

Services

The COVID-19 pandemic, the subsequent lockdown and social distancing measures have had a significant impact on the contact-intensive services sector. During the first half of the financial year 2020-21, the services sector contracted by almost 16 per cent. Air passenger traffic, rail freight traffic, port traffic, foreign tourist arrivals, and foreign exchange earnings all contracted sharply following the first lockdown which was announced in March, 2020. As the economy gradually entered the unlock phase, most of these indicators showed signs of recovery. Services purchasing managers' index, rail freight traffic, and port traffic have bottomed out and are rising steadily now, showing a V-shaped recovery. Domestic passenger air traffic is also increasing gradually on a monthly basis, although travel remains muted as compared to last year. Interestingly, in spite of the global disruptions, FDI inflows into the services sector increased by 34 per cent YoY during April-September 2020 to reach US\$ 23.61 billion. The year 2020-21 witnessed many significant structural reforms. The space sector was opened up, telecom related regulations were removed from the IT-BPO sector, and consumer protection regulations were introduced for e-commerce.

Services sector's significance in the Indian economy has been steady, with the sector now accounting for over 54 per cent of the economy and almost four-fifths of total FDI inflows. Meanwhile, the shipping turnaround time at ports has almost halved from 4.67 days in 2010-11 to 2.62 days in 2019-20. India is home to 38 unicorns, adding a record number of 12 start-ups to the unicorn list last year. With the ongoing vaccination drive, the contact intensive service sectors can expect to witness revival.

SERVICES SECTOR PERFORMANCE IN INDIA: AN OVERVIEW

Impact of COVID-19 on Services Sector

9.1 The year 2020 was a peculiar year marred by the COVID-19 pandemic and consequent nationwide and worldwide lockdown measures implemented since March, 2020. The contact intensive services sector was severely impacted, particularly sub-sectors such as tourism, aviation, and hospitality. The first half of FY 2020-21 saw services sector contract by almost 16 per cent YoY (Table 1). This decline was led by a sharp contraction in all sub-sectors particularly 'Trade, hotels, transport, communication & services related to broadcasting', which contracted by 31.5 per cent in H1 FY 2020-21. As per the first advance estimates, Gross Value Added (GVA) of services sector is estimated to contract by 8.8 per cent in 2020-21, whereas it grew by 5.5 per cent in 2019-20 (Table 1). Sub-sectors 'Trade, hotels, transport, communication & broadcasting services', 'Financial, real estate & professional services', and 'Public administration, defence

& other services' are estimated to contract by 21.41 per cent, 3.68 per cent and 0.82 per cent respectively. It is pertinent to note that while the services sector contracted by over 20 per cent in the first quarter (Q1) of FY 2020-21, the contraction narrowed to 11.4 per cent in the second quarter (Q2) of FY 2020-21. This pace of recovery is broadly aligned with high frequency indicators that point to a pick in economic momentum with the measured opening up of the economy from June 2020.

Table 1: Services Sector Performance in India's GVA

Sector	Share in GVA (per cent)		Growth (per cent YoY)				
	2020-21	2018-19	2019-20	2020-21	2020-21	2020-21	
	(AE)	(1st RE)	(PE)	(AE)	(H1)	Q1	Q2
Total Services (Excluding construction)	54.3	7.7	5.5	-8.8	-15.9	-20.6	-11.4
Trade, hotels, transport, communication & services related to broadcasting	15.4	7.7	3.6	-21.41	-31.5	-47.0	-15.6
Financial, real estate & professional services	22.2	6.8	4.6	-0.82	-6.8	-5.3	-8.1
Public administration, defence & other services	16.7	9.4	10.0	-3.68	-11.3	-10.3	-12.2

Source: Ministry of Statistics and Programme Implementation.

Note: Shares are in current prices and growth in constant 2011-12 prices; RE: Revised Estimates. PE: Provisional Estimates. AE: Advance Estimates

9.2 India's services sector activity, which had contracted for five consecutive months since March as the Covid-19 pandemic dented demand, has started to pick up since September 2020. The IHS Markit India Services Business Activity Index also known as Services Purchasing Managers' Index (PMI), which was at an 85 month high of 57.5 in February, 2020, fell to its lowest level of 5.4 in April, 2020 (Figure 1(a)). As mobility restrictions were lifted and business resumed, Services PMI recovered sharply to 54.1 in October 2020. The index softened to 52.3 in December 2020, although a print above 50 still means expansion.

9.3 Similarly, rail freight traffic growth nosedived to (-) 35.3 per cent YoY in April 2020 before rising back sharply to 15.5 per cent YoY in September 2020, (Figure 1(b)). The growth momentum has continued till December 2020. Indian Railways loading was 118.13 million tonnes in December 2020, which is 8.54 per cent higher YoY compared to last year's loading (108.84 million tonnes) for the same period. It is worth mentioning that a number of concessions/ discounts are also being given in Indian Railways to make Railways Freight movement very attractive.

9.4 Indian airlines were grounded for about two months between March and May, as the government then implemented travel restrictions to curb the spread of the pandemic. Air passenger traffic, thus, fell sharply in April 2020 (Figure 1(c)). Airlines were allowed to resume domestic operations from late May in a calibrated manner. Domestic air passenger traffic has been showing a gradual recovery since August on a monthly basis, although travel remains

muted as compared to last year. According to Directorate General of Civil Aviation (DGCA), 63.54 lakh domestic passengers travelled by air in November, which was 20.54 per cent higher than the passenger traffic in October when 52.71 lakh passengers flew. The domestic air traffic, however, stands 50.93 per cent lower in November 2020 as compared to November 2019, wherein 1.3 crore passengers had flown.

9.5 Bank credit growth YoY to services sector had moderated significantly between September 2018 and December 2019. However, credit growth to the services sector was stronger in 2020, increasing to 8.76 per cent YoY at the end of November 2020 as compared to 4.84 per cent a year ago (Figure 1(d)). This was driven by growth in sub-sectors ‘Tourism, Hotels & Restaurants’, ‘Transport Operators’, and ‘Other Services’. However, bank credit growth to ‘Professional Services’ and ‘Shipping’ contracted by 24.66 per cent and 20.51 per cent YoY respectively (Table 2).

Figure 1(a): Services PMI Index

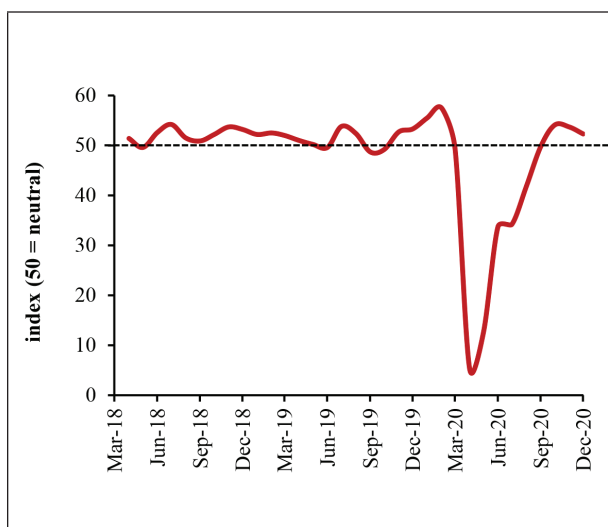
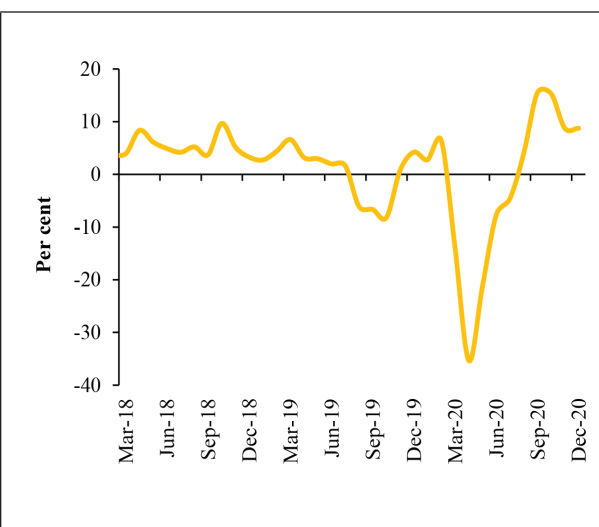


Figure 1(b): Growth in Rail Freight Traffic (YoY)



Source: HIS Markit Economics, Directorate General of Civil Aviation

Figure 1 (c): Growth in Air Passenger Traffic (YoY)

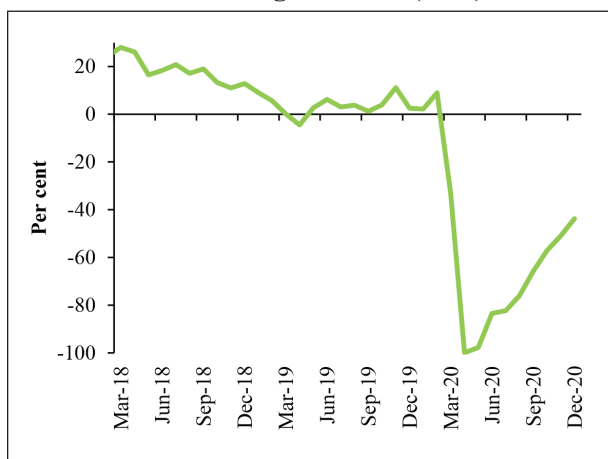
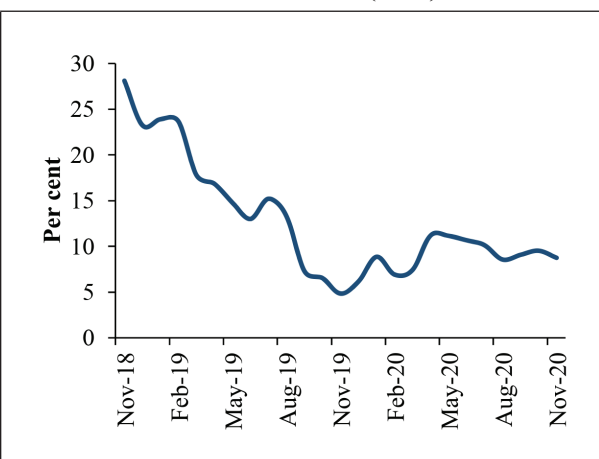


Figure 1 (d): Growth in Bank Credit to Services Sector (YoY)



Source: RBI, Indian Railways

Table 2 : Growth in Bank Credit to Services Sub-Sectors (YoY)

	November 2020	November 2019
Services	8.76	4.84
Transport Operators	10.73	8.14
Computer Software	0.36	-0.39
Tourism, Hotels & Restaurants	18.04	13.09
Shipping	-20.51	5.13
Professional Services	-24.66	1.30
Commercial Real Estate	5.69	6.04
NBFCs	5.65	17.60
Retail Trade	7.84	29.06
Wholesale Trade (excl. food procurement)	15.81	-19.53
Other Services	-3.5	11.3

Source: RBI.

Service sector share at the State and UT level

9.6 The services sector accounts for more than 50 per cent of the Gross State Value Added (GSVA) in 15 out of the 33 states and UTs (Table 3). In eight states, services sector accounts for more than 60 per cent of GSVA. Chandigarh and Delhi stand out with a particularly high share of services in GSVA of over 85 per cent while Sikkim's share remains the lowest at 27.02 per cent. It must be noted that even states with relatively lower share of services in GSVA, such as Tripura, Uttarakhand Andhra Pradesh, Gujarat, Madhya Pradesh, Jharkhand, Odisha, and Arunachal Pradesh have witnessed strong services sector growth in the recent years.

Table 3: Services Sector Performance at the State and UT Level

State	Services Sector Share in GVA in 2019-20 (per cent)*	Services Sector 5-year Average Growth (per cent YoY)**
Chandigarh*	88.29	6.48
Delhi	85.16	7.79
Andaman and Nicobar Islands*	68.12	8.62
Karnataka	66.19	9.93
Telangana	65.19	10.25
Kerala*	63.73	6.91
Manipur*	62.64	5.85
Jammu and Kashmir*	60.08	6.00
Maharashtra*	59.75	8.04
Bihar	59.45	8.97
Meghalaya	58.48	8.90
Nagaland*	56.39	5.97
West Bengal	55.97	6.94
Tamil Nadu	53.67	6.29

State	Services Sector Share in GVA in 2019-20 (per cent)*	Services Sector 5-year Average Growth (per cent YoY)**
Haryana	50.44	8.98
Puducherry	49.67	6.22
Uttar Pradesh*	48.95	7.05
Mizoram*	47.60	7.09
Punjab	46.71	6.90
Tripura	46.71	10.50
Rajasthan	46.63	7.51
Assam*	46.57	5.68
Jharkhand	45.28	7.69
Himachal Pradesh	43.88	7.01
Arunachal Pradesh*	43.23	8.22
Uttarakhand	43.23	9.47
Andhra Pradesh	41.80	7.56
Odisha	40.84	7.20
Goa*	38.53	6.01
Chhattisgarh	36.86	7.02
Madhya Pradesh	36.77	8.01
Gujarat*	35.62	8.66
Sikkim	27.02	6.22

Source: MoSPI.

Note: *2018-19 data; **Average from 2015-16 to 2019-20, or average from 2014-15 to 2018-19 where the data for 2019-20 is unavailable.

FDI Inflows into Services Sector

9.7 India improved its position from 12th in 2018 to 9th in 2019 in the list of the world's largest FDI recipients according to the latest World Investment Report 2020 by United Nations Conference on Trade and Development (UNCTAD). FDI into India recorded almost 17 per cent jump during April-September 2020 over the corresponding period last year, despite the global slowdown, the COVID-19 pandemic, lockdown measures and supply chain disruptions. Services sector¹, being the largest recipient of FDI in India, witnessed a strong growth during April-September 2020. The gross FDI equity inflows (excluding re-invested earnings) into the services sector jumped 34 per cent YoY during April-September 2020 to reach US\$ 23.61 billion, accounting for almost four-fifth of the total gross FDI equity inflows into India during this period (Table 4). The jump in FDI equity inflows was driven by strong inflows into the 'Computer Software & Hardware' sub-sector, wherein FDI inflows increased to US\$ 17.55 billion which is over 336 per cent higher over the corresponding period last year. High growth in FDI inflows was also present in sub-sectors such as 'Retail Trading', 'Agriculture Services', and 'Education'.

¹ Estimated as gross FDI equity inflows into financial services, business services, outsourcing, R&D, technology testing & analysis, courier, telecommunications, trading, computer hardware & software, hotels & tourism, hospital & diagnostic centres, consultancy services, sea transport, information & broadcasting, retail trading, agriculture services, education, and air transport.

Table 4: Gross FDI Equity Inflows* into Services Sector

Services Sub-sectors	Share in Gross FDI Equity Inflows into Services sector in 2019-20 (per cent)**	Gross FDI Equity Inflows (US\$ million)			
		2018-19	2019-20	April-Sep 2019	April-Sep 2020
Financial, Business, Outsourcing, R&D, Courier, Tech Testing & Analysis	9.54	9,158	7,854	4,455	2,252
Computer Software & Hardware	74.34	6,415	7,673	4,025	17,554
Trading	4.02	4,462	4,574	2,143	949
Telecommunications	0.03	2,668	4,445	4,280	7
Information & Broadcasting	0.68	1,252	823	196	161
Hotel & Tourism	1.20	1,076	2,938	859	283
Hospitals & Diagnostic Centers	0.69	1,045	635	376	163
Education	2.56	777	3,245	216	604
Retail Trading	5.21	443	472	243	1,230
Consultancy Services	0.46	411	1,047	473	110
Sea Transport	0.61	279	199	173	144
Air Transport	0.41	191	918	114	97
Agriculture Services	0.25	88	46	23	60
Gross FDI Equity Inflows into Services Sector (US\$ million)		28,265	34,868	17,577	23,612
Change from Previous Year (per cent YoY)		-2.4	23.4	33.1	34.3
Gross FDI Equity Inflows into India (US\$ million)		44,366	49,977	26,096	30,004
Share of Services Sector in Gross FDI Equity Inflows (per cent)		63.7	69.8	67.4	78.7

Source: Department for Promotion of Industry and Internal Trade (DPIIT).

Note: *Excludes re-invested earnings.

Trade in Services Sector

9.8 In 2020, the world trade in services was severely impacted by the COVID-19 pandemic and the resultant supply chain disruptions worldwide. While World Trade Organisation (WTO) projects the global merchandise trade volume growth to fall by 9.2 per cent in 2020, the IMF expects volume of global trade in goods and services to contract by 10.4 per cent in 2020. WTO services trade activity index indicated a decline in global trade in commercial services of 4.3 per cent in the first three months of 2020, reflecting partly the adverse effect from spread of COVID-19. During Q2 of 2020 (April-June), the global trade in commercial services plunged by 30 per cent YoY as several countries imposed lockdown and transportation restrictions that covered cross-border measures as well.

9.9 India has a significant presence in the services sector exports. It remained among the top ten trading countries in commercial services in 2019 accounting for 3.5 per cent of world services

exports. Notwithstanding the setback witnessed in the wake of the pandemic, India's services sector remained relatively resilient when compared to merchandise trade. The sector provided steady flow of current receipts even though exports from a few sub-sectors were adversely affected. Net services export receipts amounted to US\$ 41.67 billion in H1 of FY2020-21 as compared with US\$ 40.47 billion a year ago.

9.10 India's services export growth moderated to 2.5 per cent in 2019-20 from 6.6 per cent in 2018-19 as receipts primarily on account of transportation, insurance and communication services. With contraction in global demand and implementation of COVID-19 induced lockdown measures, services exports declined by 7.87 per cent in H1 of FY2020-21 as against a growth of 6.39 per cent in the corresponding period of previous year (Table 5).

Table 5: Services Trade Performance by Sub-Sector

Commodity Group	Share (per cent)		Value (US\$ billion)			Growth (per cent YoY)		
	2009-10	2019-20	2018-19	2019-20	2020-21	2018-19	2019-20	2020-21
					(Apr-Sept)			(Apr-Sept)
Total Services Exports	100	100	208.00	213.19	96.71	6.60	2.50	-7.87
Travel	12.3	14.10	28.44	30.00	3.87	0.30	5.50	-73.49
Transportation	11.6	9.80	19.46	20.99	10.28	11.60	7.80	-2.34
Insurance	1.7	1.10	2.66	2.43	1.15	6.20	-8.70	-2.99
GNIE*	0.5	0.30	0.61	0.66	0.29	-8.10	8.00	-8.81
Software Services	51.8	43.70	83.47	93.10	47.69	7.90	11.50	3.55
Business Services	11.8	18.80	39.11	45.72	22.91	4.70	16.90	2.48
Financial Services	3.8	2.30	4.86	4.73	2.01	-5.90	-2.60	-20.35
Communication	1.3	1.20	2.56	2.72	1.37	22.10	6.30	2.44
Total Services Imports	100	100.00	126.06	128.27	55.04	7.30	1.80	-13.95
Travel	15.6	17.20	21.70	22.01	5.49	11.20	1.40	-55.09
Transportation	19.9	18.90	20.53	24.28	8.98	16.60	18.30	-25.90
Insurance	2.1	1.40	1.79	1.74	0.92	5.30	-2.90	19.44
GNIE*	0.9	0.90	1.11	1.11	0.52	40.30	-0.70	-13.95
Software Services	2.4	6.60	5.81	8.46	4.62	13.10	45.50	15.60
Business Services	30.1	36.50	40.41	46.88	23.69	10.30	16.00	4.22
Financial Services	7.7	2.30	3.49	2.92	2.17	-37.00	-16.30	94.80
Communication	2.3	1.00	1.13	1.30	0.66	18.40	14.70	3.24
Services Trade Balance			81.94	84.92	41.67			
Goods Trade Balance			-180.28	-157.51	-25.55			

Source: Computed from RBI data.

Note: GNIE = Government not included elsewhere. Growth rate is based on values in US dollar terms.

9.11 With significant drop in foreign tourist arrivals owing to the mobility restrictions imposed worldwide, travel receipts witnessed a decline of 73.49 per cent in H1 of 2020-21 as against a growth of 8.21 per cent in corresponding period of the previous year. Slowdown in trade activity and supply chain disruptions led to the decline in transportation receipts by 2.34 per cent in H1 of FY2020-21 as against a growth of 10.77 per cent in H1 of FY2019-20. Software exports, with a share of 49.3 per cent in total services exports, however, remained resilient with higher demand for digital support, cloud services and infrastructure modernisation catering to the new challenges posed by the pandemic. In fact, majority of software companies which had reported negative revenue growth in Q1 of FY2020-21, have shown signs of rebound in Q2 with positive sequential growth on account of the increased revenue from their financial, banking and insurance, retail, life sciences and health care units.

9.12 As projected by Gartner (October 2020), although the global IT spending is expected to decline by 5.4 per cent in 2020, it will rebound with the onset of recovery phase in 2021. Among other major sectors, business services exports recorded a growth of 2.48 per cent in H1 of 2020-21.

9.13 India's services imports exhibited sharper decline of 13.95 per cent in H1 of FY2020-21 in comparison with services exports. Payments for all major services imports decreased on YoY basis. Among the major sectors, payments for overseas travel fell by 55.09 per cent due to restrictions on outbound travel from India. Payments for transport services (accounting for over 16 per cent share in total services imports) recorded a decline of 25.9 per cent in H1 of FY2020-21 on a year-on-year basis. Payment for imports of business services, which accounted for 43.41 per cent of total services imports, increased by 4.22 per cent in H1 of 2020-21 (Table 5).

9.14 Sharper decline in services imports over exports led to an increase in net services receipts by 2.1 per cent in Q1 of 2020-21 over the previous year. Sharp contraction in merchandise trade deficit and a stable net services receipts led to a current account surplus of 3.9 per cent of GDP in Q1 of 2020-21. According to the World Trade Organization (WTO), though the world services trade declined by 4.3 per cent (YoY) in Q1 of 2020² (January-March), key sectors have started showing signs of rebound. The provisional data on India's trade in services in Q2 of 2020-21 is showing signs of revival with exports increasing by 8.4 per cent QoQ and imports increasing by 13.2 per cent Q-o-Q; resulting in improvement of 2.3 per cent QoQ in net services exports. Even though projections of world trade volume of goods and services are optimistic for 2021, duration and containment of the pandemic and effectiveness of government policy responses to revive the economy would be key factors in shaping India's services trade.

MAJOR SERVICES: SUB-SECTOR WISE PERFORMANCE AND RECENT POLICIES

9.15 In the wake of the Covid-19 pandemic, most of the sub-sectors of the services sector witnessed a contraction in growth during 2020-21 (Table 6). Aviation and tourism declined sharply in 2020. Only 2.46 million foreign tourist arrived in India during January-June 2020 as compared to 5.29 million during January-June last year. Consequently, foreign exchange earnings from tourism declined to US\$ 6.16 billion during the first six months of 2020 as

² Services Trade Activity Index, World Trade Barometers, WTO, September 17, 2020.

compared to US\$ 14.19 billion during in corresponding period last year. Domestic passenger traffic too dropped to 22.77 million during April-November 2020 from 95.7 million during the corresponding period last year. In the ports sector, Cargo traffic at ports fell by 10.09 per cent to 777.04 million tonnes (MT) during April-November period of the current fiscal compared to 864.32 MT during April-November 2019. This section discusses developments in some key sub-sectors of the services sector in detail.

Table 6: Performance of Key Sub-Sectors in India's Services Sector

Sub-Sector	Indicator	Unit	Year				
			2016-17	2017-18	2018-19	2019-20	2020-21
IT –BPM*	IT-BPM service revenues:	US\$ billion	139.9	151.4	161.8	174.53 (E)	–
	Exports	US\$ billion	116.1	125.1	135.5	146.6 (E)	–
	Domestic	US\$ billion	23.8	26.3	26.3	28 (E)	–
Aviation**	Airline passengers:	million	158.4	183.9	204.2	202 (P)	–
	Domestic	million	103.7	123.3	140.3	141.6	22.77#
	International	million	54.7	60.6	63.9	60.4	–
Telecom	Wireless phone subscriptions ^a	million	1,170.2	1,183.4	1,161.8	1,157.8	1,151.81##
	Wireless internet subscriptions ^a	million	400.6	472.7	582.8	720.7	–
Tourism	Foreign tourist arrivals ^b	million	8.8	10.0	10.6	10.9 (P)	2.46###
	Foreign exchange earnings from tourism ^b	US\$ billion	22.9	27.3	28.6	30.1 (P)	6.16###
Shipping	Gross tonnage of shipping ^a	million	11.6	12.6	12.8	12.68 [^]	12.75 [@]
	Number of ships ^a	number	1,316	1,384	1,405	1,431 [^]	1,453 ^{^^}
Ports	Port traffic	million tonnes	1,133.7	1,208.6	1,276.8	1307.2	777.04 [#]
	Cargo capacity	million tonnes	2,147.6	2,307.4	2,405.9	2,522.9	2,529.1(P)

Sources: Telecom Regulatory Authority of India (TRAI), Department of Telecom, Ministry of Tourism, Ministry of Shipping, Ministry of Civil Aviation, Ministry of Electronics and Information Technology, NASSCOM.

Note: *Including Hardware and excluding e-commerce; **Domestic passengers carried by scheduled Indian carriers on scheduled domestic services and international passengers carried by scheduled Indian and foreign carriers to and from the Indian territory; a: As of March of ensuing financial year; b: On calendar year basis; #For Apr-Nov 2020 period; ##: As of Oct 2020; ###: Jan-June 2020; @: As of June 2020; ^As of March 2020; ^^: As of November 2020 P=Provisional. E = Expected.

Tourism Sector

9.16 Tourism sector is a major engine of economic growth that contributes significantly in terms of GDP, foreign exchange earnings and employment. However, the COVID-19 pandemic has had a debilitating impact on world travel and tourism, including India. As per the World Tourism Barometer of the United Nation's World Tourism Organization (December, 2020 edition), international arrivals fell by 72 per cent globally over the first ten months of 2020, with restrictions on travel, low consumer confidence and a global struggle to contain the COVID-19 virus, all contributing to the worst year on record in the history of tourism. World destinations received 900 million fewer international tourists between January-October when compared with the same period of 2019, translating into a loss of US\$ 935 billion in export revenues from international tourism. Note that International Tourist Arrivals (ITA) had reached a total of 1.5 billion in 2019.

9.17 Director General of Civil Aviation (DGCA), to contain the spread of the virus, had suspended all commercial international flights in March 2020. The ban has been extended till January 2021. In order to evacuate Indians stranded abroad after the breakout of the Covid-19 pandemic and the resultant lockdowns across the world, Vande Bharat Mission was launched in early May. Under this Mission, which is currently in its ninth phase, the government established Transport Bubbles³ with countries to repatriate its citizens. At present, India has active air bubbles with 24 countries. As of January 5, 2021, over 4.49 million people were facilitated international travel through different air ever since the Vande Bharat Mission was launched.

9.18 The tourism sector in India had been performing well with Foreign Tourist Arrivals (FTAs) growing at 14 per cent to 10.04 million and Foreign Exchange Earnings (FEEs) at 19.1 per cent to US\$ 27.31 billion in 2017. However, the sector underwent a slowdown in 2018 and 2019 before declining sharply in 2020 (Figure 2(a&b)). The Foreign Tourist Arrivals (FTAs) in 2019 stood at 10.93 million compared to 10.56 million in 2018. In terms of growth, the growth rate of FTAs declined from 14 per cent in 2017 to 5.2 per cent in 2018 and further to 3.5 per cent in 2019. Foreign Exchange Earnings (FEEs) from tourism stood at US\$ 30.06 billion in 2019 as compared to US\$ 28.59 billion in 2018. In terms of growth, the FEEs declined from 19.1 per cent in 2017 to 4.7 per cent in 2018, picking up slightly to 5.1 per cent in 2019.

9.19 India ranked 23rd in the world in terms of international tourist arrivals in 2019, falling slightly from the 22nd position in 2018. The country accounts for 1.23 per cent of world's international tourist arrivals and 4.97 per cent of Asia & Pacific's international tourist arrivals (Table 7). India ranks 12th in the world and 7th in Asia & Pacific in terms of tourism foreign exchange earnings, accounting for over 2 per cent of the world's tourism foreign exchange earnings.

³“Transport Bubbles” or “Air Travel Arrangements” are temporary arrangements between two countries aimed at restarting commercial passenger services when regular international flights are suspended as a result of the COVID-19 pandemic. They are reciprocal in nature, meaning airlines from both countries enjoy similar benefits.

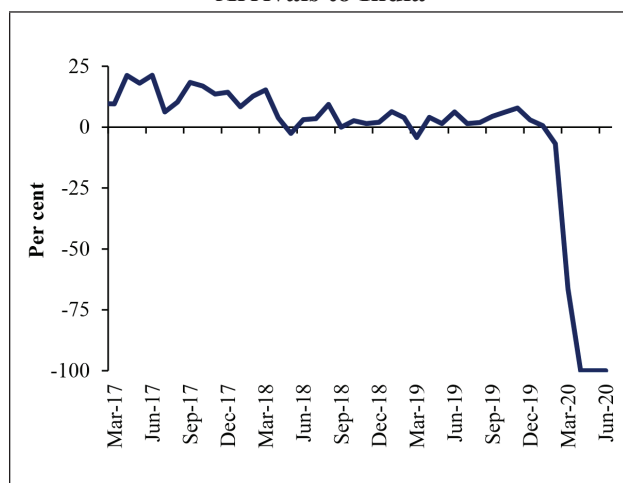
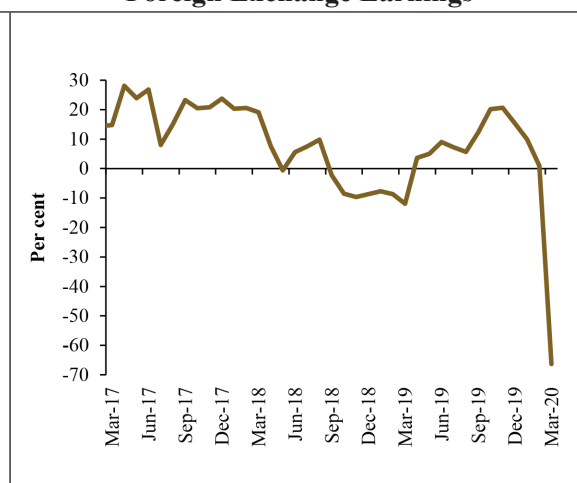
Table 7: Foreign and International Tourist Arrivals and Tourism Receipts in India and the World

Parameter	2015	2016	2017	2018	2019
Foreign Tourist Arrivals (FTA) to India (million)	8.03	8.80	10.04	10.56	10.93
International Tourist Arrivals (ITAs) in India (million)*	13.76	15.03	16.81	17.42	17.91
International Tourist Arrivals (ITAs) around the World (million)	1,195	1,241	1,333	1,408	1,460
India's Share in World's ITAs (per cent)	1.15	1.21	1.26	1.24	1.23
India's Rank in World's ITAs	24 th	26 th	26 th	2 nd	23 rd
ITAs in Asia & the Pacific (million)	284.1	306.6	324.1	347.7	360.1
India's Share in Asia Pacific's ITAs (per cent)	4.84	4.90	5.19	5.01	4.97
India's Rank in Asia Pacific's ITAs	7 th	8 th	7 th	7 th	7 th
India's Share in World Tourism Receipts (per cent)	1.73	1.84	2.02	1.97 [#]	2.03 [#]
Foreign Exchange Earnings through Tourism (US \$ billion)	21.01	22.92	27.31	28.59	30.06
India's Rank in World Tourism Receipts	14 th	13 th	13 th	13 ^{th#}	12 ^{th#}
India's Share in Asia Pacific's Tourism Receipt (per cent)	5.91	6.18	6.89	6.55 [#]	6.57 [#]
India's Rank in Asia Pacific's Tourism Receipts	7 th	7 th	7 th	7 ^{th#}	6 ^{th#}

Source: Ministry of Tourism.

Note: All figures are calendar year wise.

* International Tourist Arrivals is the sum of Foreign Tourist Arrivals and NRI arrivals in the country; #Provisional.

Figure 2(a) : Growth (YoY) in Foreign Tourist Arrivals to India**Figure 2(b) : Growth (YoY) in Tourism Foreign Exchange Earnings**

Source: Ministry of Tourism.

Note: Figures for 2020 are provisional.

All International Commercial Flights have been suspended since March, 2020.

9.20 Foreign tourists from the top 10 countries visiting India are from Bangladesh, USA, UK, Australia, Canada, China, Malaysia, Sri Lanka, Germany and Russia. They accounted for 67 per cent of the total foreign tourist arrivals in India in 2019. Among the foreign tourists, 57.1 per cent tourists visited for leisure, holiday and recreation, 14.7 per cent for business purposes, and 12.7 per cent was Indian diaspora.

9.21 Looking at tourism trends at the state level, the top five states attracting domestic tourists are Uttar Pradesh, Tamil Nadu, Andhra Pradesh, Karnataka, and Maharashtra, accounting for nearly 71 per cent of the total domestic tourist visits in the country in 2019. The top five states attracting foreign tourists are Tamil Nadu, Maharashtra, Uttar Pradesh, Delhi and West Bengal, accounting for 69.4 per cent of the total foreign tourist visits in the country in 2019.

9.22 To facilitate international tourism, India introduced the e-Tourist Visa regime in September 2014 for 46 countries. Prior to the launch of the scheme, the e-Visa facility was available for only 12 countries. The government further liberalized the visa regime in 2016, renaming it to e-Visa scheme with five sub-categories i.e. 'e-Tourist Visa', 'e-Business Visa', 'e-Medical Visa', 'e-Conference Visa' and 'e-Medical Attendant Visa'. The e-Visa scheme is now available for 169 countries with valid entry through 28 designated airports and 5 designated seaports. With this, foreign tourist arrivals to India on e-visas have increased from 4.45 lakh in 2015 to 29.28 lakh in 2019 and stood at 8.37 lakh in January-March 2020.

9.23 India ranked 34th in Travel and Tourism Competitiveness Index, improving significantly from its rank of 65 in 2013. Tourism contributed 5 per cent share to India's total GDP in 2018-19. It also supports almost 13 per cent of total employment in India. With the ongoing vaccination drive, the contact intensive service sectors can expect to witness revival.

IT BPM Services

9.24 The Indian IT-BPM Industry has been the flag-bearer of India's exports over the last 20 years. While 1999-2000 to 2009-10 was a decade of growth, the last decade has been that of consolidation and the industry succeeded in decoupling revenue and employee growth. Over the last decade, the industry grew by 102 per cent reaching US\$ 190.5 billion in revenues in 2019-20. It also added 1.8 million employees, up 70 per cent over the last 10 years. However, the business model has changed over the years. Chart 1 traces the evolution of the business model for IT and IT enabled services over the past two decades.

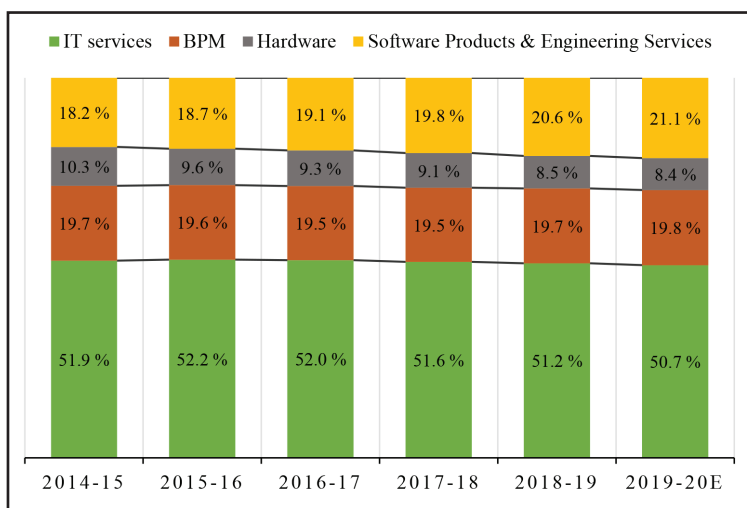
Chart 1: Evolution of the business model for IT-ITeS

Dimensions	Customer Centric Customer + Collaboration			
	1990	2000	2010-2015	2016-2020
Services	One client, one solution	Enterprise Services	Enterprise Solutions	Digital Enterprise products & solutions
Service Delivery	Custom, People Driven	Industrialised capacity & Method-driven	Capacity & IP driven	Platforms & Automation
Technology	Mainframe to Client Server	Y2K, dotcom enablement	Cloud, virtualisation, Mobile computing	Digital Tech (AI, ML/NLP, IoT, Blockchain)
Pricing	Input-based, Fixed Costs	Output-based, Fixed Costs or Gain share	Pay-per-use	Outcome-based
Deal structure	Deals relating to CAD/M & Maintenance	Multiple vendors, Large size, Long duration	Small deal wins, Short duration, End-to-end	Structured deals, Internet focused transactions
Resources	Staff-augmentation	Fixed Capacity	Non-linear	Humans+Machines, Domains & Tech Experts
Time to Deploy	Years	Months	Weeks or Days	Continuous Releases

Source: NASSCOM

9.25 Over the last six years, IT services has constituted the majority share (over 50 per cent) of the IT-BPM sector (Figure 3), with about US\$ 97 billion in revenues in 2019-20. Software & Engineering Services has witnessed a consistent growth each year, constituting a share of 21 per cent in the sector and US\$ 40.2 billion in revenue in 2019-20. BPM Services has maintained its share at 19.8 per cent, while the Hardware services has been declining in share each year but maintaining growth in revenues.

Figure 3: Sub-Sector Breakdown of IT-BPM Sector in 2014-15 to 2019-20



Source: NASSCOM. Note: E: Estimate.

9.26 A significant part (about 84 per cent) of the IT-BPM industry (excluding hardware and e-commerce) continues to be export driven, with export revenues in excess of US\$ 146 billion in 2019-20 (Table 8). During 2019-20, the revenue growth for IT-BPM sector (excluding hardware and e-commerce) made a recovery to reach 7.9 per cent up from 6.8 per cent in 2018-19. This was driven primarily by a significant boost in domestic revenue growth (6.6 per cent in 2019-20 from -0.3 per cent in 2018-19).

Table 8: Exports and Domestic Market Size of Indian IT-BPM Industry (Excluding Hardware & E-Commerce)

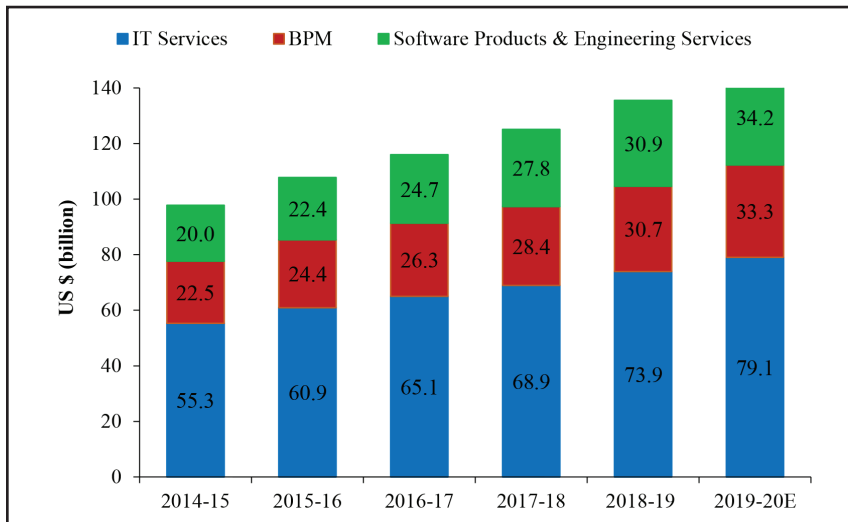
Year	USD billion			Per cent (YoY)		
	Domestic	Exports	Total	Domestic	Exports	Total
2015-16	21.58	107.83	129.41	3.2	10.3	9.1
2016-17	23.84	116.06	139.90	10.4	7.6	8.1
2017-18	26.33	125.08	151.40	10.4	7.8	8.2
2018-19	26.25	135.51	161.76	-0.3	8.3	6.8
2019-20E	27.99	146.55	174.53	6.6	8.1	7.9

Source: NASSCOM. Note: E: Estimate.

9.27 Out of the total US\$ 146.55 billion in exports of the IT-BPM sector in 2019-20, IT services contributed US\$ 79.1 billion, accounting for 54 per cent of the exports. BPM and Software Products & Engineering services accounted for the remaining 46 per cent with

each accounting for a roughly equal share of about 23 per cent. (Figure 4). All three sub-sectors witnessed an increase in export revenues in 2019-20, with IT services growing by 6.9 per cent, BPM services by 8.4 per cent and Software Products & Engineering Services by 10.7 per cent.

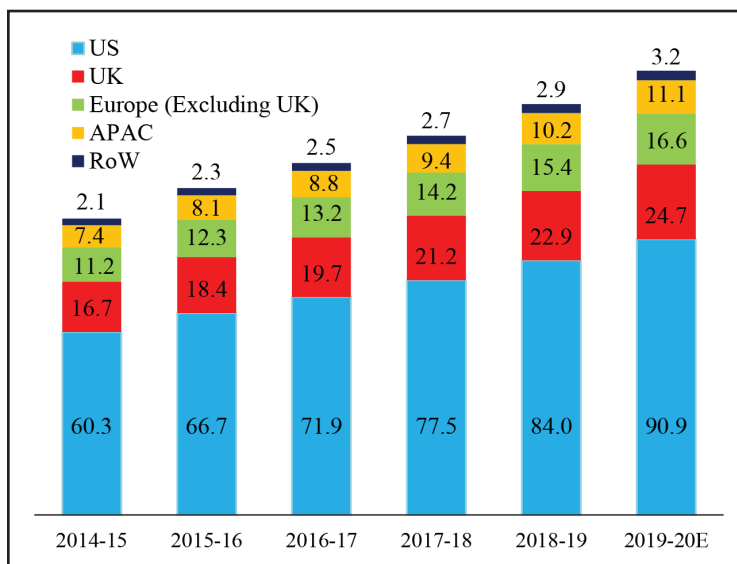
Figure 4: Sub-Sector Breakdown of IT-BPM Exports (US \$ billion) (Excluding Hardware and e-commerce)



Source: NASSCOM. Note: E: Estimate.

9.28 Looking at country-wise distribution of export revenues, USA remained the biggest recipient of exports, amounting to US\$ 91 billion (Figure 5), accounting for 62 per cent of total IT-BPM exports (excluding hardware) in 2019-20. This is followed by UK, being the second largest export market for IT-BPM services amounting US\$ 24.7 billion but with a much smaller share of around 17 per cent. Europe (excluding UK) and Asia-Pacific account for 11.4 per cent and 7.6 per cent of the export earnings of India, respectively.

Figure 5: Geographic Break-up of India's IT-BPM Exports (US \$ billion) (Excluding Hardware and e-commerce)



Source: NASSCOM. Note: E: Estimate.

9.29 In 2021, a number of significant structural reforms have been undertaken to drive innovation, technology adoption and efficiency in the IT-BPM sector, including Relaxation of OSP Terms & Conditions, and Consumer Protection (E-commerce) Rules, 2020. This would significantly expand access to talent, increase job creation, make India a global hub for digital services and catapult the sector to the next level of growth and innovation (See Box 1 for more details).

9.30 The Indian start-up ecosystem has been progressing well, despite the Covid-19 pandemic. Faced with a myriad of challenges at the onset of the pandemic, the ecosystem defied the odds and had a record number of 12 start-ups that reached unicorn status. The country is home to 38 unicorns at present, as per the Nasscom Tech Start up Report 2021. The US and China have 243 and 227 unicorns, respectively.

Box 1: Major policy initiatives and reforms in IT-BPM Sector

Relaxation of OSP Terms & Conditions: With an aim to improve the Ease of Doing Business of the IT Industry particularly Business Process Outsourcing (BPO) and IT Enabled Services, the Government, in November 2020, simplified the Other Service Provider (OSP) guidelines of the Department of Telecom. The new guidelines tremendously reduce the compliance burden of the BPO industry and enables to ‘Work from Home’ (WFH).

In effect, the registration requirements of Other Service Providers (OSPs) were done away with altogether and Business Process Outsourcing (BPO) services engaged in data related operations have been taken out of the ambit of OSP. In addition, other requirements such as deposit of bank guarantees, requirement for static IPs, frequent reporting obligations, publication of network diagram, penal provisions etc. have also been removed. These changes will enable IT-BPM companies to ‘Work from Home’ and ‘Work from Anywhere’. Additional dispensations to enhance flexibility for the Industry have been allowed.

Consumer Protection Act, 2019: The Act came in to force on 20th July 2020 empowering consumers and to protect their rights through its various notified rules and provisions such as Consumer Protection Councils, Consumer Disputes Redressal Commissions, Mediation, Product Liability and punishment for manufacture or sale of products containing adulterant / spurious goods. The Act includes establishment of the Central Consumer Protection Authority (CCPA) to promote, protect and enforce the rights of consumers. Moreover, every e-commerce entity is required to provide information relating to return, refund, exchange, warranty/guarantee, delivery, modes of payment, grievance redressal, payments, charge-back options, etc. including country of origin which are necessary for enabling the consumer to make an informed decision at the pre-purchase stage on its platform. Further, the New Act introduces the concept of product liability and brings within its scope, the product manufacturer, product service provider and product seller, for any claim for compensation. The Department of Consumer Affairs (DoCA) published the Consumer Protection (E-commerce) Rules, 2020 in July 2020.

Ports, Shipping and Waterways Services

9.31 Ports handle around 90 per cent of export-import cargo by volume and 70 per cent by value in India. The total cargo capacity of major ports which was 871.52 Million Tonnes Per Annum (MTPA) at the end of March 2014 has increased to 1,534.91 MTPA by the end of March 2020 and handled traffic of 704.92 MT during 2019-20. Ports including Deendayal (Kandla), Paradip, JNPT, Vishakhapatnam, and Chennai had the highest cargo capacities as of March 2020. India has a 1 per cent share in world fleet as on January 2020. The total numbers of ships owned by Indian companies stood at 1,431 in 2019-20, up from 1,210 in 2014-15.

9.32 A consistent growth of around 6 per cent was maintained in overall port traffic between 2015-16 and 2018-19. It decelerated to 1.98 per cent in 2019-20 before falling sharply in 2020 owing to the lockdown in the wake of COVID-19 pandemic (Figure 6(a)). Cargo traffic growth contracted considerably between April to June 2020, however is now showing signs of pick up. Infact, cargo traffic growth has turned positive since September 2020, Figure 6(b).

Figure 6 (a): Annual Growth (YoY) in Port Traffic

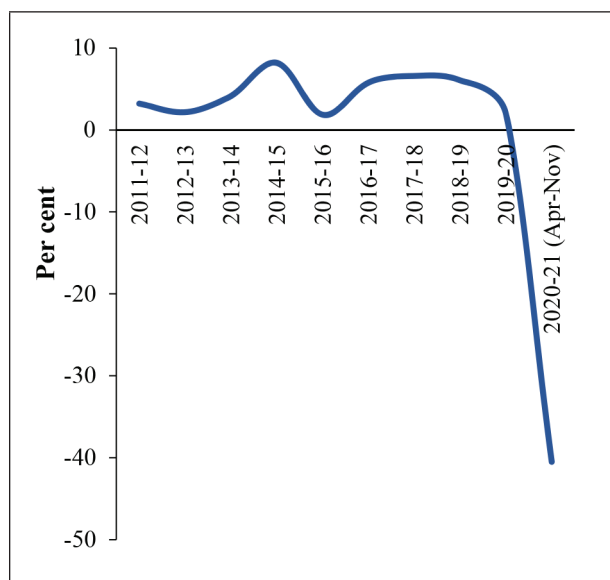
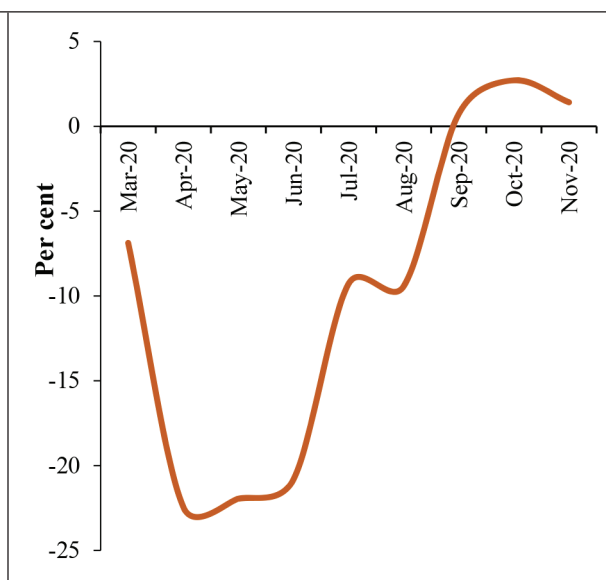


Figure 6 (b): Monthly Growth (YoY) in Port Traffic



Source: Ministry of Ports, Shipping and Waterways

9.33 The turnaround time of ships, which is a key indicator of efficiency of the ports sector, has declined from 4 days in 2014-15 to 2.62 days in 2020-21 (April-September). The shipping turnaround time has declined across all major ports and is now the lowest at the Cochin port and the highest at the Mormugao port (Table 9). It must be noted that among all the major ports, Paradip port has shown biggest improvement in reducing average turnaround time of ships from over 7 days in 2014-15 to less than 3 days in 2020-21(April-September). As per the latest UNCTAD data, the median ship turnaround time globally is 0.97 days, suggesting that India has room to further improve upon the efficiency at ports.

Table 9: Average Ships' Turnaround Time at Major Indian Ports (in days)

PORT	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21 (Apr- Sept)
Kolkata	4.18	3.98	4.73	4.11	3.84	4.21	3.09
Haldia	3.37	3.27	3.45	3.76	3.04	3.62	3.07
Paradip	7.01	4.50	4.99	3.31	2.51	2.98	2.76
Visakhapatnam	5.67	3.84	3.75	2.58	2.51	2.48	2.67
Kamarajar (Ennore)	4.32	6.53	2.70	2.20	1.97	1.85	1.90
Chennai	2.54	2.53	2.51	2.21	1.98	2.00	2.22
V.O. Chidambaranar	3.55	3.73	4.40	2.69	1.96	2.01	2.14
Cochin	1.69	2.18	1.99	1.54	1.47	1.51	1.66
New Mangalore	2.46	2.63	2.35	2.04	1.93	1.91	2.05
Mormugao	4.15	3.65	4.51	2.63	2.63	2.69	3.94
Mumbai	5.28	4.61	3.27	3.72	2.52	2.56	2.96
JNPT	2.24	2.44	2.01	2.24	2.13	2.00	2.12
Deendayal (Kandla)	5.38	4.66	4.40	2.51	3.01	2.94	3.27
All Major Ports	4.00	3.64	3.43	2.68	2.48	2.59	2.62

Source: Ministry of Ports, Shipping and Waterways

9.34 To harness the coastline, 14,500 km of potentially navigable waterways and strategic location on key international maritime trade routes, the Government has embarked on the ambitious Sagarmala Programme to promote port-led development in the country. The vision of the Programme is to reduce logistics cost of Exports-Imports and domestic trade with minimal infrastructure investment. This includes reducing the cost of transporting domestic cargo; lowering logistical cost of bulk commodities by locating future industrial capacities near the coast; improving export competitiveness by developing port proximate discrete manufacturing clusters, etc. The Sagarmala programme has identified 504 projects under four pillars – 211 port modernization projects, 199 port connectivity projects, 32 port-led industrialization projects and 62 coastal community development projects which can unlock the opportunities for port-led development and are expected to mobilize more than ₹ 3.57 Lakh Crore of infrastructure investment. Between July 2019 – October 2020, 20 Sagarmala projects worth ₹ 4,543 crore have been completed which comprise 9 projects of Port Modernization worth ₹ 1,405 crore, 7 Port Connectivity projects worth ₹ 2,799 crore and 4 Coastal Community Development projects worth ₹ 339 crore.

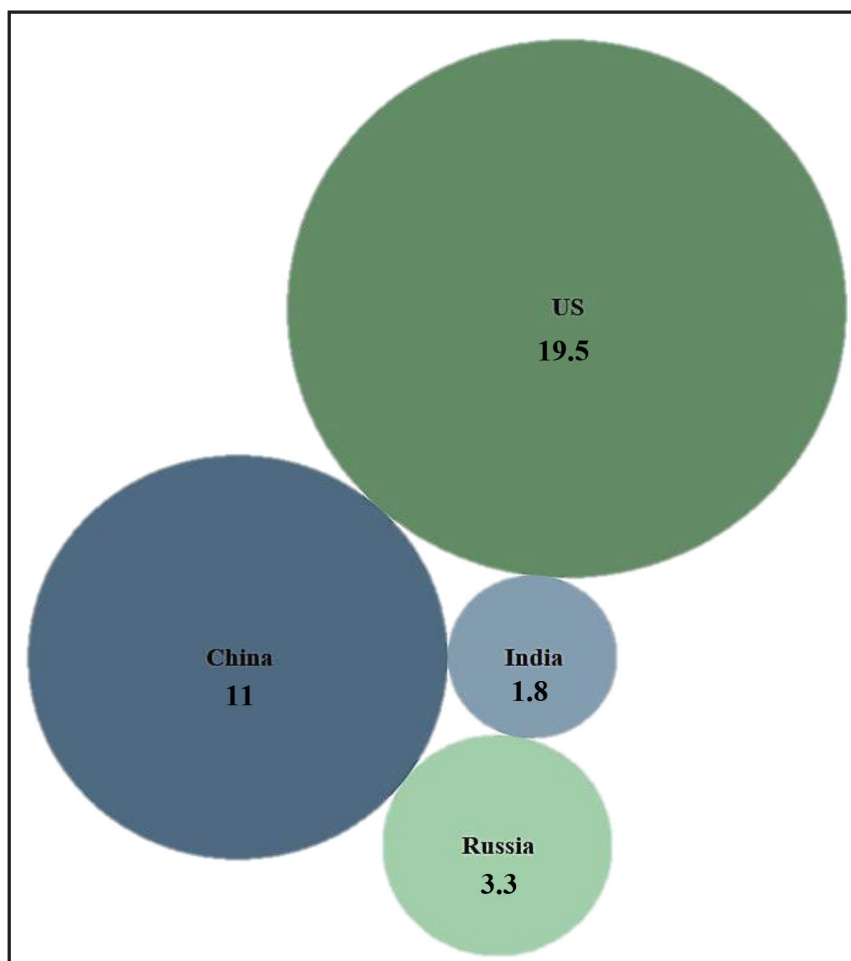
Space Sector

9.35 India's space programme has grown exponentially in the past six decades, expanding from simple mapping services in the 1960s to many diversified uses including- design and development of a series of launch vehicles and related technologies, satellites and related technologies for earth observation, telecommunication & broadband, navigation, meteorology and space science, R&D in space sciences, & most recently, planetary exploration.

9.36 India spent about US\$ 1.8 billion on space programmes in 2019-20. However, the country still lags behind the major players in the space sector, such as USA, which spent about 10 times more than India in the space sector in 2019-20 (Figure 7), and China, which spent about 6 times more.

9.37 India has launched around 5-7 satellites per year in the recent years. On the other hand, USA, Russia and China dominate the satellite launching services with 19, 25 and 34 satellites respectively in 2019 (Table 10).

Figure 7: Expenditure (US\$ Billion at 2019 - 2020 prices)



Source: ISRO.

Table 10: Number of Satellite Launches by Country

Country	2015	2016	2017	2018	2019
USA	20	22	29	31	19
Russia	29	19	20	20	25
China	19	22	18	39	34
European Space Agency	9	9	9	8	6
India	5	7	5	7	6
Japan	4	4	7	6	2
Others	3	2	2	3	10
Total	89	85	90	114	102

Source: ISRO.

Box 2: Prospects for commercialization and attracting private investment in the space sector

India's space programme is one of the most well-developed in the world and has achieved numerous successes through its state-owned agency, the Indian Space Research Organisation (ISRO) which is responsible for driving the space activities in India. With the long term vision of making the country self-reliant and technologically advanced, the Government in June 2020, opened up the Space sector enabling the participation of Indian private sector in the entire gamut of space activities. New Space India Limited (NSIL), a Central Public Sector Enterprise under Department of Space, has been mandated to transfer the technologies emanating out of Indian space programme and enable Indian industry to scale up high-technology manufacturing base. Government of India has also established Indian National Space Promotion and Authorisation Centre (IN-SPACe) for promoting industries and attracting investment in space sector. Further, ISRO would be sharing its infrastructure, transfer technology know-how for production and spin-off. These measures would help India become a manufacturing hub of space assets.

As per industry estimates, there are more than 40 start-ups working in India with funding, teams and structure on space and satellite projects complimenting the efforts of government. This number is likely to increase in coming years with technology to play a big role. The recent reforms announced by Government of India for unlocking the space potential of India stresses the need to enable the private industry to be the co-traveller in India's space journey.

As per Satellite Industry Association Report (2020), the global space economy in 2019 was pegged at US\$ 366 billion, growing by about 1.7 per cent over 2018. The commercial satellite industry is accounting for nearly 75 per cent of global space business. Technology innovations and demand drives the need for higher bandwidth capacity, throughput speeds, improved optical, radar and thermal imaging. PwC estimates that the Indian space economy is valued at US\$ 7 billion, which is around 2 per cent of the global space economy.

CHAPTER AT A GLANCE

- India's Services sector witnessed a significant set-back during the COVID-19 pandemic mandated lockdown. Owing to its contact-intensive nature, the sector contracted by nearly 16 per cent during the first half of the financial year 2020-21.
- Air passenger traffic, rail freight traffic, port traffic, foreign tourist arrivals, and foreign exchange all contracted sharply as soon as the first lockdown was announced in March 2020. However, there are now signs of steady recovery.
- Despite the disruptions being witnessed globally, FDI inflows into India's services sector grew robustly by 34 percent YoY during April-September 2020 to reach US\$ 23.6 billion.
- The year 2020-21 witnessed many significant structural reforms. Telecom related regulations were removed from the IT-BPO sector, and consumer protection regulations were introduced for e-commerce.
- The shipping turnaround time at ports has almost halved from 4.67 days in 2010-11 to 2.62 days in 2019-20. As per the latest UNCTAD data, the median ship turnaround time globally is 0.97 days, suggesting that India has room to further improve upon the efficiency at ports.
- The Indian start-up ecosystem has been progressing well amidst the Covid-19 pandemic. India is home to 38 unicorns, adding a record number of 12 start-ups to the unicorn list last year.
- India's space sector has grown exponentially in the past six decades. India spent about US\$ 1.8 billion on space programmes in 2019-20. However, the country still lags behind major players in the sector, such as USA, China and Russia. The Indian Space ecosystem is undergoing several policy reforms to engage private players and attract innovation and investment.