undergraduate curriculum.¹⁷

Increased Financial Support for Professional Studies: The Government may consider increasing

public funding and encourage private investments towards professional courses. State Universities, which are run and funded by respective State Governments, are a very crucial element of higher education in India. As per a report by the World Bank¹⁸, these State universities are critically underfunded and depend largely on the affiliation fees paid by the colleges. These fees supplemented by the state government funding generally leaves funding gaps for important needs, such as infrastructure and research. The Government is initiating reforms in this regard and an important step in this direction is the Central Government's Rashtriya Uchchatar Shiksha Abhiyan (RUSA) or National Mission for Higher Education Programme, as part of the 12th Five Year Plan.

¹⁷ High university enrolment, low graduate employment Analysing the paradox in Afghanistan, Bangladesh, India, Nepal, Pakistan and Sri Lanka

¹⁸ British Council: The future of higher education and opportunities for international cooperation

Retention of talent pool

Retaining skilled workforce is a major challenge for the firms in the services sector. The problem resulting due to the loss of proficient and trained human capital is reported to have long term unfavourable impact on the firms. The high attrition rate, which refers to the shrinkage in the number of employees, represents a loss to the organisation, especially in the services sector in which mostly the major investments are made in training and skill development of the personnel. With high attrition rate, firms have to invest in renewed expenditure for work force replacements, incurring costs for administrative and hiring costs as well as cost pertaining to training and capacity building. Besides the cost, attrition also results in fear of leakage of proprietary trade secrets from the firms.

Hay Group¹⁹, a global management consultancy, conducted a Study, in association with the Centre for Economics and Business Research, on 700 million employees in 19 countries worldwide, analyzing the employee turnover across the globe. The Study found that 26.9 per cent was the employee turnover rate in India in the year 2013.

Table 6.5: Comparison of Employee Turnover Rates for 2013

Country	Rate of Turnover
India	26.90%
Russia	26.80%
Indonesia	25.80%
Brazil	24.40%
US	21.80%
China	21.30%
UK	14.60%

Source: News Release, Hay Group

¹⁹ A Study on Overview of Employee Attrition Rate in India; Rashmi Fakriya

²⁰ Indian Ites Industry and Employee Attrition –An Overview; K Narmadha

The high attrition rates in the economy has had a negative influence on the services sector, particularly on the IT enabled services industry, such as the BPO sector. The attrition rate in India's BPO sector has risen phenomenally, at the rate of 55 per cent, with significant visible movement in the mid and senior management levels, according to an industry specific analysis of the Associated Chambers of Commerce and Industry of India (ASSOCHAM)²⁰.

The major cause of high attrition rates in the BPO sector is the nature and structure of the industry. A majority of the workforce engaged in BPO operations are the young generation who are undertaking the job along with studies or during the interim period of hunting for a better career alternative. The employees in this field hold the perception of assessing their job as a temporary arrangement and do not consider it as a long term career path. Moreover, the high attrition rate can be attributed to the unconventional late night working hours and the general degraded opinion that the society holds about the profession.

There are multiple reasons for quitting of jobs in the other services sector. Key reasons being career growth and exploring other opportunities. Other causes include dissatisfaction among workers related to unfavourable working environment, unmanageable work pressure and remuneration. Qualifications of the employees are also often considered as the reason for attrition.

It is extremely important for the organisations to adopt strategies for retention of the workforce in the services sector for sustainability. Some strategies may include:

Box 5: Skill Development Initiative Scheme

The Skill Development Initiative Scheme aims to provide vocational training to school leavers, existing workers, ITI graduates, etc. to improve their employability by optimally utilizing the infrastructure available in Govt., private institutions and the industry. Existing skills of the persons can also be tested and certified under this scheme. The objective of the scheme is to build capacity in the area of development of competency standards, course curricula, learning material and assessment standards in the country.

Key Features of the Scheme are:

- Demand driven short term training courses based on Modular Employable Skills (MES) decided in consultation with the industry. MES is the 'minimum skills set' which is sufficient for gainful employment.
- Central government facilitates and promotes training while industry, private sector and State Governments provide training to the persons.
- Optimum utilisation of existing infrastructure to make the training cost effective.
- Flexible delivery mechanism (part time, weekends, full time, onsite/ offsite) to suit the needs of various target groups.
- Different levels of programmes (Foundation level as well as skill upgradation) to meet the demands of various target groups.
- The services of existing or retired faculty or guest faculty are being utilized.
- Courses are available for persons having completed 5th standard.
- Testing & certification of skills acquired informally.
- Testing of skills of trainees by independent assessing bodies, which would not be involved in training delivery, to ensure that it is done impartially.
- The essence of the scheme is in the certification that will be nationally and internationally recognized.

Source: Ministry of Skill Development and Entrepreneurship

- Professional development opportunities for employees: Creating conducive environment in the organisation for building up of the intellectual resources and professional growth of the workforce, by way of financial support, and training and skill development programmes on interpersonal, managerial and supervisory skills.
- Compensation benefits: Regular revision of remuneration and fair compensation for the employees, in order to prevent attrition.
- Reward and recognition of the employees: Acknowledgment of the employees and appreciating them for their efforts can be a strategy to combat high attrition rates.
- Avoiding overburdening and ensuring life-work balance: Efficient distribution and management of work to increase productivity and innovation among employees, and encouraging and ensuring a work-life balance for the workforce.

Research and Development

India holds the 41st position in the gross expenditure on Research and Development and only 35.5 per cent of it is financed by business enterprises. In the Republic of Korea, which holds the first position in terms of gross expenditure on research and development as a percentage of GDP, science and technology is considered to be the core element for achieving national goals.

Table 6.6: Ranking of Countries in terms of Gross Expenditure on R&D as a % of GDP

Rank	Country	GERD as % of GDP	% financed by business enterprises
1	Korea, Rep.	4.4	76.5
2	Israel	3.9	84.5
3	Finland	3.6	68.7
4	Sweden	3.4	67.8
5	Japan	3.3	77.0
6	Denmark	3.0	65.7
7	Germany	2.9	66.9
8	Switzerland	2.9	73.5
9	Austria	2.9	68.8
10	Slovenia	2.8	77.2
41	India	0.8	35.5
Source: Global Innovation Index 2014			

According to the Global Competitiveness Index (GCI) Report 2015-16, India's capacity for innovation has been lower than many other countries, such as the USA, the UK, South Korea, and two of the BRICS countries, such as China and South Africa. Even in the parameter of quality of Scientific Research Institutions, India scores lower than South Africa and China. However it has a better score than Brazil and Russia. Similar is the case for company spending on R&D, where India ranked at 31st place globally. India has displayed a substandard performance in company spending in R&D as compared to China; however, India registered a better performance than South Africa, Brazil and Russia. India has also scored

low in terms of university industry-collaboration on R&D when compared to other BRICS countries, such as South Africa and China. Though India has outperformed majority of the BRICS countries in terms of availability of scientists and engineers except for China, in terms of patents applications per million population, India's performance has been poor relative to other BRICS countries, such as South Africa, China, Brazil and Russia.

Given the significance of research and development in servification of India's goods and services, there is a need for enhanced focus in the area. This would require capitalizing on the science and technology investments that are already in place. Prioritizing public R&D expenditure and encouraging increased private investments and public-private partnerships may help in strengthening and streamlining investment situation in the area. There is a need to create a strong connect between scientific institutions and industry, with a mandate of effective technology transfer. Stimulating SMEs in R&D investment is important to reinforce their contribution to value-added exports. Other strategies in strengthening R&D may include promotion of innovation clusters, encouraging business incubation systems for hi-tech R&D, tax-incentives for investments in hi-tech product development, revising curricula in the R&D institutions and promoting more industry and market oriented R&D, retention of hi-skilled manpower, and strengthening of the IPR regime.

Data Protection

The significance of trans-border data flow has increased as innumerable sectors engaged in trade in goods and services undertake data exchange. Trans-border data flow facilitates business process streamlining, improves market access and maintains business relevance in

fast evolving business landscape²¹. The critical difference between the historical outsourcing goals and the current outsourcing goals is that now Indian companies realize that the risk of breach in data privacy is a significant component of cost savings that may or may not be realized through the establishment of an outsourcing relationship. Consequently, companies are more selective in choosing both the geographical location and the outsourcing firm with whom they establish a relationship²². Nonetheless, it is imperative that the Indian KPO units recognize the legal obligations of protecting the private information thoroughly while undertaking off-shoring assignments. This entails proper structuring of outsourcing arrangements, which ensures that the data is properly identified as "private" and processes are put in place to protect it. It is extremely important for Indian outsourcing firms to assure American and European organisations and corporations regarding data security issues.

There is no specific legislation on privacy and data protection in India. However, the Information Technology Act, 2000 contains specific provisions intended to protect electronic data. Ministry of Information Technology, Government of India, adopted the Information Technology (Reasonable Security Practices and Procedures and Sensitive Personal Data or Information) Rules, during 2011, which requires corporate bodies collecting, receiving, possessing, storing, dealing or handling personal information to comply with certain procedures.

Data Security Council of India (DSCI) is a non-profit Section 25 company, established by NASSCOM, as a self-regulatory organization to promote data protection through best practices and standards, in line with the evolving global regulatory landscape. DSCI caters to sectors, such as IT/BPO, Banking and Financial Services,

²¹ Data Security Council of India (DSCI) Response to A Comprehensive Approach on Personal Data Protection in the European Union

²² Data Protection in India: The Legislation of Self-Regulation-Adrienne D'Luna Directo*

Table 6.7: Global Competitiveness Index: R & D Innovation

Country	Capacity for Innovation		Quality of Scientific Research Institutions		Company Spending on R&D		University Industry-collaboration on R&D		Availability of Scientists & Engineers		PCT patents applications/million population	
	Value	Rank	Value	Rank	Value	Rank	Value	Rank	Value	Rank	Value	Rank
The USA	5.9	2	6.1	4	5.6	3	5.8	2	5.4	4	160.3	11
The UK	5.4	10	6.3	2	4.9	17	5.7	4	4.9	18	89.9	18
South Korea	4.8	24	4.8	27	4.6	21	4.6	26	4.4	40	220.7	7
South Africa	4.6	32	4.7	33	3.8	32	4.5	31	3.4	106	6.9	46
China	4.2	49	4.2	42	4.2	23	4.4	32	4.5	36	13.4	32
Brazil	3.8	80	3.6	80	3.3	60	3.8	54	3.3	115	3.5	51
India	4.2	50	4.1	45	3.9	31	3.9	50	4.2	49	1.6	61
Russia	3.8	84	4.0	58	3.2	75	3.6	67	4.1	64	7.7	41

Source: Global Competitiveness Report 2015-16

Manufacturing, Telecom, PSUs, E-commerce and E-governance. DSCI through its Corporate Membership program provides topical globally acknowledged and action oriented services to its member companies to promote data protection in the various industry verticals and build trustworthiness of Indian companies in the global arena.

One of the key recommendations in this area may be amendment to the Information Technology Act by the Government of India. Additionally, adopting a system whereby each Indian IT-BPO provider must obtain and maintain DSCI certification in order to establish itself as a viable option to American and European companies looking to form an outsourcing relationship²³. American and European companies are usually hesitant to engage outsourcing providers that do not take privacy protection measures seriously leading to loss of business.

WTO and Free Trade Agreements

The potential of a country to negotiate in the WTO relies on the competitiveness of the sector globally. India has tried to bring about more liberalisation of services trade in the WTO negotiations and become a part of increased number of free trade agreements to bring about additional ease in services trade. Agreements signed by India, covering services include ASEAN-India Framework Agreement for Comprehensive Economic Cooperation Agreement (CECA), India-Singapore Comprehensive Economic Cooperation Agreement (August 2005), India-Korea Comprehensive Economic Partnership Agreement (January 2010), Comprehensive Economic Cooperation Agreement between India and Malaysia (July 2011) and Comprehensive Economic Partnership Agreement between India and Japan (August 2011).

²³Data Protection in India: The Legislation of Self-Regulation-Adrienne D'Luna Directo*

The Trans-Pacific Partnership (TPP) Agreement was concluded on 5 October 2015 among 12 nations: Australia, Brunei, Chile, Canada, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the US and Vietnam, which comprise 40% of the world's gross domestic product (GDP). In addition to greater market access for goods and services, the areas of negotiations covered by TPP include intellectual property rights, foreign investment, competition policy, environment, labour, state-owned enterprises, e-commerce, competitiveness and supply chains, government procurement, technical barriers to trade, transparency in healthcare technology and pharmaceuticals, and regulatory coherence.

The TPP throws two prime concerns for India. First, TPP may erode existing preferences for Indian products including services in established traditional markets, such as the US and the European Union (EU), benefiting the regulations to the agreement. Second, TPP is likely to develop a rules architecture, which may place greater burden of compliance on India's manufacturing and services standards for access to the markets of the participating countries.

In this situation, to adequately benefit from international markets, India will have to improve their capacities both for developing policies and the capabilities of their producers to upgrade standards in line with the higher requirements. Some countries have already begun to do so. The Peterson Institute for International Economics (PIIE) in a report released in September 2015 states that if China and the rest of the Asia-Pacific Economic Cooperation (APEC) forum join in a second stage of the TPP that continues to exclude India, India's annual export losses may approach US\$50 billion.

While India has to diligently negotiate under the FTAs, status of the existing Mutual Recognition Agreements (MRAs) needs to be also taken into account. In the WTO negotiations, there is a need to restrict developed countries from giving subsidies to services sectors like shipping, aviation and healthcare. The quantitative limitations on services, such as the number of hospitals being set up, or educational institutes being established abroad also need to be modified through the negotiations. Negotiations in the WTO should have the objective of removing barriers to trade, such that free flow of Indian services can take place globally.

Box 6: WTO Negotiations including Services Trade

WTO negotiations

- The 10th session of the WTO Ministerial Conference was held in Nairobi, Kenya, from 15 to 18 December 2015. In the area of services trade, the conference took decisions such as implementation of preferential treatment in favour of services and service suppliers of least developed countries (LDC) and increasing LDC participation in services trade; and moratorium on payment of customs duties on electronic transmissions until 2017.
- Preferential treatment for LDCs: So far, 21 members, including India, have notified preferential treatment to LDCs in services trade. India has offered this in respect of: (i) article XVI of the General Agreement on Trade in Services (GATS) (Market Access); (ii) technical assistance and capacity building; and (iii) waiver of visa fees for LDC applicants applying for Indian business and employment visas. The fee waiver will be valid until 31 December 2030. India is the only member which has offered waiver of visa fees. This is a unique and almost path-breaking offer by India. So far, visa issues have remained untouched in the WTO/free trade agreements (FTA). India's offer should give significant advantage to service suppliers from LDCs vis-à-vis service suppliers from any other country.
- E-commerce: The WTO Members agreed to maintain the current practice of not imposing customs duties on electronic transmissions until the next Ministerial Conference which will be held in 2017.

Source: Economic Survey 2015-16.

Box 7: Bilateral Negotiations including Services Trade

Bilateral Agreements

- India has signed comprehensive bilateral trade agreements, including trade in services, with the governments of Singapore, South Korea, Japan and Malaysia. An FTA in services and investment was signed with the Association of South East Asian Nations (ASEAN) in September 2014, which came into effect from 1 July 2015.
- India has joined the Regional Comprehensive Economic Partnership (RCEP) plurilateral negotiations. The RCEP is a proposed FTA which includes the 10 ASEAN countries and its six FTA partners, viz. Australia, China, India, Japan, South Korea and New Zealand. The RCEP is the only mega-regional FTA of which India is a part.
- India is also engaged in bilateral FTA negotiations including trade in services with Canada, Israel, Thailand, the EU, the European Free Trade Association (EFTA), Australia and New Zealand. Dialogue is under way with the US under the India-US Trade Policy Forum (TPF), with Australia under the India-Australia Joint Ministerial Commission (JMC), with China under the India-China Working-Group on Services, and with Brazil under the India-Brazil Trade Monitoring Mechanism (TMM).

Source: Economic Survey 2015-16

7. Outlook

According to the World Bank's India Development Update Report, the World Bank projects India's GDP growth to expand to 7.5 per cent in 2015-16, followed by further acceleration to 7.9 per cent in 2016-17 and 8 per cent in 2017-18. A major driver behind the growth rate in the previous year 2014-15, has been the services sector, which performed better than the manufacturing sector. Although the merchandise exports stagnated in 2014-15, it was the growth in the exports of services sector which had a favourable impact on the current account balance. The services sector, through its backward and forward linkages with other sectors of the economy, is estimated to grow at an average of 10.5 per cent during FY2016-FY2018²⁴.

As per Economic Survey 2015-16, analysis of the sector-wise performance of services activities based on firm-level data indicates a healthy rise in sales of the health services segment in the Q1 and Q2 of 2015-16, though profits declined on account of expense heads like professional fees to doctors and rent. The performance of the Indian aviation industry has improved following a fall in prices of aviation fuel, which accounts for nearly 40 per cent of the operating expenses of airlines in India. The telecom industry registered a healthy profit in Q1 of the year. However, muted order inflows and a stretched financial position impacted the execution capacity of many construction companies, while lower margins in the infrastructure sector impacted their profit margins. Some available indicators of the different services in India for 2015-16 show reasonably good performance in telecom, aviation and port

services and information technology-business process management (IT-BPM) although the last is slightly muted compared to earlier years.

There are certain reforms that have been taken by the Government of India (GoI), which is envisaged to have a positive impact on the performance of the services sector. It has been proposed to create a task force to establish a sector-neutral financial redressal agency that will address grievances against all financial service providers.

Additionally, in order to improve the ease of doing business, the Government has launched a single window government-to-business (G2B) portal for eleven Government services. The services, available on the portal include those from the Ministry of Corporate Affairs (MCA), the Reserve Bank of India, the Department of Industrial Policy and Promotion (DIPP), Central Board of Direct Taxes (CBDT), Directorate General of Foreign Trade (DGFT) and Employee's Provident Fund Organisation (EPFO). With the integration of services in eBiz portal, a business user can avail services 24x7, and engage in online submission of forms, payments, tracking of status and also obtain the license/portal from eBiz Portal. This initiative taken by the Government is anticipated to boost the services sector through increased ease of doing business.

Another measure in this direction has been organising of the Global Exhibition on Services by the Ministry of Commerce and Industry, GoI, during April 2015, in New Delhi in association with the

²⁴India Development Update –World Bank

Services Export Promotion Council (SEPC) and Confederation of Indian Industry (CII). This was the first of its kind integrated exhibition to display India's strength in the services sector. The event aimed at creating a global platform for increased trade in services, enhancing strategic cooperation and developing synergies to strengthen multilateral relationships between all stakeholders. A similar event has been planned in this year too.

The healthcare system in India has advanced significantly over the years and has displayed signs of betterment. As per CMIE, the health service providers are expected to invest considerably in order to bring about improvement in healthcare infrastructure. During the period 2015-17, the health services industry is expected to invest Rs. 156.1 billion on increasing the capacity by 28,397 beds. Hospital enterprises are expected to invest in capacity building. Additionally, the State Governments are also anticipated to increase investments in the healthcare infrastructure.

Research and development services available in India provide immense opportunities and consequently many multinational corporations have shifted their research and development base to India. The GoI has been taking many initiatives to promote and develop research and development services in India. According to Global R&D Service Providers (GSPR) Rating 2015, a report by Zinnov Management Consulting, India's R&D globalisation and services market is set to double by 2020 to US\$ 38 billion. The study estimates the addressable engineering and R&D globalization and services opportunity stands at US\$ 215 billion, as of 2015. Currently, only US\$ 67 billion of this opportunity has been addressed globally. India based service providers capture 22 per cent of the global engineering services market in 2015 and grew by 12.7 per cent as compared to the previous year. India's R&D centres contributed

US\$ 12.25 billion worth of services to their parent companies.

As per the Ministry of Tourism, Government of India, the foreign tourist arrivals during the month of June 2015 were nearly 5.13 lakhs, exhibiting a growth of 1.8 per cent in June 2015, as compared to the previous year. The foreign tourist arrivals to India during the period January-June 2015, was approximately 38.45 lakhs, which represented an increase of 3.4 per cent over the same period in the earlier year. According to the report "WTTC Travel & Tourism Economic Impact 2015" by the World Travel & Tourism Council, the total contribution of travel and tourism to India's GDP is expected to increase by 7.5 per cent to approximately INR 8.2 trillion during the year 2015 from INR 7.6 trillion in 2014. This is estimated to form 6.8 per cent of the GDP in 2015 as compared to 6.7 per cent in 2014. This is forecasted to rise by 7.3 per cent per annum to INR 16.6 trillion by 2025, constituting 7.6 per cent of the GDP. The jobs created by the travel and tourism sector are expected to increase by 1.8 per cent during the year 2015, and reach 37.4 billion jobs in 2015. The number of people employed in the travel and tourism industry is expected to increase to 45.6 million jobs in 2015, accounting for 9 per cent of the total employment by 2025. A significant improvement in the industry has been caused by the tourist visa on arrival scheme enabled by the Electronic Travel Authorisation (ETA), launched by the Government of India on November 27, 2014 for 43 countries. TVoA is envisaged to increase tourist arrivals to the country significantly.

With regard to the computer software industry, as per CMIE, investments worth Rs.7.3 billion were received in 2014-15, which was lower than the preceding year owing to unfavourable business conditions in the client market and delay in execution. However, a revival of demand is

expected and the Indian software industry is set to commission 46 projects worth more than Rs. 139.3 billion during the period 2015-17.

With respect to the transport logistics industry, project commissioning worth Rs 2 billion to Rs. 5 billion was completed in each year during the three year period 2012-15. As per estimates by the CMIE, the industry is expected to observe an augmentation in project completion, and a total of 52 projects worth Rs. 72.3 billion are foretold to be completed during the period 2015-17. The cost minimisation and effective solutions provided by the logistics companies is contributing to rise in profits.

Additionally, the cargo volumes are expected to grow by 7.1 per cent during 2015-16 and the cargo volumes are estimated to reach 627.2 million tonnes during the same period. The cargo traffic of petroleum, oil & lubricants, which constitute nearly 30 per cent of the overall cargo traffic, is predicted to increase by 3-4 per cent in each of the years during 2015-17. Enhancement in the demand for petroleum products in the domestic and export markets is expected to bring about an increase in India's refining capacity, and thereby growth in cargo traffic.

India has been considered amongst the favourable destination for firms outsourcing their business research, market research or legal services. This in turn has led to an increment in the earnings of the country and fostering more employment opportunities simultaneously. India has already accomplished itself in the IT-BPO sector through its superior service qualities and swift assistance delivery. These positive establishments in the IT-BPO sector has given rise to the supply of value

added services requiring special expertise and skill competitiveness required in the KPO sector. India is bestowed with knowledgeable resources, such as chartered accountants, MBA's, doctors, lawyers, and research analysts, who also have a command on multi-lingual capabilities. According to a study by ASSOCHAM, the small and medium enterprises are forecast to lead to a major expansion in the KPO sector. As per the estimates, out of the 20 million SME's in the US and Europe nearly 15 per cent can benefit through availing services from the KPO industry owing to the reduced complexity, ability to compete effectively with small and large competitors, shorter time to market, higher flexibility, lower costs and advanced quality. Thus, the outlook for the industry is positive; however, there are challenges faced by the industry as well. The competition from other sought-after outsourcing destinations and the estimated supply crunch of the qualified professional in the coming years may pose obstacles for the Indian knowledge process outsourcing industry in the future.

While the GATS under the umbrella of WTO is in force, there has been discussions about the negotiations amongst select countries towards signing a Trade in Services Agreement (TISA) with the objective of further liberalising the trade in services. Currently, 23 members are taking part in the negotiations including the United States and the European Union. It is aimed at opening up markets and further deregulate the global services market. Moreover, measures are envisaged to be taken to support the growth of the services trade in the least developed countries by providing their services exports with preferential treatment. This would enhance the participation of the least developed countries in the global services trade.

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