BLOCK 4
SERVICE SECTOR

BLOCK 4 SERVICE SECTOR

Block 4 of this course is on 'Service Sector' in India. It covers two broad areas viz. (i) Features of Service Sector and (ii) Policy Issues for Service Sector. The two areas are covered in Units 11 and 12 respectively.

Unit 11, on '**Features of Service Sector**', begins with an outline of the share of India's service sector in the GDP. It then presents the growth profile of the sector. The three constituent sub-sectors of the larger service sector [viz. (i) trade and transport, (ii) finance, real estate and business and (iii) public administration, defence and other services] are explained. The unit concludes with an account on the 'informal services sector' in India.

Unit 12 is on '**Policy Issues for Service Sector**'. The issues of policies for service sector are explained under four heads viz. (i) FDI, (ii) disinvestment, (iii) tariff and taxes and (iv) sector specific issues. Recent measures on domestic regulations, in terms of impact of policies and constraints, is discussed next. The unit concludes with an account on the 'prospects and opportunities' for the export of services.

UNIT 11 FEATURES OF SERVICE SECTOR*

Structure

11.0 OBJECTIVES

After reading this unit, you will be able to:

- delineate the constituents of the 'services sector';
- outline the two basic features of 'services sector';
- discuss the trend in the sectoral share of GDP over the period 1950-2014 in India;
- compare the recent (2013-17) growth profile of services sector with that of agricultural and industrial sectors;
- explain the features of major constituent sub-sectors of the broad services sector in India ;
- write a note on 'informal services sector'; and
- present an international profile of employment-GVA shares of services sector with its implications for policy challenges in India.

11.1 INTRODUCTION

No industry can be set up in an area where roads/banks are not available. A product purchased cannot be used well if its after sale service is not

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guaranteed. Some Services or the other is thus inevitably required to support the two principal sectors of the economy viz. agriculture and industries. On the basis of total range of economic activities, therefore, the economy is classified into three sectors viz. the primary sector, the secondary sector and the tertiary or the 'services sector'. The 'primary sector' refers to those activities which are based on the products derived from natural resources like agriculture, mining, forestry, fishery and other products which are directly derived from nature. The 'secondary sector' produces finished goods by infusing a value addition to the products of primary sector used as raw material. The secondary sector requires the use of heavy machinery to process/manufacture different goods. The third leading sector of the economy is the 'services sector' which does not produce any tangible goods, but performs crucial services or actions that cannot be seen, felt, tasted or touched as objects or goods. It comprises different industries like warehousing, transportation, information, investment, banking, insurance, etc. The sector is also known as tertiary sector as it is the third tier in the three sector classificatory framework of an economy. Since it supports other sectors, it is important for an economy to develop this sector. The range and responsibility of this sector is much widespread as services touch the lives of every person, every day be it in the field of food services, communications, travel, amusement parks or critical service required for human development viz. education and health services. The process of human capital formation made by the latter two sectors (which together constitute the 'social sector') is going to determine the real output of the other two sectors viz. the primary and the industries sector. Schools, colleges, hospitals, skill development centres all come under this sector. Services are needed both for the corporate as well as the household sector. With this background, let us now proceed to know in more detail about the 'concept and scope' of 'services sector'.

11.2 CONCEPT AND SCOPE

Service industry or 'services sector' is made up of entities that earn their revenue through selling products or offering services. It comprises retail, transportation, distribution, etc. crucially needed for industrial development. It includes services of sectors engaged in the task of converting human beings into 'human capital'. The sector is largely a non-commodity producing sector different from the primary and the secondary sectors. The basic characteristic of services sector is 'non-transferability' which means the services are produced either for a particular person or for a group of people. For instance, banking service is produced either for an individual person or for a particular firm. A bank operates for a number of persons but the services provided for each individual is exclusive to each other. Hence, services rendered for each individual is a customised service which cannot be transferred by the recipient to any other person. The characteristic of non-transferability can be seen in other sectors like health and education. One cannot transfer the benefits of health and education acquired by an individual to others as they need to be acquired by each individual independently. We can relate the characteristic of non-transferability of the other services sectors like transportation, communication, etc. in a similar manner. Implication of this feature (non-transferability) of services sector is heterogeneity. This means that services are produced differently for different persons/firms or services cannot be produced in a bulk to be distributed evenly for all.

Another feature of services sector is 'non-storability'. This means these services cannot be stored for future use. Unlike in the manufacturing sector where stocks are maintained to meet unexpected future demand, services cannot be stored to meet future needs. For instance, consultations of a doctor can vary from disease to disease and from individual to individual. The nature of consultancy may depend on the skill or competency of a doctor and on health parameters of an individual. The same medicine can be reactive for same disease in different individuals. This is the reason that skilled manpower is the basic requirement for the development of services sector. However, recent developments in communication technology is a boost to the growth potential of services sector as services can now be provided to people located in distant locations. A doctor can give his consultation by interacting with his patient over video-call or a charted accountant can give his advice to his clients in a similar manner. The services sector can thus extend its services beyond the national boundaries. There is not only a growing market for services but there is an increasing dominance of services in economies worldwide. The tremendous growth and economic contribution of the services sector have drawn increasing attention to the issues and problems of the services sector industries. With globalisation, the services sector has emerged with a diverse approach with the service organisations ranging in their size and operations [from huge international corporations (e.g. airlines, banking, insurance, telecommunications, hotels, freight transportation) to a vast array of locally owned and operated small businesses like restaurants, laundries, taxis, etc.].

11.2.1 Share in GDP

At the time of independence, the share of services sector in the GDP of India was less than 30 percent (Table 11.1). Over the next 30 years, it increased gradually to touch 40 percent by 1980. As a newly independent country, India was predominantly agrarian. Hence, the share of agriculture in GDP was also the highest (more than 50 percent in 1950). Over the years, in its share in India's GDP has come down by more than 30 percent (16 percent in 2019). The corresponding share of industry has increased from about 15 percent in 1950 to about 30 percent in 2019. Presently, the share of services sector is the highest among all the three sectors of the economy (54.3 percent in 2019). In other words, the primacy of place occupied by agriculture in 1950 is since replaced by the services sector. But this is only about the GDP share but not the employment share (in employment agriculture's share has come down from 70+ percent at the time of independence to 43 percent in

2019 whereas services sector's has increased from about 15 percent to 32 percent).

Table 11.1: Sectoral Share in GDP (%) – 1950-2019

Sector	**1950**	**1960**	**1970**	**1980**	**1990**	**2000**	**2014**	**2017**	**2019**
Agriculture	55.3	47.6	42.8	37.3	30.9	21.8	20.7	18.2	16.1
Industry	14.8	19.6	21.3	22.3	23.3	24.5	28.3	28.4	29.6
Services	29.8	32.8	35.9	40.3	45.7	53.7	51.1	53.3	54.3

Source: National Income Accounts.

Note: Base for 2014-19 is 2011-12 prices and for previous years it is at 2004-05 prices.

11.2.2 Growth Profile

In terms of inter-sectoral growth (Table 11.2) particularly in the more recent years (2013-19), both agriculture and industry have doubled their growth (agriculture from 1.4 percent in 2012-13 to 2.7 percent in 2018-19 and industries from 3.6 percent to 7.5 percent). The intervening year of 2015-16 was marked by a higher growth rate for both the industries and the services (the former by 9.5 percent and the latter by 9 percent). This shows that the two years of 2016-17 and 2017-18 were unfavourable for the performance of both these sectors in general. Two major factors identified by several studies for this slowdown are the effect of demonetisation and implementation issues of GST. The low per-capita income in Indian agriculture, owing to higher share in employment but declining share in GDP, has compelled people to look for alternative avenues of employment in the non-farm sector in general. With the efforts of government on education and training of the masses, and policies pursued to promote non-farm activities, the workforce has shifted from agriculture to non-agricultural occupations. There is a decline of 17 percent employment in agriculture over 2000-2019 (from 60 percent in 2000 to 43 percent in 2019). This decline is almost equally absorbed by the other two principal sectors i.e. 8.5 percent by industries and 8.2 percent by services (vide Table 3.4, Unit 3, Course BECE 145).

Table 11.2: Growth Rate (%) of Principal Sectors in India

Sector /Year	**2012-13**	**2015-16**	**2018-19 (PE)**
Agriculture	1.4	2.1	2.7
Industries	3.6	9.5	7.5
Services	7.9	9.0	7.6
GVA (%)	**5.4**	**8.0**	**6.6**

Source: Economic Survey 2019-20, Vol. 2, Table 1.5 B, page A 13.

Note: PE = Provisional Estimates.

Factors Contributing to Services Sectors' Performance and Continued Issues Associated with the Sector: Ever since the introduction of new economic reforms in 1991, the services sector has experienced a stimulus for its growth. This is on account of policy impact like increased privatisation, removal of FDI restrictions and streamlining of the approval procedures. These reforms gave new opportunity to the services sector to work in the globalised world. The international exposure became an important factor to contribute for the growth of the services sector in India. Technological progress has also made its contribution in this regard. Thus, availability of skilled manpower, coupled in particular with the developments in communications sector, contributed to India's taking advantage of outsourced services from the developed to the developing countries. In other words, India could offer comparative advantage in terms of wages and skilled manpower. The growth of India's services sector, its rising contribution to GDP and its increasing share in trade and investment are thus the principal reasons why, unlike other countries where economic growth led to a shift from agriculture to industries, the structural shift in India took place straightaway from agriculture to the services sector. This is despite the fact that our educational standards had been producing school leavers, under graduates and higher level professionals at a sub-optimal (called non-employable) level. This recognition, revealed from many surveys and reports, led to focused measures of reform being taken in the education sector in India. As a result, as per the India Skills Report of 2019, the all India level employability of B. Tech. and B. E. graduates has improved to 63 percent in 2018 from its level of 42 percent in 2017. Similar improvements have been there in other professional programmes like MBA. Among other factors, initiatives introduced in providing market driven training programmes have contributed to this shift. An internship linked certification of graduates from these programmes has been identified as being at the core of this structural change.

Check Your Progress 1 [answer within the space given in about 50-100 words]

1) State the two basic characteristics of the 'services sector'. Which of these two characteristics imply heterogeneity in services produced and why?

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2) Due to the very nature of services sector, which particular factor is more crucial for its development? And what changes have come about in this respect recently?

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3) In comparison to 'industries', how would you rate the growth of services sector over a long term time frame?

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4) What factors have contributed to the surging ahead of services sector particularly in the post-reform years of 1990s?

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5) What factors have contributed to higher growth by some constituent sub-sectors of services sector than some other constituent sectors of services in India?

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6) What does the short term more recent growth trend of major sectors in India reveal?

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11.3 CONSTITUENT SUB-SECTORS

The services sector comprise of sub-sectors like: (i) trade, hotels and restaurants; (ii) transport, storage and communication; (iii) financial, real estate and business services; and (iv) public administration, defence, law and order and judiciary; etc. A more popular term 'trade in services' has recently entered literature in the context of WTO. Let us first know more about the important sub-sectors of services sector first.

11.3.1 Trade and Transport Services

Trade refers to sale and delivery of products or service. When such trade is based in different countries it becomes 'international trade in services' which mainly constitutes ICT (Information and Communication Technology) services. ICT services have increased Indian exports many fold providing an increase in India's trade surplus. Service exports have contributed to inclusive economic growth by increasing the number of well-paid jobs and by reallocating labour to high-productivity sectors. They have also increased tax revenues of the government which enables government to spend more on development works. This has also stimulated domestic demand for goods and infrastructure owing to increased per-capita income of workers in such services. An important sub-category of trade is the 'transport sector'. This sector comprises of roadways, ports, highways, rail and aviation. Transport services have domestic as well as international demand. Aviation sector has good potential under the new FDI norms in India for boosting the growth of 'tourism sector'. Hotels and restaurants are another major sub-sector linked to the 'tourism sector'. All these sub-sectors of the larger 'services sector' have one thing in common i.e. they have immense potential for innovation and growth.

11.3.2 Financial, Real Estate and Business Services

The financial sector constitutes the banking sector, stock exchange and insurance sector. Since the year 2001, the banking sector has grown at a compound rate (i.e. average annual compound rate) of 10-12 percent per annum. In particular, the 'mutual funds' segment of this sector has yielded a return of 9 to 12 percent over the period 2016-18. India's life insurance business ranks fifth among the largest global markets with a growth rate of more than 20 percent. The non-life insurance sector (e.g. automobiles) has grown at 15 percent. The insurance sector was opened up for private investment in 2016 and the market has become competitive with the entry of global players. This has contributed to strengthening its risk management capability. With ever growing demand for housing and commercial space, stimulated by rapid urbanisation, the Indian real estate sector has become one of the fastest growing sectors of the emerging markets. It has attracted significant participation of foreign investors. Another major sub-sector is the 'business and professional services' which includes computers, research and development (R&D), accounting and legal services. This sector too has both international and domestic demand. The share of business services in India's GDP has registered a combined growth rate of 13.5 percent in 2011-12. Among business services, R & D occupies the second position in India's GDP with growth being consistently high (around 20 percent). India has competitive advantage in R&D with active involvement of both public and private sectors.

11.3.3 Public Administration, Defence and Other Services

In modern democracies, public services are undertaken by civil servants and are motivated by the demand for services of the growing society. National defence is one such service which requires huge public expenditure. In 2013, India has approved an increase in FDI limits of defence sector for the first time. Since then there is remarkable growth in this subsector. In 2017, the annual real GVA in public administration and defence services sector was 11.3 percent of GDP. This was 6.9 percent in 2016. The sub-sector of 'public administration' is a stagnant sector with its average growth rate on the sector having remained more or less the same since the 1980s. This means the above increase from 6.9 percent to 11.3 percent (in just one year) is entirely due to the defence sector increase. The composition of these three sectors in the overall GVA (i.e. considering their total GVA as 100 percent) is: trade, hotels, transportation and communications (47 percent), financing, insurance, real estate and business services (27 percent) and personal services (26 percent). If we consider the share of these three sub-sectors in the total economy's GVA (i.e. by taking primary + secondary + tertiary as 100 percent), their respective percentage shares in 2017 is: trade, hotels, etc. (7.3 percent), financial, real estate, etc. (6.5 percent) and public administration, defence, etc. (11.2 percent). In other words, in 2017, the three sectors together accounted for 25 percent of GVA to the country. Note that here we are talking of GVA which is 'value of output minus value of input' whereas when we talk of 58 percent share of services sector to GDP we are considering only the 'value of output'.

As said earlier, in the context of WTO, the term 'trade in services' refers to the 'Agreement on Trade in Services'. The Agreement defines the services in terms of four modes of supply. The first mode covers services supplied from one country to another (e.g. business processing outsourcing services). The second mode covers individual consumers or firms making use of some services in another country (e.g. international tourism). The third mode covers a foreign company setting up subsidiaries or branches to provide services in another country (e.g. a bank setting up a branch overseas). The forth mode covers individuals travelling from their country to supply services in another country (e.g. a consultant travelling abroad to provide an IT service).

11.4 INFORMAL SERVICES SECTOR

Formal (or organised) sector of economy is defined as those business entities which are governed by the rules and regulation of the government and pay taxes. Such rules relate to protecting the employees social security needs (e.g. minimum wages, paid holidays, health coverage, old age pension, etc.). There is a large segment outside this formal sector called the informal (or unorganised) sector which operates outside the government's rules and regulation and pay no taxes. Both in organised and the unorganised sector, every employee has different contract. For instance, in a private limited company some employees are the permanent staff while many others are daily wagers. The services of daily wagers can be terminated on any day and come under the informal sector of employment. Similar can be the case of small partnership firms where only few employees have formal terms of employment while most others would be informal employees. While formal employees have job security, medical facilities, social security (pension) provision from the employer, those working as informal employees do not enjoy such benefits.

Many people are compelled to work in this sector due to lack of training/formal education and opportunities. But the sector is important not only because it generates income-earning opportunities for a large number of people but also, in the process, contribute significantly to the GDP of the country. The sector thereby plays an important role in poverty alleviation. The National Commission for Enterprises in the Unorganised Sector (NCEUS) has defined the informal/unorganised sector as all unincorporated private enterprises owned by individuals or households engaged in the sale and production of goods and services operated on a proprietary or partnership basis and with less than ten workers including self-employed workers. Examples of such informal occupational services sector category include: midwives, domestic workers, fishermen, barbers, vegetable and fruit vendors, cobblers, news paper vendors, etc. Together, they constitute a large proportion of the total workforce employed in the country. Informal sector plays a significant role in both the rural as well as the urban economy. Among the segments providing their services to urban consumers we can identify occupational categories like: tailors, physically handicapped self employed persons, rickshaw pullers, auto drivers, carpenters, electricians, plumbers, tannery workers, etc. The composition of total employment (combined of all three sectors) in the organised vs unorganised sector in India was in the proportion of 13 : 87 in 2004-05. This position had changed to 17 : 83 in 2011-12 . This shows an increase in organised sector employment from 13 percent in 2004-05 to 17 per cent in 2011-12 with a corresponding decline in informal employment from 87 to 83 percent. The proportions indicated are as per the two NSSO rounds for 2005 and 2012. The corresponding change in the distribution of formal and informal workers in the services sector alone (between 2005 and 2012) was from 4.7 percent to 5.8 percent for formal workers and from 18.7 percent to 21.0 percent for informal workers. Thus, there is a marginal increase of formal employment (i.e. an increase of 1.1 percent) as compared to a far larger increase in the informal employment share (i.e. an increase of 2.3 percent). The results of NSSO surveys are often available with a substantial time lag and the proportions indicated are illustrative of the broad trend.

11.4.1 Intermediate Services Sector

Dynamic services sectors, such as engineering and research and development, have seen rapid productivity growth globally in recent years. Most of such services are helping the manufacturing sector and are thus part of final goods. In particular, research and development (R&D) helps contribute to develop new products as well as upgrade the existing ones. In this sense, R&D services contribute to cross-border services in and are intermediate services in nature. For instance, a mobile phone can be considered as trade in goods. It is a tangible good used by final consumers. But without the contribution from service industry, the mobile phone industry has no existence. We all have seen frequent changes in the models and features of mobile hand-sets. For their manufacturing, many components are supplied by tiny units employing less than 10 workers in the informal sector establishments. Once they are finally made, transport and logistics services help the products to reach their final destination. Modern day products are thus bundles of value added goods with contribution from many services sector enterprises and workers. There are some services which are directly consumed by final consumers but many services need not have the nature of a tangible product. They are in the nature of pre and after sale services.

11.4.2 Employment

Agriculture continues to be the predominant occupation for more than 45 percent of the total workers in India. A large section of them belong to the informal sector i.e. agricultural labour or belonging to the small and marginal farmer class. The employment share of the services sector is in the range of 25-30 percent (Table 11.3) in India. If we compare the trend of employment in services sector in India with that in other developed and developing countries, the share of employment in the services sector in India is observed to be the lowest. A noticeable trend in this regard is that there is a convergence in the share of GDP and employment in other countries but it is not so in India. India is thus a total outlier with its share of services sector's share in GDP being nearly two times that of its employment share (it having touched close to 58 percent for some years). This implies a far higher level of labour productivity in the services sector relative to that in the other two sectors i.e. the primary and the secondary sectors. While this by itself in not adverse, the indirect implication for increasing the productivity levels of primary and secondary sector activities gets underscored here. Some of the other implications are as follows.

Table 11.3: Inter-Country Profile (%) of Contribution of Services Sector in Gross Value Added and Employment

Country	GDP (2015)	Employment (2016)
India	53.2	28.6
China	49.7	42.4
Mexico	60.4	61.2
Brazil	72.0	68.9
United Kingdom	79.9	80.0
United states of America	79.3	80.0

Source: ILOSTAT database.

Owing to the services sector's six-plus percent annual growth rate over the last several decades, there is a continuous increase in the middle class segment (estimated to be about 200 million people) in India. This has been increasing the demand for semi-luxurious goods and educational services at primary, secondary and higher secondary levels. The implementation of the Goods and Services Tax (GST) is expected to create a common national market reducing the overall tax burden. This is expected to reduce costs in the long run resulting in reduction of prices of services. This is a favourable trend with multiplier benefits for growth and production of services sector. However, there are disparities in 'access to services' for large proportion of the poor in India who do not have access to basic services like health and education. This needs due policy attention on social sector expenditure and outcomes. The share of services sector in India's total trade is higher than the global average and India is figuring among the top 10 WTO member countries in services exports and imports. This calls for enhancing India's export competitiveness in services sector with appropriate strategies on the policy front.

Check Your Progress 2 [answer within the space given in about 50-100 words]

1) State the constituents of trade and transport sector.

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2) What are the constituents of 'financial sector'?

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3) Mention the sub-constituents of 'business and professional services'.

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4) What has been the extent of reduction in the proportion of informal sector workers in the Indian economy?

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5) What is meant by 'intermediate services sector'?

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6) What is a particularly noticeable trend in the employment structure of 'services sector' in India when viewed from an international perspective?

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7) What are the three major implications for policy in light of higher growth trends of 'services sector' in India?

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11.5 LET US SUM UP

The 'services sector' comprise of many sub-sectors of which the three major ones are: (i) trade, communications and transport; (ii) financial, real estate and business services; (iii) public administration and defence. Many of these sub-sectors have shown very good growth potential in recent years. Even as a whole, the services sector in India has maintained a consistent growth rate of 6.2 percent average over the last 7 decades. This has further steepened during the post 1990s and 2000s in which many of the sub-sectors have grown at rates in the range of 10-20 percent. As a result, the share of the services sector in India's GDP has touched 58 percent (for some years) from its share of 30 percent in 1950. Such huge growth potential needs harnessed by appropriate government policies and public expenditure. This requires expansion of infrastructure and social sector spending.

11.6 KEY WORDS

Gross Value addition : It is the measure of the value of final goods and services produced in an industry or sector of an economy.

Gross domestic Product (GDP) : It is a monetary measure of the market value of all the goods and services produced in a country during a financial year.

Foreign Direct Investment (FDI) : Refers to investment made by a firm or individual in one country in businesses located in another country generating physical asset.

11.7 SOME USEFUL BOOKS AND REFERENCES

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2) Kaushik Basu (ed), (2010). The Oxford Companion to Economics in India. Oxford University Press, New Delhi.

3) Ministry of Finance (2007). "Strategy for India's Services Sector: Broad Contours", Working Paper 1.

4) Bhagwati, Jagdish N. (1984). "Splintering and Disembodiment of Services and Developing Nations", The World Economy, Volume 7, Issue 2, pages 133–144, June 1984.

5) Hansda, S. K. (2001). "Sustainability of Services-led Growth: An Input-Output Analysis of Indian Economy", RBI Occasional Working Paper, Vol. 22, No. 1, 2 and 3.

11.8 ANSWERS/HINTS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

1) Non-transferability and non-storability. Non-transferability implies heterogeneity because it means each individual has to be serviced differently and not in a combined manner for a group.

2) Skilled manpower supply of a continuing nature is the most important factor. But due to technological advancement particularly in the ICT sector, national boundaries are proving no more barriers to services sector's expansion and growth.

3) Growth rate is calculated to the base. A low base helps achieve higher growth initially. The 0.4 percent increase is on a continually ever increasing size of GDP. The long term growth profile of industries and services, over the period 1951 to 2015, is close to each other (6.1 percent for industries and 6.2 percent for services). Despite this seemingly close growth rate, this is also indicative of a faster growth over higher bases by the services sector as opposed to relatively slower growth of industries over lower base values.

4) Privatisation, removal of FDI restrictions and streamlining of the approval procedures.

5) Technological progress and significant government expenditure.

6) That the 'services sector' has kept up its faster pace while there is improvement in the agricultural and the industries sector too.

Check Your Progress 2

1) ICT, road, rail, ports, highways, aviation, hotels and restaurants and tourism.

2) Banking, stock exchange and insurance.

3) Computers, research and development (R&D), accounting and legal services.

4) From about 90+ percent in the 1990s to about 47 percent in 2005.

5) They refer to services provided by tiny enterprises and are in the nature of pre and after sale services.

6) That there is no convergence between its share in employment and contribution to GDP. There is a huge divergence with employment being in the range of 25-30 percent and contribution to GDP from services being 58 percent.

7) Boost the productivity of primary and secondary sectors in order to reduce the inter-sector productivity levels, expand social sector spending so as to meet the demand for semi-luxury and educational services and adopt policies for reducing disparities in 'access to services' by large sections of poor and to enhance India's export competitiveness.

UNIT 12 POLICY ISSUES FOR SERVICE SECTOR*

Structure

12.0 OBJECTIVES

After reading this unit, you will be able to:

- indicate the significance of services sector for the Indian economy;
- state the different constituents (sub-sectors) of services sector;
- discuss some of the major areas in which policy initiatives are needed to be focused for the development of services sector in India;
- delineate the domestic regulations in place for the protection of the services sector in India;
- discuss the impact of recent domestic policies and continued constraints faced by services sector in India;
- present a profile of the important services exported by India; and
- outline the prospects of services sector expansion in India.

12.1 INTRODUCTION

The contribution of services sector to India's Gross Domestic Product (GDP) is significant. The sector has attracted significant foreign investment,

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contributed consistently more than 50 percent to the GDP of the country [since 1999-00 (at 2004-05 prices)] and significantly contributed to exports as well as provided large-scale employment. In 2016-17, the gross value added (GVA) from the services sector was 53.7 percent which was more than three times that of India's manufacturing sector (16.6 percent). The services sector covers a wide variety of activities (sub-sectors) like: (i) trade, hotels and restaurants, (ii) transport, storage and communication, (iii) financing, insurance, real estate and business services, (iv) community, social and personal services and (v) services associated with construction. In fact, services like: (i) IT/ITeS [information technology (IT) and IT enables services], (ii) logistics (including courier services), (iii) retail (including e-commerce and transport) services, (iv) financial services, (v) utilities (water, electricity and gas), (vi) telecommunications, engineering, architectural, accounting and legal services are critical components for the growth of the manufacturing sector. There is, however, a large unorganised sector with low tax compliance in the services sector in India. In such a context, policy formulation is a dynamic phenomenon which needs to evolve with the changing times. The present unit profiles the policies initiated in the recent past (two years prior to 2018) to reveal how the above constituents of the services sector have performed and what policy reorientation/thrust is required to enhance the growth of the services sector in India.

12.2 POLICY ISSUES

Policy issues for the promotion of the services sector include many areas like (i) foreign direct investment (FDI), (ii) disinvestment, (iii) tariff and taxes, and (iv) other sector-specific policy issues.

12.2.1 Foreign Direct Investment (FDI)

FDI takes place when an investor establishes foreign business operation or acquires foreign business assets (including establishment of ownership or controlling interest) in a foreign company. One of the recent (2016) important policy initiatives taken in the case of FDI in services sector in India relates to the opening of retail trade for single brand products subject to 51 percent share holding. However, along with allowing FDI in retail in a phased manner beginning first with metropolitan cities, the existing domestic small retail outlets needs to be incentivised to modernise so that they can compete effectively with the FDI supported branded outlets. Further, in the insurance sector, the government has not been able to raise the FDI share from the 26 percent level. Given the practical difficulty in raising FDI cap in the insurance sector as a whole, government is planning to open up at least some segments of the insurance sector like health insurance sector to help the development of specialised hospital services.

12.2.2 Disinvestment

Disinvestment is an action of an organisation or government towards selling its assets or subsidiary. In India, there is a 10 year disinvestment clause in the insurance sector. In the banking sector, foreign investment of 74 percent is allowed with licensing requirements. In case of telecommunications, 26 percent disinvestment is allowed while for air transport services, 49 percent FDI is allowed. Some other important corporations which are listed for disinvestment are: Shipping Corporation of India, Bharat Sanchar Nigam, Cochin Shipyard, Goa Shipyard, Indian Railway Catering and Tourism Corporation, National Film Development Corporation, etc. These disinvestments can not only yield sizeable revenue to the government but also make these corporations more efficient contributing to the growth process.

12.2.3 Tariff and Taxes

Tariff means tax on import by the Government. Many important tariff and tax related measures need to be addressed in order to make the Indian services more competitive. For instance, in shipping services, while trade has increased, nearly 50 percent of fleet has run out of their commercial life. In case of aviation industry, an import duty is levied for aircrafts parts imported and when the company sells those parts to an aircraft operator, a sales tax of around 10-13 percent is levied. Measures to rationalise such tariffs and taxes levied and help modernise the aviation and shipping industry to improve efficiency are required.

12.2.4 Sector Specific Issues

Specific sectors of the broader services sector requires specific policy initiatives. For instance, keeping in view the importance of telecom industry for overall development, government has reduced and simplified the tax structure for this industry. In particular, government has auctioned 3G technology to induce competition and make available high speed internet connectivity at affordable prices in the country. For the healthcare service providers, apart from national standardised accreditation, there is a need for international accreditation. Further, external assessment of healthcare services is being increasingly adopted to regulate, improve and promote healthcare services all over the world. International accreditation is a very important step to make the hospitals eligible for the coverage of their services with foreign insurers. In view of this, an increasing number of hospitals in India have turned to international accreditation agencies to standardise their protocols. Some of the recommendations of the Committee on financial sector reforms (Raghuram Rajan Committee) regarding Indian economy includes: recognising warehouse receipts as negotiable instruments for farmers to get credit, opening up investment in the government bond markets to foreign investors, liberalising the 'banking correspondent regulation' so that local agents can extend financial services, etc.

12.3 DOMESTIC REGULATIONS: IMPACT OF POLICIES AND CONSTRAINTS

Domestic regulations include: (i) licensing requirements and procedures, (ii) qualification requirements and (iii) technical standards. Since domestic regulations perform the role of tariffs in regulating services, we give here an account of the major domestic regulations in place for the services sector in India.

Transport Services: Restrictions are imposed on inter-state movement of goods and coordination issues between government departments. The latter is in the case of multimodal transportation which need changes in the Multimodal Transportation of Goods Act, 1993. There are also restrictions on free movement of cargo between Inland Container Depots (ICDs), Container Freight Stations (CFSs) and Ports.

Construction, Engineering and Related Services: There are restrictions on: (i) minimum capitalisation norms and (ii) repatriation and minimum area norms. There is also a general umbrella (protection) clause imposed by state government, municipal or local body. This protects investments or commitments that the host country entered into with a foreign investment.

Restrictions Under the Urban Land Ceiling and Regulation Act: The Act restricts construction services firms in India to operate on small scale not allowing to exploit economies of scale.

Healthcare Services: There are restrictions on foreigners providing healthcare services. While there is no cap on FDI in health services, foreign individuals are prohibited from providing services for profit and their operation is subject to registration by Medical/Dental/Nursing councils of India.

Accountancy Services: Besides FDI not being allowed in this sector, foreign service providers are not allowed to undertake statutory audit of companies. There is also a ban on the use of logos of accounting firms to facilitate tie-ups and penetrate foreign markets given the potential for exporting these in outsourcing mode.

Legal Services: FDI is not permitted in legal services and international law firms are not authorised to advertise and open offices in India. Foreign service providers can neither be appointed as partners nor sign legal documents and represent clients.

Education Services: Since education comes under the concurrent list in India, multiple controls and regulations are imposed by central and state governments and statutory bodies. There is a need for regulations with respect to establishment of new medical colleges and to review patient load factors to be in tune with the present day equipment-intensive-patient-care and modern practices and procedures of medical education/services.

12.3.1 Recent Measures and their Impact on Services Sector

Among the many initiatives taken by the government to promote the services sector in India, some of the recent measures include: (i) increase in SEIS (Service Export from India Scheme) incentives for notified services in business, legal, accounting, architectural, engineering, educational, hospital, hotels and restaurants; (ii) increase in the validity period of the 'duty credit scrips' from 18 months to 24 months to enhance their utility in the GST framework; (iii) reducing the GST rate for transfer/sale of scrips to zero from the earlier rate of 12 percent; and (iv) creating a new 'logistics division' in the department of commerce to develop and coordinate implementation of an action plan for the integrated development of the logistics sector.

Some other initiatives taken include: (i) digital India programme in the IT sector; (ii) 'adopt a heritage scheme' to promote world heritage sites in India, (iii) establishment of 'national medical and wellness tourism board' (NMWTB) to promote medical Tourism; (iv) easing procedural compliance for ship registration and measures to promote cruise shipping and coastal shipping; (v) launching of Pradhan Mantri Awas Yojana, smart cities mission and RERA to promote and regulate housing and real estate sector; (vi) extending lines of credit and buyer's credit under the national export insurance account; etc. Despite these well meaning initiatives, some of the other more recent policy measures, and some other factors, which adversely impacts the services sector's growth in India are the following.

Impact of Demonetisation: There was not much impact of demonetisation on tourism with the 'foreign exchange earnings' (FEE) increasing after demonetisation. Bank credit by commercial banks also increased after demonetisation but residential sales across top-eight cities in India (in 2016) and new residential unit launches fell. This was primarily due to the prolonged slump and execution delays in project completion which resulted in inventory pile-up across all cities. Demonetisation might have impacted the new launches and sales in the short term with several states recording drop in property registrations post-demonetisation. However, there was not much impact on property prices. There were also many positive impacts on services like greater digitisation, increase in payments to local bodies and discoms (as demonetised notes were legal tender for such payments for some time), net flows into mutual funds increasing by nearly 19 times due to reduction in interest rates on bank deposits after demonetisation and premia collected by life insurance corporation of India increased by 142 percent (in November 2016) and by private sector life insurance companies by nearly 50 percent due to the window provided for depositing old notes to make these payments for a short while.

Goods and Services Tax (GST) and Services: In the case of services, the GST rates are NIL for education and health services and 5 percent for transport of goods by rail and vessel. Only 4 service items are in the highest slab of 28 percent viz. (i) entertainment events or access to amusement facilities, (ii) cinematograph films, (iii) theme parks and joy rides and (iv) hotels having room tariff above Rs. 7500 per day per room. Subsequent amendments have offered relief to specific services which include reduction in tax rates on services related to job work (which will benefit many sectors like gems and jewellery) and exempting service enterprises with annual turnover of less than Rs. 2 million from the need to register even in cases where they are making inter-state supplies.

Services Trade Restrictiveness: OECD's 'services trade restrictiveness index' (STRI) helps to identify policy measures restricting trade. Among the 44 countries, India has a STRI score above average in all sectors and the highest in 3 services out of a total of 22 services. Accounting services, legal services and rail freight transport are the three sectors with the highest scores relative to the average. Three sectors with the lowest score relative to the average are: sound recording, engineering and broadcasting. STRI does not include 'tourism and real estate services'. STRI, however, creates concern since in the case of computer services, India's index is placed higher than UK and USA. There is thus a need for improvement in methodology, data collection and transparency in the STRI.

Market Access Barriers: There are many market access barriers in India's trading partner countries particularly the US. These include visa issues and restrictive regime in the case of shipping. For instance, in the shipping sector a minimum of 50 percent shipments needs to be made on US registered ships. Such market access restrictions hinder the performance of India's services sector and growth.

Free Trade Agreements (FTAs): India's FTAs have benefitted its trading partners more than India. The GSP (generalised system of preferences) benefits have been withdrawn for India (e.g. for medicine and diary products) but not for some of its competitors in important sectors. There is a need for more rational FTAs for promoting the services sector in India.

Employment in Services: India's services sector has a high share in income but relatively low share in employment, while in China, the shares of services income (46.4 percent in 2011) is low when compared to India while the share of services employment (35.7 percent in 2013) is high relative to India. While services like IT are skill oriented, services like Tourism are employment generators. There is a need for further efforts to enhance both unskilled/semiskilled employment and skilled and quality employment in services sector. The skill India initiative needs to be further dovetailed for services sector employment.

To conclude, therefore, a 'services from India' initiative on the lines of 'make in India' is needed to strengthen India's services sector domestically and also for exports. There is also a need to make the 'service export promotion council' (SEPC) more active with the networking of Indian missions abroad with the ITPO (India Trade Promotion Organisation).

Check Your Progress 1 [answer within the space given in about 50-100 words]

1) What is an important policy initiative of recent times to influence 'services sector' in India? What is a simultaneous need to be pursued as policy in this regard?

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2) How is disinvestment helpful for the growth of services sector in India?

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3) What role does domestic regulations play? In what forms do they exist in India?

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4) State two sectors in which FDI is not allowed and one sector in which FDI is allowed without restriction or cap (as of now) in India's services sector.

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5) What was the effect of demonetisation on the services sector in India? Were there any positive fallouts due to this measure?

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6) What is STRI and how is it useful? What is its drawback and what is needed to overcome this?

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12.4 EXPORT OF SERVICES

The services sector is an important contributor to Indian exports. India's share in global export of services was 3.2 percent (in 2014-15); nearly double that of its merchandise exports in the global merchandise exports (1.7 percent). This share, however, slid down to 1.7 percent in 2017. Despite these fluctuations in its global share, India is placed in eighth place amongst the top ten exporters of services in the world. The government provides fiscal incentives through 'services exports from India scheme' (SEIS). There are many services exported by India. Some of the important ones are outlined in this section.

Healthcare Services: Healthcare Services include hospital services and other health services viz. shipment of samples, diagnosis, clinical consultation via traditional mail channels, electronic delivery of health services (e.g. telemedicine, tele-surgery, tele-diagnostic services, medical back office services, medical transcription services and online medical education services), establishment of super specialty hospitals and clinics, diagnostic and treatment centre in collaboration with domestic and foreign health service providers, health insurance services and hospital management services, services of doctors, surgeons, nurses and mid-wives in foreign countries, etc. Service export promotion council's (SEPC's) mandate to promote the sector comprehensively includes services by nurses, physiotherapist and paramedical personnel. Presence of world class hospital and skilled medical professionals has strengthened India's position in the world medical service market. India's medical service exports earned 3.9 billion dollars in 2014 through medical tourism. In 2015, 320 million medical tourists came in India.

Legal Services: Broad definition of legal services include advisory and representation services as well as the activities relating to the administration of justice (judges, court clerks, public prosecutors, state advocates, etc.). According to the WTO's 'services sectoral classification list' (SSCL), legal services are included under 'professional services'. General Agreement of Trade in Services (GATS) mainly covers three modes of delivery of services in cross-border trade viz. (i) cross border supply of legal services using technology (e.g. an Indian law firm e-mails a memo to a client operating in USA), (ii) purchase of legal services in another country (e.g. an Indian legal firm represents an American client in an Indian court) and (iii) expansion of a legal firm or entry of law professionals into another country (e.g. an Indian law firm establishes an office in USA).

Lawyers supplying legal services abroad usually act as foreign legal consultants (FLC). FLCs may provide advice in international law, the law of their home country or in the law of any third country for which they possess the required qualifications. As a consequence of the growth in international trade and the emergence of new fields of practice, particularly in the area of business law, the legal services sector has experienced a steady and continuous growth in the past decades. Issues such as corporate restructuring, privatisation, cross-border mergers and acquisitions, intellectual property rights, new financial instruments, and competition law have recently generated an increasing demand for more sophisticated legal services. India's participation rate is very high in this area.

Accounting and Auditing Services: Accounting is defined as preparation and analysis of financial information (reported to internal and external users) via financial statements. Auditing is defined as the evaluation of the reliability and credibility of financial information and 'the systems and processes responsible for recording and summarising such information'.

Hotel and Tourism Services: Tourism and travel-related services include services provided by hotels and restaurants (including catering), travel agencies and tour operator services, tourist guide services and other related services. One of the crucial aspects of international tourism is the cross-border movement of consumers permitting even unskilled workers in remote areas to become service exporters (e.g. selling craft items, performing in cultural shows or working in a tourism lodge).

Environmental Services: Environmental services include sewage services, refuse disposal, sanitation and similar services, reducing vehicle emissions, noise abatement services, nature and landscape protection services, etc. Indian environmental service providers have emerged most significantly in two areas: first, environmental services in turnkey projects (e.g. integrated engineering services in energy equipment) and second, environmental support services like consulting, environmental impact assessment, auditing and training (including ISO 14001). India is exporting integrated environmental equipment and service to the middle east and African markets. India is also exporting environmental consultation service and training to OECD countries.

Audiovisual Services: Audiovisual services include motion picture and video tape production and distribution services, motion picture projection services, radio and television production/transmission services and sound recording. Some examples are cross border supply of entertainment services, expansion of local entertainment firm in another country, etc. India is the largest film producing country in the world, producing on an average 800 feature films and 900 short films in 52 different languages and dialects. The music industry is third largest in Asia and ranks nineteenth in the world. India is the third largest producer of original entertainment software. Our radio and terrestrial broadcasting network is one of the largest in the world.

Marine Transport Services: The three main areas covered in this sector include: access to and use of port facilities, auxiliary services and ocean transport.

To conclude, therefore, there is immense potential with significant export of services already taking places from all of the above sectors from India to other countries. Policies restricting mobility needs to be removed in order that export of services is enhanced.

12.4.1 Prospects and Opportunities

India's services sector has transformed the country, from an agrarian economy in the 1980s, to a services-driven economy known for consistent delivery of high-quality services the world over. In fact, service exports have been a dynamic element of India's foreign trade ever since the Indian economy opened its doors to the world in 1991. The fact that a large proportion of India's population are fairly conversant with the English language translates to having an edge in key service areas like outsourcing, banking and finance, hospitality, consultancy, etc. Further, the information technology boom combined with its inroads all over the world has had its ripple effect on trade in services.

India was not a signatory of GATS in its early years. It adopted trade in services only in its post-liberalisation phase. Service trade facilitation reform is a key factor affecting services export from India. Post the global crisis of 2008, due to matters related to visas and professional qualifications of service providers, India is facing problems in exporting services to the developed world. Well crafted FTAs in services will help relax such barriers. They could also push for easier visa regulation to aid mobility of professionals across borders. Following four major sectors can be identified to particularly benefit in this regard.

1) **Tourism:** Tourism is a major engine of economic growth, an important source of foreign exchange earnings and a generator of employment of diverse kinds in many countries. India offers a diverse portfolio of niche tourism products like cruises, adventure sports, medical, eco-tourism,

movies, rural and religious tourism, etc. India's tourism and travel sector is ranked 11th among 184 countries on the basis of its GDP contribution.

2) **Education service:** Another sector that holds tremendous potential is education services. Exports from this sector include offering academic courses in humanities, engineering and off-shore services in teaching. The rise in number of knowledge-centric organisations across the globe has resulted in an imminent need of better education for all. India is well-positioned to capitalise on this opportunity. We can take a leaf out of the US play book here. Students from Asia form the largest population of foreign students on campuses in most of US universities. This is despite the obnoxiously high tuition fees charged in these countries. Hence, India has the opportunity to offer itself as a high quality and affordable education hub under various modes of supply of services.

3) **IT Services:** India's technology and business services industry is one of the most dynamic in the world. From offering basic IT services in the 1990s, the industry has moved ahead to offer enterprise resource planning and productivity software in the early 2000s and to export further complicated business solutions in recent years. IT services has thus become a crucial component of the India's services exports.

4) **Transport Services:** Export of transport services constitute about 9 percent of India's total service exports. About 95 percent of India's trade by volume and 68 percent in terms of value are transported by sea. The existing Indian fleet is however ageing. There is an urgent need to increase India's shipping fleet.

Check Your Progress 2 [answer within the space given in about 50-100 words]

1) Where does India stand in 'export of services' in world ranking? What initiative has India taken to improve its position in this respect?

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2) State the important sectors from which 'export of services' are made from India.

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3) State the four modes of legal services covered/included under GATS for cross border service delivery.

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4) State the four potential sectors which offer opportunity to enhance export of services from India.

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12.5 LET US SUM UP

The services sector covers a wide variety of activities such as trade, hotel and restaurants, transport, storage and communication, financing, insurance, real estate, business services, etc. To promote the services sector, policy focus should centre around: increasing the FDI share, providing tax relief, tackling discriminatory market access, quality improvement and standardisation of services and domestic regulation and tariff mechanisms. India's share in global services exports stood at 3.2 per cent in 2014-15. Though this is double that of its merchandise exports (in the global merchandise exports), it is still low. Thus, although India is placed in the eighth place among the top ten exporters of service in the world, designing suitable policies to provide the required incentives to promote the growth of services sector in general, and the promotion of export of services in particular, remains the key challenge for the Indian government. The government has taken several initiatives to boost services exports from India. Some recent measures include the increase in SEIS (Service Export from India Scheme) incentives for notified services like business, legal, accounting, architectural, engineering, educational, hospital, hotels and restaurants, etc. Other steps taken on the policy front include: increasing the validity period of the duty credit scrips from 18 months to 24 months to enhance their utility in the GST framework, reducing the GST rate for transfer/sale of scrips to zero from the earlier rate of 12 percent, etc.

12.6 KEY WORDS

Goods and Service Taxes (GST) : Goods and Services Tax (GST) is a value-added tax levied on most goods and services sold for domestic consumption. GST is paid by consumers but it is remitted to the government by the businesses selling the goods and services. In effect, GST provides revenue for the government.

Make in India : This is a type of Swadeshi movement covering 25 sectors of the economy. It was launched in 2014 to encourage companies to manufacture their products in India and also increase their investment.

Free Trade Agreement (FTA) : FTAs are arrangements between two or more countries (or trading blocs) to reduce or eliminate customs tariff and non tariff barriers. FTAs, normally cover trade in goods (such as agricultural or industrial products) or trade in services (such as banking, construction, trading etc.). FTAs also cover other areas like intellectual property rights (IPRs), investment, government procurement and competition policy, etc.

General Agreement on Trade and Services (GATS) : It is a world trade agreement. It is the first multilateral agreement providing for legally enforceable rules. It covers all international trade services and investment in the services sector. Attached to its broad framework, there are annexes dealing with rules for specific sectors (e.g. movement of natural persons, air transport, financial services, telecommunications, etc.). The agreement also provides for exception to the principles of national treatment and most-favoured nation treatment.

12.7 SOME USEFUL BOOKS AND REFERENCES

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3) Sirari A S, and Bohra N S (2011). 'Foreign Direct Investment (FDI) in India's Service Sector: A Study of Post Liberalisation', *International Journal of Economic Research*, No. 2: 10-18.

4) Wu, Yanrui (2007). 'Service Sector Growth in China and India: A Comparison', *China: An International Journal* 5, No. 1: 137-154.

12.8 ANSWERS/HINTS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

1) The opening up of retail trade sector for single brand products to FDI is the recent initiative. However, since this would affect many local retailers, it is important to facilitate them to modernise.

2) Sectors like transportation, communications, entertainment are all important constituents of the services sector. There are major public sector corporations in these sub-sectors (e.g. SCI, BSNL, IRCTC, NFDC) which would benefit from disinvestment and FDI.

3) Domestic regulations perform the role of tariffs in regulating the services of the sectors. They exist by way of: (i) licensing and qualification requirements; and (ii) technical standards.

4) FDI as of now is not allowed in legal and accounting services. It is allowed in health sector without cap or ceiling.

5) It did not affect tourism sector, rather forex earnings increased. However, the real estate sector came under stress with sales declining and new residential launches not coming up. There was greater digitisation and payments to insurance premiums and discoms increased due to the window period provided for using old currency.

6) STRI is useful as an index of 'services trade restrictiveness'. It does not include tourism and real estate services and ranks India above US and UK in computer services making its methodology and accuracy doubtful. There is a need for improvement in methodology, data collection and transparency in the STRI.

Check Your Progress 2

1) In respect of 'export of services', in 2015-16, India had occupied 8th place in global ranking. The government provides fiscal incentives through 'services exports from India scheme' (SEIS).

2) Healthcare, legal, accounting and auditing, hotel and tourism, etc.

3) Supply of legal services through mails, sale/purchase of legal services for foreign clients in India, setting up of legal firms in foreign countries and mobility of legal professionals across borders.

4) Tourism, education, information and communication technology (ICT) and transport.

GLOSSARY

Affirmative Action	:	Are policies of the government aimed at helping the marginalised by special schemes to bring them to the mainstream. MGNREGA is an example of this.
Agrarian Relations	:	Relates to relationship between farmers and landlords on the terms on which land would be used for agricultural activities and how the wages or sharecropping practices would be paid/shared.
Autonomous Consumption	:	It is a part of private final consumption expenditure which does not depend on income level of consumer. In other words, it represents that level of consumption which will be consumed by consumer even if their income is zero.
Bills of Exchange	:	Are negotiable financial instruments like a bond or a promissory note. It is an unconditional written order, addressed and signed by one party assuring another party to whom it is addressed, to pay on demand immediately or at a fixed or at a determinable future time, a certain sum of money either to the specified person or to the bearer.
Capital Expenditure	:	It is expenditure by government to buy/create productive assets sustainable over long period of time.
Capital Output Ratio	:	Refers to the amount of capital required to produce one unit of output.
Competition Commission of India	:	A post-liberalisation institutional arrangement to foster healthy competitive environment for the industries by establishing a level playing field with transparent policies and practices and especially to curb anti-competitive practices.
Crop Insurance	:	An important policy instrument for farmers' welfare, particularly the small farmers, against market failure, technology failure and weather failure.
Currency Appreciation & Currency Depreciation	:	Currency appreciation and currency depreciation are foreign exchange market phenomena under the floating exchange rate system. When the value of one currency in terms of the other currency increases in the foreign exchange market it is called currency appreciation. When the value of one currency in terms of the other currency decreases in the foreign exchange market it is called currency depreciation.
Disinvestment	:	It is a process under which governments sell some part of their shareholding to private investors for the purpose of either raising revenue or minimising fiscal deficit.

Economic Recession : It is a stage of an economy in which economic activities slow down resulting in decline in growth rate and higher level of unemployment.

Exchange Rate : Exchange rate is the price of one currency expressed in terms of other currency. It is a relative price of currencies.

Fiscal Deficit : (Revenue expenditure + Capital expenditure) – (Revenue receipts + Recovery of loan + other capital receipts) i.e. expenditure minus revenue from capital receipts other than loans taken. In simpler terms, it is: Total Expenditure – Total Receipts (excluding borrowings).

Floating Exchange Rate : It is a system which allows the exchange rate to be determined completely by the forces of demand and supply in the market with central banks not intervening directly.

Foreign Direct Investment (FDI) : Refers to investment made by a firm or individual in one country in businesses located in another country generating physical asset.

Free Trade Agreement (FTA) : FTAs are arrangements between two or more countries (or trading blocs) to reduce or eliminate customs tariff and non tariff barriers. FTAs, normally cover trade in goods (such as agricultural or industrial products) or trade in services (such as banking, construction, trading etc.). FTAs also cover other areas like intellectual property rights (IPRs), investment, government procurement and competition policy, etc.

General Agreement on Trade and Services (GATS) : It is a world trade agreement. It is the first multilateral agreement providing for legally enforceable rules. It covers all international trade services and investment in the services sector. Attached to its broad framework, there are annexes dealing with rules for specific sectors (e.g. movement of natural persons, air transport, financial services, telecommunications, etc.). The agreement also provides for exception to the principles of national treatment and most-favoured nation treatment.

Goods and Service Taxes (GST) : Goods and Services Tax (GST) is a value-added tax levied on most goods and services sold for domestic consumption. GST is paid by consumers but it is remitted to the government by the businesses selling the goods and services. In effect, GST provides revenue for the government.

Government Bond : A bond is a financial instrument with a face value and a specified rate of return on it. These are issued only by the central government to borrow money from the financial market. Government bonds are also called sovereign bonds. They are always denominated in domestic currency like 'rupee bond'. The government does not ordinarily default on the bond but it can repudiate to pay back. When a government is likely to default on bond the situation is called as 'sovereign debt crisis'.

Government Securities : These are government debt instruments like bond and treasury bills. These are also called 'guilt edged securities' because they are risk free. They are issued by the RBI on behalf of the government to finance fiscal deficit. They are money market instruments to raise loans for the central government.

Green Revolution : Refers to the huge jump in production of food grains (wheat) because of adoption of scientific cultivation and use of high yielding variety of seeds, fertilisers, pesticides, etc. during the mid-1960s in India.

Gross Domestic Product (GDP) : Refers to the monetary value of all goods and services produced in domestic territory of a country during one financial year.

It is a monetary measure of the market value of all the goods and services produced in a country during a financial year.

Gross Fiscal Deficit (GFD) : This is the amount excess of total government's current and capital expenditure including loans (net of recovery over revenue) and external grants and non-debt receipts.

Gross Primary Fiscal deficit : This is: GFD – interest payment by government.

Gross Value Addition : It is the measure of the value of final goods and services produced in an industry or sector of an economy.

ICOR : ICOR is defined as the ratio between investment in time 't' and the growth in output over a period i.e. between time 't' and time 't–1'.

Industrial Policy Resolution : These are policy documents issued from time to time to streamline the growth of the Indian industries in a desired direction. The policies have aimed at developing a strong public sector base for capital goods production and encouraging the private sector to gain excellence in the consumer goods segment in the private sector.

Inflation : It is a sustained rise in the general price level in an economy over a period of time. Inflation debases the value of money i.e. it reduces the purchasing power of money. It means that same amount of money can now buy a lesser quantity of goods and services in the market than at an earlier point of time.

ISI : ISI is a trade and economic policy based on the premise that a developing country should attempt to substitute products it imports with domestically produced products.

IS-LM analysis : Developed by Hicks and Hansen, it is the synthesis of real sector and monetary sector in an economy. IS or investment-saving schedule is the locus of the different combinations of real interest rate and GDP at which goods market is in equilibrium. On the other hand, LM (liquidity preference and money supply) is the locus of various combinations of GDP and real interest rate at which money market is in equilibrium. So, IS-LM model combines goods market with money market simultaneously showing general equilibrium in the goods market and money market.

Make in India : This is a type of Swadeshi movement covering 25 sectors of the economy. It was launched in 2014 to encourage companies to manufacture their products in India and also increase their investment.

Managed Floating Exchange Rate : It is a combination of fixed and floating exchange rate systems. Under this, central banks allow the currency exchange rate to fluctuate within a predetermined band. Central banks frequently intervenes in the foreign exchange markets to stabilise exchange rate.

Migration of Labour : Movement of labour from one place to another for livelihood. If current place of residence is different from the place of birth, then it is called migration (Census).

MSMEs : A new nomenclature given to the earlier SSI sector in 2006 in which a new distinction of 'medium enterprises' is accorded. The idea behind this reclassification is to provide renewed comprehensive support for meeting all their needs, from credit to technological upgradation and marketing, thereby making them more competitive to graduate from the 'small sector' segment to the 'medium sector' segment.

Net Fiscal Deficit : Is the gross fiscal deficit minus net lending by the central government.

Organised Sector Refers to the sector in which employees of units/establishments are covered by laws of social security, conditions of work, payment norms, etc. Its opposite counterpart is the large unorganised sector where no such legal provision applies in the workers interest.

Price Stability : Refers to the absence of sustained fluctuations in the general price level in an economy. In other words, it is the absence of boom and recession.

Price Support : Refers to the policy instrument of MSP fixed by the government to ensure reasonable income to farmers.

Primary Deficit : It is the amount of fiscal deficit after deducting interest payment on government borrowings.

Productivity : Ratio of a measure of output to one or more inputs used in production. If only one input is used, the measure is called Partial Factor Productivity. If more than one inputs are considered then the measure is called as TFP.

Promissory Notes : A promissory note is a financial debt instrument in which one party promises in writing to pay the amount due to the other party at a predetermined future date or on demand under specified terms and conditions.

Real Sector and Monetary Sector : Real sector is that part of an economy where we study variables measured in physical quantities (e.g. agricultural/industrial production, GDP, capital stock, etc.). Monetary sector of an economy deals with variables expressed in terms of money (e.g. price level, exchange rate, interest rate, etc.).

Regionalism and Multilateralism : Regionalism is the process by which the actions of governments to facilitate trade on a regional basis is promoted. Multilateralism are agreements between a group of countries for deepening global trade. It is founded on the core principle of non-discrimination.

Revenue Deficit : This is equal to 'Total Revenue Expenditure – Total Revenue Receipts'.

Revenue Expenditure : Is the expenditure incurred for revenue transactions or for operational purposes like salary and wage, rent, etc.

SSI Sector : Consists of both registered and unregistered enterprises spanning over the traditional and modern units. A large part of the unregistered traditional sector, accounting for nearly 92 percent of total employment, belongs to the 'small and tiny' segment of the larger SSI sector. This segment functions mostly on family labour and are hence also called as OAEs (own account enterprises).

Technical efficiency and Technical Change : Technical efficiency and technical change are the two sources of TFP. Technical efficiency refers to the ability of a production unit to produce maximum possible output from a given combination of inputs and technology. Technical change refers to shift in the production frontier over a period of time due to application of new technology. Thus, TFP increases either due to improvement in technical efficiency or due to shift in production frontier (technical change) or due to improvement in both.

Tenancy Reform : Refers to a reform measure to promote share cropping and contract farming. Under this, a secured tenancy is ensured to the lessee and income to absentee owner is ensured by the government which acts as an intermediary between the two parties.

Unorganised ID Act, 1947 : An Act to safeguard the interest of workers covered by the FA 1948 which defines a manufacturing unit as a 'factory' depending on the number of workers employed. In particular, the Act provides safeguard against untimely retrenchment from employment by the employer.

Unorganised FDI and FII : FDI is a long term international capital movement directly made in development projects in other countries. It refers to movement of investible funds or finance. If the lender has operating control over the asset's use, then investment is direct, otherwise it is portfolio or the FII.

WC Act, 1923 and TU Act, 1926 : WC Act is a legislation of 'social security' for the organised sector workers. TU Act is a legislation for providing a leverage in bargaining with the employers by allowing registration of workers' unions i.e. it is an Act meant to maintain 'employee relations' in situations of perceived exploitation of workers by the management. The two Acts are notable for being among the oldest of the legal legislations – the others having been enacted after the 1930s.

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STATISTICAL APPENDIX

Table 11.1: Sectoral Share in GDP (2014-2021) in India

[at Constant 2011-12 Prices]

Sector/Year	2014	2017	2019 (1st RE)	2020 (PE)	2021 (AE)
Agriculture	20.7	18.3	17.3	17.3	18.8
Industries	28.3	28.4	28.4	27.5	26.9
Services	51.1	53.3	54.3	55.2	54.3
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Table 1.3 B, A 7, Vol. 2, Economic Survey 2020-21.

Note: RE: Revised Estimate. PE: Provisional Estimates. AE: Advanced Estimates

Table 11.2: Growth Rate (%) of Principal Sectors in India

Sector/Year	2012-13	2015-16	2018-19 (1st RE)	2019-20 (PE)	2020-21 (1st AE)
Agriculture	1.4	2.1	1.0	3.9	0.9
Industries	3.6	9.5	6.0	0.7	-9.3
Services	7.9	9.0	8.0	6.1	-8.6
GVA (%)	**5.4**	**8.0**	**6.0**	**3.9**	**-7.2**

Source: Table 1.5 B, A 13, Vol. 2, Economic Survey 2020-21.

Note: RE: Revised Estimate. PE: Provisional Estimates. AE: Advanced Estimates.