

# Services

The services sector has maintained steady growth since 1996-97, except in 2000-01. The trade, hotels, transport and communications have witnessed highest growth (11 per cent) during the first three quarters of 2005-06, followed by finance, insurance, real estate and business services (9.2 per cent). The overall services have notched growth rate of 9.6 per cent, which is slightly above 9.3 per cent recorded in the same period of the previous year.

The reasons for this achievement could be many but the continuity of the reform process despite the change in government could be the main one. The ongoing reform process, investment cycle upturn, growing urban consumption and outsourcing boom have given boost to the recent years' economic growth. This is in stark contrast to the South East Asian economies, where growth was largely export-driven. The sector's robust performance was led by trade, hotels, transport and communication, which contributed around 60 per cent of the sector's growth. The strong growth in the trade sector was on account of surge in exports and imports during the year. The activity in the hotel industry improved significantly aided by recovery in tourism, particularly in business and leisure travel. The transport sector also recorded a healthy growth during 2005-06. The growth in the production of commercial vehicles and the

usage of cell phones strengthened the sector. The growth in the financial and insurance sector was facilitated by expansion in non-food credit along with increase in bank deposits, Government's revenue expenditure and surge in insurance business by the public and private sectors. The growth in tourism and tourism-related services such as hotels, holds large potential for employment generation. The IT-enabled services such as Business and Knowledge Process Outsourcing have been growing rapidly and will continue to rise. India's large number of English-speaking skilled manpower has made India a major exporter of software services and professionals.

## Ports

During 2005-06, cargo traffic at major ports recorded 10.3 per cent growth. This is, however, less than the growth recorded (11.2 per cent) during the last fiscal. The major ports in the country handled 423.41 million tonnes (MT) of cargo as against 383.75 MT in the previous year. The shortfall in the growth rate was mainly due to the decline in POL import, fall in handling of all core commodities except coal, less import of fertilisers, less materialisation of general cargo, etc.

Among major ports, Vishakapatnam retained its highest rank, by handling 55.83 MT in 2005-06 as against 50.15 MT in the previous year. However, in

The trade, hotels transport and communications led services sector growth in 2005-06

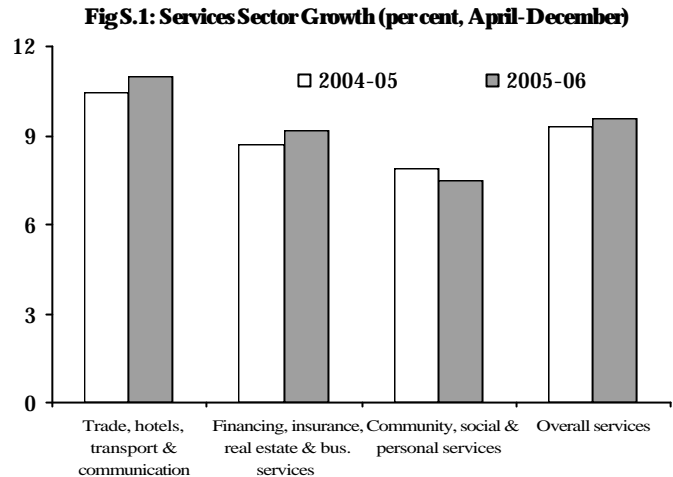
Cargo traffic at major ports grew by 10.3 per cent growth in 2005-06

terms of growth rate, Mumbai recorded 25 per cent this year. Of the 14 major commodities, POL products, iron ore and coal accounted for 65.8 per cent of the cargo handled at the major ports.

It is a fact that without being a transshipment hub, India cannot become a major manufacturing hub of world standard. In effect, India needs deep-sea ports for efficient transportation of cargo in its fairly long coastal route. The Rs 4,360 crore Vizhinjam International Container Transshipment Terminal is expected to tap the region's maritime potential and natural resources. The construction of the Greenfield mega harbour, the biggest such project in South India in the last 50 years, is expected to dramatically change the economic profile of the Vizhinjam area on the Kerala-Tamil Nadu border, where traditional and semi-mechanized fishing has been the main economic activity.

The major announcements of the Union Budget 2006-07 for the port sector are the following:

- Approval of the National Maritime Development Programme (NMDP).
- Allocation of Rs 55,804 crore for the port sector.
- Work is in progress in 101 projects covering inland waterways, shipping and ports, which include deepening of channels in Kandla, JNPT and Paradip.
- Plan allocation for the Department of Shipping up by 37 per cent to Rs 735 crore.
- A deep draft port is required in the eastern part of the country. It has been proposed to carry out a detailed study to identify a location for the same in West Bengal.
- The India Infrastructure Finance Company Limited (IIFCL) has been incorporated, and the first proposal



for fund has been received. Several suggestions have been received for viability gap funding for PPP projects.

## Civil Aviation

Total passenger traffic increased by 23.6 per cent in December 2005 to 72.4 lakh as against 25.4 per cent in December 2004. Domestic air passenger traffic clocked a healthy growth rate of 26.3 per cent to 49.9 lakh, while the international air passenger traffic went up by 17.3 per cent to 22.4 lakh. The corresponding figures for the same month during the previous year were 27 per cent and 20.1 per cent respectively.

Low fares, increased point-to-point connectivity and migration of train travellers together accounted for the healthy growth in domestic passenger traffic. Moreover, new airlines could generate more traffic by inter-linking with international airlines and signing a code-sharing agreement. Increased number of international tourists on domestic sectors contributed to the high growth in domestic passenger traffic. Over and above, a continuous rise in new routes by new carriers to cater to the regional demand has also contributed in spurring the growth in this sector. Prominent among them are Air Deccan, Spicejet, IndiGo and Paramount Airlines.

International traffic on the other

Total air passenger traffic increased by 23.6 per cent in December 2005 to 72.4 lakh as against 25.4 per cent in December 2004

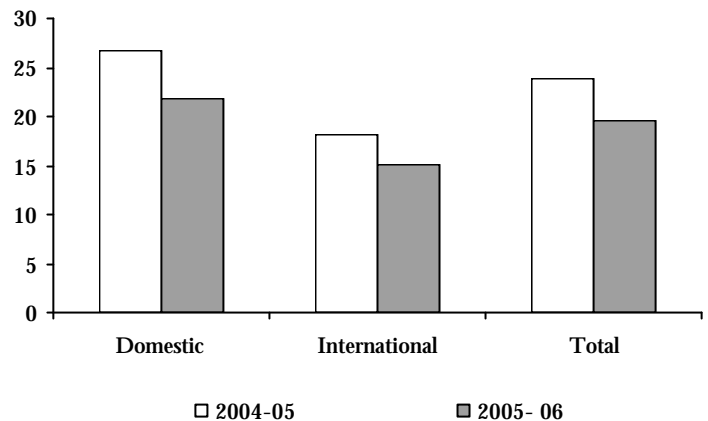
hand, was a result of increased bilateral agreements inked by the Indian government with various countries in the current fiscal. Sixteen bilateral agreements have been signed since April 2005. As a result, there have been capacity additions on certain routes connecting India resulting in a price war on routes to USA, UK and the South East Asia.

However, during April-December 2005-06, air passenger traffic rose by 19.7 per cent, which is substantially less than that in the corresponding period of the previous year. During April-December 2004-05, total air passenger traffic recorded impressive growth of 24 per cent. This decline can be attributed to reduction in the rate of growth of domestic air passenger traffic in the current fiscal. Domestic passenger traffic witnessed 21.9 per cent growth during April-December 2005-06 as against 26.8 per cent in the same period last year.

Looking at the total aircraft movement in December 2005, it has scaled up by 22.3 per cent. This is the highest growth in the last 13 months. This has been the result of considerable rise in the orders for aircraft from Indian carriers. The GoAir has placed orders with the Toulouse-based Airbus Industry for 20 Airbus 320 aircraft worth \$1.2 billion. The deal was finalised during the Singapore Airshow and these aircraft will be used for connecting North Indian and Metro-to-Metro routes. Also, Kingfisher signed a purchase agreement for 15 turbo-prop ATRs; low cost carrier Spicejet converted an earlier option of 10 aircraft with Boeing into a firm order, and took options on ten more airplanes. The value of this contract is pegged at \$1.2- \$1.4 billion.

It is not only the aircraft manufacturers who are popping the champagne, but also engine makers. Flag carrier Air-India also announced a \$2 billion deal with the General Electric for 23 Boeing aircraft engines.

**Fig S.2: Air Passenger Traffic Growth (per cent, April-December)**



The robust growth in passenger traffic is expected to continue in the remaining months of the current fiscal, with more international airlines flying to and from India, and the launch of more low-cost airlines. No-frill airlines are expected to continue exerting pressure on airfare, consequently aiding growth in passenger traffic.

The process for restructuring and modernisation of Delhi and Mumbai airports gained momentum with GMR-Fraport consortium winning the bid for Delhi airport, and GVK-South Africa consortium bagging the Mumbai project. Even though GMR-Fraport was the second highest bidder for the modernisation of the two metro airports, it was selected for Delhi by matching the top bidder, Reliance-ASA in terms of 45.99 per cent revenue share to the government. For Mumbai, GVK emerged as the top bidder offering a revenue share of 38 per cent, followed by GMR's 33 per cent, DS group's 28.12 per cent and Reliance's 21.33 per cent. The modernisation involves building a new international terminal at New Delhi and a domestic terminal at Bombay at a cost of over Rs 35 billion.

During April-December 2005-06, air passenger traffic grew by 19.7 per cent

## Railways

The railways in India is now on the phase of transition. Apart from growth in passenger and cargo services with competition crept in through low-cost airlines, the oldest mode of transport is now in no mood to give up. The Rail Budget 2006-07 stuck to this zeal by sparing both passenger and freight traffic of the burden of revision of fares, especially when the users are not happy with the deteriorating quality of services.

The focus of the railway budget was on high-density network entailing decongestion and improving speeds and providing satisfactory services to users through a raft of initiatives on the pricing front, besides stepping up existing amenities and augmenting them. The Yearbook 2004-05, released by the Railways, conceded that the average speed of goods trains was 23.3 kmph on broad gauge and 16.9 kmph on metre gauge. It is indeed gratifying to note that the Railways are going in for a detailed multi-modal high-axle load (25 tonne axle load wagons capable of hauling loads up to 80 tonnes) with computerised control on western and eastern routes at an estimated cost Rs 22,000 crore. Integral to the new contain-

er policy is the need to develop rail-linked container depot and integrated logistic parks. With such huge investment outlay, a viable public-private partnership (PPP) is the need of the hour, which, according to the Ministry, would be secured through "a transparent policy" and reasonable rate of returns to the builders and operators of such facilities. Due to the growth of the economy, the railways were able to achieve a record of loading 668 million tonnes of freight with a historic growth of 11 per cent by optimally using the existing rolling stocks, though beset with higher wagon turnaround time. The success of reduction in wagon turnaround time and additional loading of 100 million tonnes in capacity and generation of over Rs 5,000 crore in freight revenue, the private sector would definitely be motivated by business calculations to seize the opportunity. In effect, the success of a dedicated freight corridor is crucial to the commercial viability of the Indian Railways over the long haul because out of every rupee the system earns, as much as 64 paise come from goods traffic.

Experts have been time and again telling the Indian Railways to shed non-core activities and focus on core areas to

The Rail budget focussed on a high-density network entailing decongestion and improving speeds and providing satisfactory services to users

Optimal utilisation of the existing rolling stocks led to 11 per cent growth in railways freight in 2005-06

**Table S.1: Railway Freight (Million Tonnes)**

	2004-05 (Actual)	2005-06 (Revised)	More/ Less (-1)	2006-07 (Budgeted)	Anticipated growth
Coal	271.4	293.5	8.1	310	5.6
Raw material to steel plants	44.3	53.5	20.9	62	15.9
Pig iron/Finished steel	15.2	16.5	8.3	19	15.2
Iron ore for export	36.4	46.0	26.3	52	13.0
Cement	53.8	58.5	8.8	65	11.1
Foodgrains	46.5	41.0	-11.9	46	12.2
Fertilizers	28.8	34.0	18.3	36	5.9
POL	32.0	34.0	6.3	33	-2.9
Other goods	73.8	91.0	23.4	103	13.2
Total	602.1	668.0	10.9	726	8.7

Source: Railway Budget 2006-07

generate more resources by providing a reasonably satisfactory level of services. The time has come for the Indian Railways to shed out a few of its low-key but all the more essential activities, so that the private players could demonstrate their innate efficiency in running differently and diligently.

## Roadways

The National Highways Development Programme (NHDP) made an impressive progress during 2005-06. The highest-ever number and value of contracts were awarded in calendar 2005. The government has enhanced the Budget support for NHDP from Rs 9,320 crore to Rs 9,945 crore in 2006-07.

During April-January 2005-06, a total of 4,148 km national highways were widened/ strengthened/ improved by the National Highway Organization (NHO), the Border Road Development Board (BRDB) and the National Highway Authority of India (NHAI). This, however, exceeded the revised target of 3,676 km, but recorded the negative growth of 20.9 per cent over the achievement of 5,244 km during the corresponding period of the previous year (19 per cent). This includes strengthening of pavement and improving the quality of roads. The NHAI constructed/ strengthened/ widened 626 km of highways, which was less than the revised target of 636 km.

The NHAI has revised its annual target for 2005-06 from 1,429 km to 755 km in February 2006. During the period under report, the NHO and the BRDB widened/strengthened 3,522 km of highways, which was higher than the target of 3,040 km. by 15.9 per cent. The upgraded 3,522 km of highways include improvement of roads (2,116 km), strengthening of pavement (639 km), improvement of low grade section (17 km), widening to two lanes (739 km) and four lanes (11

km). During April-January 2005-06, 73 bridges were constructed/rehabilitated against the target of 99.

Meanwhile, the NHAI has signed a Concession Agreement for building an Elevated Highway on Bangalore-Hosur Section of NH - 7 in Karnataka. When completed, this 10 km-long highway, from Silk Board Junction to Electronic City, would be India's longest elevated highway, taking care of a long-standing demand of the people living in this industrially-developed region. This high traffic density corridor carrying between 81,000 to 1,24,000 passenger car units (PCU) daily, is being developed under the National Highways Development Project (NHDP) Phase-III A.

## Telecom

The Telecom Regulatory Authority of India has noted that during February 2006 alone, 4.3 million new cellular subscribers were added to the group of GSM users, taking the total to about 85 million. In the fixed line segment too, with 2.5 lakh new users, the total number has reached 49.5 million. Thus, the total number of phone users has crossed 134 million and the tele-density at the end of February reached 12.3, compared with 11.9 during the same month of the previous year. Simultaneously, the number of broadband connections too increased, crossing the one million mark.

The growth in telecom has been accompanied by competitive pricing of services by the major players by slashing international call rates to US, Europe, Canada and the Middle East. Similarly, STD rates are now cheaper by 80 per cent compared with the 2003 rates.

The Department of Telecom has announced subscriber-based spectrum allocation policy in which operators with higher subscription will enjoy more radio frequencies. However, maximum limit on

During April-January 2005-06, a total of 4,148 km national highways were widened/ strengthened/ improved

Tele-density at the end of February 2006 reached 12.3 compared to 11.9 during the February 2005.

this allocation has been fixed by the TRAI, with the GSM-based operators getting a maximum of 15 Mhz and CDMA operators 7.5 Mhz.

### **Prognosis**

India's economy is now on an increasing growth curve. With positive indicators such as a stable 8 per cent annual growth, rising foreign exchange reserves, a booming capital market with more than 20 per cent surge in exports, India needs to have a world class infrastructure to capitalize the change into structural advantage.

The prospects, of course, are promising as heavy outlays on mega projects in the steel, road, power, oil and natural gas sectors are contemplated in an unprecedented manner. With the burst of activity in the telecommunications, automobile and some other sectors, the complexion of the economy is likely to undergo a significant change. But, it is also

becoming increasingly clear that massive resources will have to be raised from the primary market even while foreign direct investment is encouraged in the desired directions and Special Economic Zones coming up in different regions. The new targets for many industries may not look imaginary if the trends in consumption of all types of goods are any indication. Studies by expert groups suggest that the purchasing power of the middle-income group alone would increase significantly due to higher incomes, while there will be rapid development in the services sector. It is felt that India will be a proper base for capacity expansion of many industries by multinationals and with the scope for exports, developments in the coming years would be distinctively significant for the growth of the services sector. Added to this, a very high growth in tourism will spin multiplier effect on income and employment as well.