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Emerging global economics situation: Opportunities and policy issues in services sector

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INTRODUCTION:

The world economy has been receiving shocks at regular intervals since the 2008 crisis. While, there was recovery in global economy after the 2008 crisis, with developing countries leading the recovery and developed countries like US and Euro Area countries facing unemployment and recessionary trends, a reversal of roles seems to have taken place recently. As per the IMF's World Economic Outlook, October, 2013, advanced economies are gradually strengthening whereas; the growth in the emerging market economies has slowed down. This confluence is leading to tensions, with emerging market economies facing the dual challenges of slowing growth and tighter global financial conditions. Each update of IMF has lowered its earlier estimate in the last few years. In the October 2013 update of the World Economic Outlook, the IMF has lowered its world output projections (from the July 2013 projections) by 0.3 and 0.2 percentage points to 2.9 percent and 3.6 percent for 2013 and 2014, respectively. Actual world output growth in 2012 was at 2.9 per cent with 1.5 per cent growth for advanced countries and 4.9 per cent for emerging market and developing economies (EMDEs).

SERVICES GDP AND TRADE: GLOBAL SCENARIO:

The services sector has the highest sectoral contribution in global GDP with a share of 67.5 per cent in world GDP of US$70.2 trillion in 2011, as per UN National Account Statistics. While the growth of world economy decelerated in 2012, the services sector growth in some major countries also decelerated and this trend is continuing in 2013 with the growth deceleration of US consumption expenditure on services at 0.1 per cent in Q 3 of 2013 as compared to 1.2 per cent in the previous quarter. In India also, the growth of services sector has decelerated to 6.6 per cent in Q1 of 2013-14 from 7.7 per cent in Q1 of 2012-13 and 5.9 per cent in Q2 of 2013-14 from 7.6 per cent in Q2 of 2012-13. Unlike India, the latest country estimates of some countries like China and Brazil in 2013 show acceleration in growth rate of services sector. For example, in China, services growth accelerated to 8.4 per cent in first three quarters of 2013 over same period of 2012. In Brazil also, the rate has increased to 2.4 per cent in Q2 of 2013 over the same period of 2012.

INDIA'S SERVICES GDP:

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

INDIA'S SERVICES TRADE:

The overall openness of the economy reflected by total trade, including services trade as a percentage of GDP shows a higher degree of openness at 59.5 per cent in 2012-13 compared to 38.1 2012-13 compared to 28.3 per cent in 2004-5. The share of India's services trade to total trade (goods & services) at 21.9 per cent in 2012-13 is also marginally higher than the 21.4 per cent in 2011-12,

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though, it is much lower than the 27 per cent recorded in 2006-07.India has also been moving towards a service led export growth. While the CAGR of merchandise export growth during 2004-05 to 2008-09 was at 22.2 percent, services export growth was at 25.3 percent. As a result of the slowdown in world economy, services sector's exports growth has slowed down in 2009-10 and was at (-) 9.4 percent. In 2010-11 it jumped to 30.2 per cent which is also partly due to the base effect. However after that services export growth started decelerating to 13.1 per cent in 2011-12 and 3.4 per cent in 2012-13. Services import growth which was at 35.3 per cent in 2010-11 became negative at -4.5 per cent in 2011-12, but grew by 5 per cent in 2012-13. Net services which grew by 21.8 per cent in 2010-11, grew sharply by 45.3 per cent in 2011-12, as import growth was negative. However in 2012-13, with sharp deceleration in services export growth, net services growth was a tepid 1.4 per cent resulting in a lower cushion provided by services trade to finance the current account deficit (CAD). In 2013-14 (April-Sept), there is again a pickup in services export growth to 3.4 per cent, while import growth was negative at (-) 3.9 per cent. As a result net services grew by 12.6 per cent. In 2012-13, among the major services exports, there is negative growth in transport services (a reflection of the external trade situation); travel services (a reflection of international trade situation and despite the depreciation of the rupee) and financial services; low growth for computer software services but good growth for other business services (Table 2). In the first half of 2013-14, there is pickup in growth of travel services (4.8 per cent), robust growth in financial services (34.3 per cent) and construction (37.2 per cent), continuation of low growth in computer services (5.6 per cent) and negative growth in other business services (-0.1 per cent).

FDI IN SERVICES SECTOR:

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

Table 1: Services Attracting Highest FDI Equity Inflows (in US $ million)

Ranks	**Sector**	**2010-11**	**2011-12**	**2012-13**	**Cumulative (Apr. 2000-Aug 2013)**	**Percentage to total**	**Growth Rate**	
							2011-12	**2012-13**
1	**Services sector**	3,296	5,216	4,833	38,430	19.0	58.3	-7.3
2	**Construction**	1,655	3,141	1,332	22,672	11.2	89.8	-57.6
3	**Telecommunications**	1,665	1,997	304	12,879	6.4	19.9	-84.8
4	**Computer Services**	780	796	486	11,943	5.9	2.1	-38.9
5	**Hotel & Tourism**	308	993	3,259	6,790	3.4	222.4	228.2
	Top five services	**7,704**	**12,143**	**10,214**	**92,714**	**46.0**	**57.6**	**-15.9**
	Total FDI inflows	**34847**	**46553**	**36,860**	201,743	**100**	**33.6**	**-20.8**

Source: Based on FDI statistics of DIPP.

Table 2: Growth Rate of India's Services Trade

	Value ($ millions)	Growth Rate (Per cent)					
	2012-13	**2010-11**	**2011-12**	**2013-14**	**Q1 2013-14**	**Q2 2012-13**	**H1 2010-11**
Total Services Exports	**145,677**	**30.2**	**13.1**	**3.4**	**2.1**	**4.7**	**3.4**
Transport	17,334	27.8	27.7	-5.1	-2.7	-1.6	-2.1
Travel	17,999	33.2	16.9	-2.5	9.1	0.9	4.8
Construction	1,004	20.8	18.8	24.9	61.5	15.8	37.2
Insurance and pension services	2,227	22.3	35.3	-15.4	-5.5	-1.9	-3.7
Financial services	4,949	76.3	-8.3	-17.1	37.7	31.1	34.3
Telecommunications, computer, and information services	67,785	6.4	15.9	6.0	6.6	6.3	6.4
Telecommunications services	1,686	-17.1	9.4	2.0	51.5	26.4	38.4
Computer services	65,867	6.8	17.2	5.9	5.5	5.7	5.6
Information services	232	72.4	-82.5	118.6	-34.0	65.0	8.1
Other business services	28,447	102.1	7.6	15.8	-4.6	4.6	-0.1
Total Services Import	**80,763**	**35.3**	**-4.5**	**5.0**	**-5.5**	**-2.1**	**-3.9**
Transport	14,806	15.9	18.0	-10.0	1.1	-16.5	-8.3
Travel	11,823	18.0	24.8	-14.1	-3.3	3.7	0.2
Construction	1,220	16.0	-13.1	21.3	32.7	14.4	23.6
Insurance and pension services	1,409	8.9	7.0	-5.9	5.6	-6.3	-0.9
Financial services	4,633	61.2	6.7	-42.0	66.4	-6.6	34.6
Charges for the use of intellectual property nie	4,159	20.2	32.3	29.7	33.8	-41.8	-10.2
Telecommunications, computer, and information services	3,511	15.3	-13.1	7.8	8.6	19.8	14.1
Other business services	30,349	48.5	-4.4	19.2	-18.4	4.4	-8.1
Net Services	**64,915**	**21.8**	**45.3**	**1.4**	**12.6**	**12.5**	**12.6**

Source: computed from RBI data.

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

TRADE AND TOURISM SERVICES:

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

Trade: Indian retail trade is currently in a transformational stage. An expanding middle class, rising incomes and spending power, majority of youth in total population, rapid urbanization and several other factors have shaped India's consumption pattern. As per the industry estimates, Indian retail industry accounting for around 14-15 per cent of GDP, is estimated to be worth around US$ 500 billion currently. As per the estimates of the Department of Consumer Affairs, the domestic retail market is projected to be worth US$ 1.3 trillion by 2020. Future prospects pose a tremendous growth opportunity for retail players, domestic as well as foreign, with increasing popularity of businesses like online shopping and direct selling. McKinsey Global Institute predicted that India's consumer market would be worth US$ 1.5 trillion by 2025, surpassing Germany to become the fifth largest economy (behind the US, Japan, China and the UK) in the world. Home to one of the top five retail markets in the world, India offers immense scope of growth and opportunities in this area with almost 90 per cent of the Indian retail sector controlled by tiny family-run shops (i.e. the unorganized segment). The organized retailers have a lot of room for further penetration in this flourishing sector. After opening FDI in retail sector in September 2012, the retail landscape is expected to change rapidly.

Tourism : As per the industry estimates, the total market size of Indian tourism and hospitality sector stood at US$ 117.7 billion and is expected to touch US$ 418.9 billion by 2022. Tourism has been identified by the WTO and OECD, as one of the key five sectors with great potential for high impact in aid for trade. Global economic conditions have greatly affected India's tourism sector with both foreign tourist arrivals (FTAs) and foreign exchange earnings (FEEs) in dollar terms showing as sharp deceleration in 2012-13. During the first half (April to Sept) of FY 2013-14, while FEE in dollar terms has decelerated further to 1.2 per cent, foreign tourist arrivals have shown a slight pick up to 4.4 per cent (Table 3), indicating the growth in low-spending back-packers. The number of tourists availing the Visa on Arrival (VOA) scheme during January to August, 2013 has recorded a growth of 29.4 percent with a total number of 12,176 VOAs issued as compared to 9,412 VOAs during the corresponding period of 2012. With world tourist arrivals expected to increase by 43 million every year, on an average, from 2010 to 2030 and FTAs in emerging countries expected to grow faster than in advanced economies, a goldmine of an opportunity in tourism is available for India. The industry is likely to become more competitive due to the entry of additional international flight operators, which could offer improved services to tourists. Cruise shipping is one of the most dynamic and fastest growing components of the global leisure industry. India with a vast and beautiful coastline, virgin forests, and undisturbed idyllic islands could also be a fabulous tourist destination for cruise tourists.

Table 3: Growth Performance of Tourism Sector

Indicators	Value	Growth (Percentage)			
	2012-13	**2010-11**	**2011-12**	**2012-13**	**(April-Sept) H1 of 2013-14**
Foreign Tourists Arrivals (in lakhs)	66.94	10.0	9.7	2.9	4.4
Foreign Exchange Earnings (Rs Crore terms)	99,594	13.7	26.5	19.1	9.4
Foreign Exchange Earnings (US $ million terms)	18,319	17.9	19.5	5.6	1.2

Source: Based on Ministry of Tourism data.

REAL ESTATE SERVICES:

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

IT AND IT'eS SERVICES:

India's total IT industry's (including hardware) share in the global market stands at 7 per cent; in the IT segment the share is 4 per cent while in the ITeS space the share is 2 per cent. As per a report by Gartner, IT spending in India is projected to reach US$ 71.5 billion in 2013, an increase of 7.7 per cent as compared to US$ 66.4 billion projected for 2012.The enterprise software market in India is expected to reach US$ 3.92 billion in 2013, registering a growth of 13.9 per cent over 2012 revenue of US$ 3.45 billion. The IT- Business Process Management (BPM) sector remains the largest foreign exchange earning sector with the exports of this sector contributing 52.3 per cent to India's total services exports of US $ 145.68 billion in 2012-13. However, with the uncertain international economic conditions, the growth of IT-BPM service revenues (both software and hardware) decelerated from 14 percent in 2011-12 to an estimated 7.5 percent reaching US$108.4 billion in 2012-13 as per NASSCOM data (Table 4). The growth of software sector (with 87.7 percent share in IT-BPM services) decelerated from 15.0 percent in 2011-12 to 8.4 percent in 2012-13, with growth of domestic revenue of software decelerating from 9.7 percent to a 1.9 per cent and exports decelerating from 16.5 per cent to 10.2 per cent during these years. While as per NAASCOM, IT-BPM (Software) export growth is 10.2 per cent, the growth of computer services as per RBI was only 5.9 per cent as growth was very low in last two quarters of 2012-13. For 2013-14, NASSCOM has estimated a growth of 13-15 percent for total IT-BPM revenue, 12-14 percent for exports and 13-15 percent for domestic sector.

Table 4: IT-BPM: Annual Revenues

		Value (USD billion)				**Growth Rate**		
	2008-09	2009-10	2010-11	2011-12	2012-13E	2010-11	2011-12	2012-13E
Sector								
IT-BPM service Revenues	**69.3**	**74.2**	**88.5**	**100.9**	**108.4**	**19.3**	**14.0**	**7.5**
Software	**59.9**	**64.0**	**76.3**	**87.7**	**95.2**	19.2	15.0	8.4
Exports	47.1	49.7	59.0	68.8	75.8	18.8	16.5	10.2
Domestic	12.8	14.3	17.3	19.0	19.3	20.6	9.7	1.9
Non-software (Hardware)	**9.4**	**10.1**	**12.1**	**13.1**	**13.3**	**19.6**	**8.2**	**1.3**
Exports	0.4	0.4	0.4	0.4	0.4	0.0	5.0	0.0
Domestic	9.0	9.7	11.7	12.7	12.9	20.4	8.3	1.3

Source: NASSCOM.

ENGINEERING AND CONSULTANCY SERVICES:

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

RESEARCH AND DEVELOPMENT (R & D) SERVICES:

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

HEALTH CARE SERVICES:

The Indian healthcare industry, which comprises hospitals, medical infrastructure, medical devices, clinical trials, outsourcing, telemedicine, health insurance and medical equipment, is expected to reach US$ 160 billion by 2017. On the back of continuously rising demand, the hospital services industry is expected to be worth US$ 81.2 billion by 2015 as per industry estimates. The Indian hospital services sector generated revenue of over US$ 45 billion in 2012. This revenue is expected to increase at a compound annual growth rate (CAGR) of 20 per cent during 2012-2017, according to a business research and consultancy firm RNCOS report titled, 'Indian Medical Device Market Outlook to 2017'. The hospital and diagnostics centre sector in India received foreign direct investment (FDI) worth US$ 2.02 billion, while'drugs & pharmaceuticals' and 'medical & surgical appliances' industry received FDI of US$ 11.39 billion and US$ 717.61 million, respectively during April 2000 to August 2013.

BANKING AND FINANCIAL SERVICES:

India's Rs 77 trillion (US$ 1.25 trillion)-banking industry is the backbone of the economy. The sector remained strong even after the global financial crises and which shook most of the developed economies. Indian banking sector is expected to become fifth largest in the world by 2020 as per the report prepared by KPMG in association with the Confederation of Indian Industry (CII). Bank credit is expected to grow at a compounded annual growth rate (CAGR) of 17 per cent in the medium term, eventually leading to higher credit penetration in the economy.

A robust insurance sector is a boon to a country's economy. Industry body CII projects the growth rate for Indian insurance industry in 2013-14 at around 5 per cent. It also projects that 60 per cent of non-life insurance companies would record an average growth of more than 10 per cent. Increasing the FDI limit from 26 per cent to 49 per cent in the sector is being viewed as a major factor to push the insurance density in India. The Insurance Regulatory and Development Authority (IRDA) estimated that the insurance business in India would touch Rs 4 lakh crore (US$ 65.32 billion) by the end of 2013-14.

SECTOR SPECIFIC POLICY ISSUES:

1) **Aviation Sector:** The services for MRO (Maintenance, Repairing and Overhauls) is one of the big ticket areas, but there are difficulties due to high duty structure on imported spare parts and MRO services are less competitive in India. As a result most of India's aircraft go to Dubai, Singapore and Malaysia for repairs and maintenance. There is also competition from other countries like China and Brazil. Recently, the MRO service in aviation sector has been granted infrastructure status, which is likely to boost these services.

2) **Tourism & Hospitality Services:** This sector is a goldmine of opportunity which has not really been tapped. If tapped well, it can lead to higher and inclusive growth. India's share in world tourists inflows was only 0.64% in 2011 (rank 38), while that of USA was 11.3% and of China 4.7%. Interestingly, the share in world tourism expenditure of India is relatively higher at 1.61% (rank 17) implying that foreign tourists spend relatively more in India. Singapore, a small country currently attracts 6 million tourists and has a fixed target of 10 million in a year. But a large country like India attracted only 6.7 million foreign tourists during 2012-13. Better Tourism Infrastructure even by PPP mode and addressing issues like high luxury tax on hotels by States is necessary. Even the MGNREGA scheme can be used for developing permanent assets like Tourism Infrastructure. Medical tourism is an important area where India needs to use its full potential as it has a comparative cost advantage of low medical treatment. Even if travel costs are included, medical treatment in India is much cheaper and super specialty medical services are of international standards. Even tier II cities cater to these services.
3) **Telecom Sector:** Telecom sector was considered as the second sun-rise services sector of India after software. However, the recent controversies related to this sector have taken away the issues on Telecom sector such as spectrum reforms in terms of method of allocation, auction, linking the reserve price to economic downturn, trading and sharing of spectrum, unutilized spectrum and unified licensing, etc need to be addressed and the road map on Spectrum needs to be laid down. The fundamental resource for mobile telecommunication is radio frequency spectrum which is a limited natural resource.
4) **IT and ITeS sector**: Computer and software services constitute three different sectors or segments of business which should ideally be broken into three different sectors for policy announcements and also for measuring and reporting exports. These sectors are: (1) IT Services (2) BPO and (3) Software products. Currently all the above are clubbed into one single bucket termed as software exports, though they have distinct characteristics which need to be differentiated.
5) **Engineering, Consultancy Services and Construction:** Engineering consultancy and Management consultancy have huge potential. However there is no national register of consultants and no single nodal organization for this purpose. These issues need to be addressed. Many countries have well developed accreditation mechanism for consultants and incentives are provided on this basis. However, in India accreditation has started, but is in a nascent stage. Export of consulting services need to have a very well developed accreditation system.
6) **Research and Development**: It is a fact that today countries who lead in Research & Innovation are leading economically. In India, tens of thousands of rupees are spent every year on public research, be it ICAR, CSIR, BARC, Defense. However, most of the research is found to be ending in publishing of 'Research Papers' in Journals or Obtaining Patents and not even 1 per cent of the research is commercialized to reach the masses. So, greater attention should be given for innovation and research which is implementable and put to practical use.
7) **Health Care Services:** The main problem in healthcare is due to many governments/ institutions being involved with the responsibilities divided between centre and states. There is also a need to get international accreditation system for Indian institutions along with national standardized accreditation system. Telemedicine has good scope in India, but there is shortage of manpower which needs to be addressed.
8) **Port and Shipping Services:** While there is the issue of the Indian ports not having the necessary depth or draft, there are also issues like the many port charges in India and the port charges in India being considerably higher than in many developed countries. The share of Indian ships in the carriage of India's overseas cargo fell sharply from about 40% in the late 1980s to 10.4% in 2011-12 with 17.05% share in India's oil imports. Meanwhile Indian ships are ageing with the average age of the Indian fleet increasing from 15 years in 1999 to 16.83 years as on 31 December 2012 (with 41.59 per cent of the fleet over 20 years and 11 per cent in the age group 16-20 years). This needs to be addressed urgently. Due to the global slowdown, prices of ships are the lowest and this is possibly an opportune time to increase our shipping fleet.
9) **New emerging services like Geriatric Care Services:** India with the second largest aged population in the world has been ranked 73rd (out of 91 countries) amongst the poorest of nations to grow old in global watch index (GAWI), developed by UN Fund for Population and Development. India's ranking

is low compared to neighbouring Sri Lanka that has been ranked 36th while Nepal (77), Pakistan (89) and Afghanistan (91) score even worse. The ageing index, calculated using 13 indicators under four domains namely income security, healthcare, employment and education and enabling environment, ranks Sweden as the best country to grow old followed by Norway, Germany, Netherlands and Canada while the US languishes at eight place. As per this report, India fares poorly in almost all four domains as health status ranking (85), employment and education (73), enabling environment (72) and income security (54). Some issues in this sector which need to be addressed as follows:
1) There is a growing demand for houses for the senior citizen as only 5 per cent of the senior citizens have access to housing facilities. Senior citizens are also required to pay service tax for these homes. Removal of service tax imposed on senior citizens for these homes could be considered. There is also vast scope for providing retirement/ senior citizens homes for the foreigners. Currently, FEMA rules do not permit investment of foreigners in real estate, unless they get RBI approval. Accordingly, the FEMA Act needs to be amended to at least facilitate foreigners to invest in such retirement housing facilities. This could also help India to earn more foreign exchange. 2) There is lack of facilities of training personnel in caring senior citizens who need special assistance due to age and or either temporary or permanent disability. This needs to be addressed.

10) Financial Sector: The predominance of government ownership in the banking sector is considered to have led to insufficient competition in the Indian banking system. Recently the RBI has allowed the opening of new private banks. The Indian public sector banks are also saddled with excessive labour and higher nonperforming assets (NPAs) relative to both new private sector banks and foreign banks. Increasing NPAs in banking sector during Q1 of 2013-14 is a major concern. In Insurance sector, besides the FDI issue there are issues like the minimum capitalization norms.

11) Education and Skill Development: Education comes under the concurrent list with multiple controls and regulations by central and state governments and statutory bodies. There is a need to focus more on Skill Development to reap the demographic dividend. As per National Skill Development Corporation (NSDC) 2005, 500 million skilled laborers are required. Speedier implementation of Skill Development policy is needed and training in new areas of skill like telemedicine’s should also impart. Bilateral skill deals with countries like Singapore could also be thought of.

12) Trade and Transport Services: The issues are related to opening retail trade to FDI, while there is a large unorganized sector with low tax compliance. Now FDI in retail has been opened up. FDI in retail can be the mechanism to ease the issues associated both with marketing and procuring agricultural sector items. Some issues in the context of retail outlets are the following:

- Low sales per outlet (Rs 1000 – 1200 per day Rural and Rs 7000 – Rs 8000 per day Urban)
- Low productivity of Labor (6% of USA levels)
- Long Supply chain (5 to 6 intermediaries vs. 2-3 in USA/Europe)
- Inefficient supply chain (Poor infrastructure – Roads, Storage etc and Low percentage of processed food)
- Over regulated industry (Antiquated APMC laws restricts farmers choice)
- Multiple taxes (State VAT, Central CST, Octroi, etc)
- Archaic labour laws (shift timings, holidays, contract labor issues etc)
- High Real estate costs (Cost of real estate in Cities is very high).

13) Accountancy services: FDI is also not allowed in this sector and foreign service providers are not allowed to undertake statutory audit of companies as per the provisions of the laws in India. There are also domestic regulations like prohibition on the use of individual logos for partnership and single proprietorship accounting firms. These regulations need to be relaxed and streamlined to facilitate tie-ups and penetrate foreign markets given the potential for exporting these services by the outsourcing mode.

14) Legal services: In legal services, FDI is not permitted and international law firms are not authorized to advertise and open offices in India. Foreign service providers can neither be appointed as partners nor sign legal documents and represent clients. Indian advocates are not permitted to enter into profit-sharing arrangements with persons other than Indian advocates.

CONCLUSION:

In the earlier section, an assorted list of issues, policies and domestic regulations which need to be addressed have been given. This is by no means an exhaustive list, but is only an indicative list. Removing some of the restrictions and addressing some of the policy issues mentioned in the earlier section could help in the growth of the different services. However, there is a need to carefully examine which are the domestic regulations that should continue for reasons like achieving the socials goals, which are the regulations which can be removed as a *quid pro quo* in WTO and bilateral negotiations and which are the regulations that can be removed voluntarily to facilitate growth and trade in services. A targeted approach with focus on big ticket services could lead to exponential gains for services sector and for the economy.

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