Services

The fact that the service sector now accounts for more than half the GDP marks a watershed in the evolution of the Indian economy. The services sector is of key importance to an economy aspiring to achieve rapid growth and prosperity. India is considered to be one of the foremost destinations for investments and is well on its way to becoming a dominant player in the world economy. India's GDP growth has been primarily led by the services sector whose share has grown consistently from 43.7 per cent in 1996-97 to 52.4 per cent in 2004-05. The services sector growth has accelerated to 10.1 per cent during the second quarter of 2005-06 from 9.8 per cent in the previous quarter and 8.1 per cent a year ago.

The notion that the service sector growth must be supported by a proportionate growth of the industrial sector, has gained ground in India as it is now equally true that the industrial sector too has grown, and grown quite impressively through the 1990s (except in 1998-99). Thus, the service sector has grown at a higher rate than industry, which too has grown more or less in tandem. The rise of the service sector therefore does not distort the economy. Within the services sector, the first half comparison between 2004-05 and 2005-06 shows that the growth was particularly high in 'trade, hotels, restaurant, transport, storage and communication' and 'financial services'.

The spurt in capital market activities led to a voluminous growth in the transaction for the financial sector services. It may be mentioned that during this period, the Sensex touched new heights, signifying a bullish trend in the capital market.

Service sector growth accelerated to 10.1 per cent during the second quarter of 2005-06 from 9.8 per cent in the previous quarter and 8.1 per cent a year ago

In the transportation sector, the revenue earning freight traffic of railways has increased by 9.5 per cent in April-October 2005 as against 7.7 per cent growth during the same period in the previous year. This coupled with higher civil aviation and port traffic reflects increased economic activity and thus the propping up of the transport sector.

There has been robust growth in the cellular subscriber base. New cell phone connections have increased substantially from 21.7 per cent during April-November 2004 to 46.1 per cent during the same period in 2005. On the other hand, cargo handled at major ports has risen marginally to 11.6 per cent during April-October 2005 as against 10.8 per cent during the same period in the previous year.

First half services sector growth was led by 'trade, hotels, restaurant, transport, storage and communication' and 'financial services'

Ports

About 95 per cent by volume and 70 per cent by value of India's global merchandise trade passes through Indian ports. The major ports handle about 75 per cent of the all- India port cargo and thus bear the brunt of sea-borne trade.

In October 2005, cargo traffic at major ports expanded by a meager 2 per cent to 34.7 million tonnes, compared to an impressive growth of 15.7 per cent in the same month of 2004 (Table S.1). However, the traffic during this month was higher than that in the preceding four months.

While comparing the average growth of the total cargo handled in Indian ports, traffic at major ports witnessed a growth of 11.7 per cent to 234.7 million tonnes during April-October 2005-06, which is higher than the 10.7 per cent growth witnessed during the same period in 2004-05. This can be attributed to the robust growth in import traffic during April-October 2005-06. Import traffic, constituting 56 per cent of the total cargo traffic, scaled up by 13.4 per cent to 131.9 million tonnes after a 10.9 per cent increase during April-October 2004-05. During the same period export traffic, accounting for 40 per cent of total traffic, rose by 9.6 per cent to 94.9 million.

As compared to the performance for the corresponding period of the previous year, except Cochin, all the major ports registered a positive growth. The lower performance of Cochin was because of less imports of crude oil due to the shut down of the Kochi refinery. The Visakhapatnam port, enjoying the largest share of 13.2 per cent in handling the cargo traffic for the period April-October 2005-06, witnessed a 11.3 per cent increase in cargo movement to 31.1 million tonnes, compared to 3 per cent rise during April-October 2004-05. The increased movement of finished fertilisers, iron ore, POL products and coal drove the growth in traffic.

Of the major commodities transported, POL products, iron ore and coal accounted for 64.4 per cent of the total cargo traffic at major ports. POL products with the largest share of 31.8 per cent in total traffic, have registered an 8.1 per cent increase in traffic to 74.7 million tonnes, as against a 3.4 per cent rise in the first seven months of 2004-05. The relative growth of cargo movement was highest for cement followed by finished fertilisers, iron and steel and iron ore, growing at 89.9 per cent,

Table S.1: Monthly Traffic at Major Ports

Year	Month	'000 tonnes	% Change over Previous Year
2004	October	34044	15.7
2004	November	32906	14.7
2004	December	33167	10.0
2005	January	35592	8.9
2005	February	33048	11.9
2005	March	38509	14.5
2005	April	32936	15.8
2005	May	35497	18.5
2005	June	31668	15.3
2005	July	32894	7.6
2005	August	33640	11.2
2005	September	32987	13.3
2005	October	34708	2.0

80.5 per cent, 56.4 per cent and 23.7 per cent respectively. Foodgrain and fertiliser raw material were the only two commodities that posted decline in traffic in the current fiscal year till October.

As a result of the introduction of the Tonnage tax regime and also due to the current shipping boom, Indian Tonnage has steadily grown in the last six months. Indian tonnage as on June 1, 2004 was 7.05 million Gross Tonnage (GT), and it increased to 8.31 million GT on October 1, 2005. More than Rs 300 crore of incremental Gross Value Addition (GVA) to the Indian economy has taken place in 18 months by the incremental tonnage growth. The Government has issued comprehensive guidelines for private sector participation in the major ports. Till date, 17 private sector projects involving the investment of about Rs 6130.20 crore have been approved out of which 13 have already been operationalized. For 21 other projects involving investment of about Rs 4517.30 crore, bids are either under consideration or have been invited.

Cargo handled in Indian ports, grew by 11.7 per cent during April-October 2005

Civil Aviation

Recent developments in the aviation sector have been encouraging. During

April-October 2005-06 passenger traffic grew by 19.2 per cent at 38.49 million. Both international and domestic passenger traffic growth rates slowed down this year. International passenger traffic grew by 14.5 per cent this year compared to 18 per cent last year, at the same time growth of domestic passenger slowed down from 25.9 per cent last year to 21.4 per cent this year.

During April-October 2005-06, aircraft movement was up by 11 per cent, compared to a 14.7 per cent rise in the corresponding period of the last year. This could be attributed to the slower growth in the domestic aircraft movement, which rose by 8.9 per cent as against 12.9 per cent in the previous year. Taking into account the 21.4 per cent rise in the domestic passenger traffic, this deceleration suggests a rise in the passenger load traffic.

On the other hand, international aircraft movement registered a rise of 18.9 per cent during April-October 2005-06, on the back of 21.4 per cent increase in the corresponding period of the previous year. This increase came from the increased frequency of flights by existing airlines and the start of operations by new airlines under the air services agreements. Air France, British Airways, Continental Airlines, American Airlines, Gulf Air and Air Arabia were some of the airlines to increase their flight frequency and add new flights from India. With the view to enhance the growth of this sector, the government has initiated a number of policies.

In order to ensure sufficient availability of seats to and from India during the peak winter season, the government adopted a limited Open Sky Policy from November 2004 to March 2005. Under this policy the designated airlines operated additional services to/from India subject to the existing terms of the commercial agreement with Air India/Indian Airlines. A number of airlines responded to the offer and operated over 2400 additional flights to different airports in the country during this period. This policy has been adopted for the year 2005-06 as well.

Other policy initiatives include the acquisition of 43 aircraft by Indian airlines, opening international routes for private carriers, modernization of non-metro airports to world-class standards etc.

Both international and domestic passenger traffic growth rates slowed down during April-October 2005

Railways

In October 2005, the revenue-earning freight traffic in railways rose by 6.1 per cent to 53.4 million tonnes (Table S.2), compared to the impressive 12.2 per cent increase seen in the same month of 2004. This was 8.7 per cent below the target of 58.55 million tonnes set for the month. During April-October 2005-06, goods traffic increased by 9.5 per cent as compared to a 7.5 per cent rise in the corresponding period of the previous year and 7.3 per cent rise in 2003-04. At 366.9 million tonnes, freight traffic was 6.6 per cent lower than the target of 393 million tonnes set for the first seven months of the current fiscal. During this period goods traffic achieved 54.8 per cent of the annual target of 670 million tonnes.

During April-October 2005, railways goods traffic increased by 9.5 per cent compared to the 7.5 per cent rise in the corresponding period of the previous year

Except for food grains traffic of all commodities grew during April-October 2005-06. Coal, accounting for 44.3 per cent, the largest share of goods traffic, registered a 7.4 per cent growth increase after a 7.9 per cent during the same period of the previous year. 'Other goods' witnessed the sharpest rise in traffic of 25.3 per cent, compared to 5.4 per cent during April-October 2004-05. This was followed by 'Raw material to steel plants' with the impressive growth of 24.9 per cent. Other commodities to post a double-digit growth in traffic include pig iron and finished steel, iron ore for exports and fertilisers.

With the globalisation of the Indian economy and the spurt in foreign trade, the container traffic is growing enormously. In order to meet the growing demand for container trains, organizations other than CONCOR (Container Corporation of India Ltd.) have been given the green signal to operate container trains. The policy on container trains proposes that CONCOR will have to get itself registered as a container train operator just like any other operator. As a result, the company's monopoly over the rail-based container business has finally been broken. The Railway ministry has set up Rs 100 crore as the networth criteria to qualify for a licence to operate container trains.

Capacity constraints on the existing routes necessitate the introduction of double stack container freight trains. It is proposed to introduce these container trains during the next two years on the identified routes connecting North India with Gujarat ports, based on cost economics.

Table S.2: Monthly Revenue-earning Freight Traffic on Railways

Year	Month	Million tonnes	% Change over Previous Year
2004	October	50.35	12.2
2004	November	49.37	8.3
2004	December	53.69	10.0
2005	January	53.37	13.6
2005	February	50.21	1.1
2005	March	59.46	28.7
2005	April	52.59	15.4
2005	May	55.26	13.3
2005	June	52.40	11.6
2005	July	51.37	3.4
2005	August	51.56	11.6
2005	September	50.34	5.5
2005	October	53.43	6.1

Roadways

India has one of the largest road networks in the word, aggregating about 3.3 million kilometers at present. The country's road network consists of National Highways, State Highways, Major / Other District Roads and Village / Rural Roads. Of these, the National Highways and the State Highways together account for 195,000 kilometers in length. The National Highways, which are the responsibility of the Central Government, are 65,569 km in length and comprise only 2 per cent of the total length of roads, but carry over 40 per cent of the total traffic across the length and breadth of the country.

In 2005, about 35 per cent of the total National Highway network was still of the single-lane standard, 54 per cent of two-lane standard and only 11 per cent of four-lane or more standard. The present National Highways network has a capacity constraint, which has negative consequences for road user costs, road safety and the quality and frequency of transport services.

In 2005, only 11 per cent of the total national highway network was of four-lane or more standard

Looking at the need to improve the road sector, the Government of India took up major development project for the improvement of National Highways i.e. National Highways Development Project (NHDP) under the "National Highways Authority of India".

The total length of the Golden Quadrilateral (GQ) is 5846 Km out of which four laning of 5154 km has been completed and work is going on in the remaining length.

The total length of the North-South & East-West Corridors is about 7300 km out of which four laning of 797 km length has been completed and 2488 km length is under implementation, and balance is yet to be awarded. The North-South & East-West Corridors are targeted for completion by December 2008.

Out of 356 km under Port connectivity, so far 99 Km have been completed and the remaining 291 km is under implementation. Out of the 811 Km of other National Highways, so far 287 Km have been completed, 156 km are under implementation and a balance length is to be awarded.

NHDP Phase III, comprises the widening of existing National Highways to the 4/6 lane standard of about 10,000 Km having high traffic density, connecting important tourist locations, economically important areas, State Capitals. . The NHDP Phase-IIIA is targeted for completion by December 2009. Apart from the capacity augmentation by 4/6 laning of National Highways under NHDP, the government has also undertaken various other programmes that are not included in the NHDP.

Overall achievements made by the Ministry through all agencies i.e., NHAI, State PWDs and BRO under different schemes of development of National Highways during the financial year 2005-06 up to September 2005 are presented in Table S.3. Except for the construction of bypasses, in all other schemes the government was able to achieve more than what it has targeted for.

There are service providers that operate within a licensed territory. They are allowed to provide services and carry traffic within the licensed service area only. Interconnectivity among different licensees of the same service area was allowed but the same was not allowed across service areas except through the long distance operator. Though many service providers obtained licenses to operate in more than one service area, interconnection of their networks across different service areas has not been permitted. In the case of inter-circle calls, there needs to be interconnection of networks of different service areas. For this purpose separate licensees, National Long Distance Operators (NLDOs), were created. NLDOs provide backbone networks to interconnect different service areas. Thus inter-circle calls essentially pass through the network of NLDO besides that of the service providers. There are commercial and technical arrangements in the form of Interconnection usage charge (IUC) Regulation, which govern the interconnection of networks of different operators and NLDOs.

Out of the total length of 4015 km under NHDP-III A, work for four laning of 896 km has been awarded

Presently, in India there are four NLDOs viz., M/s VSNL, M/s BSNL, M/s Bharti Infotel Ltd, and M/s Reliance Infocom Ltd. The interconnection and the volume of traffic allowed to pass on the network of NLDOs depend on the

Table S.3: Target and Achievement of the Roadways Schemes

Name of Scheme	Target as per Action Plan 2005-06	Achievements during 2005-06
1) Improvement of low grade sections (km)	13	14
2) Widening to 4-lanes (km)	328	417
3) Widening to 2-lanes (km)	311	437
4) Strengthening of existing weak pavements (km)	507	694
5) Improvement of riding quality programme (IRQP) (km)	632	1207
6) Rehabilitation / Construction of Bridges (No.)	26	51
7) Construction of Bypasses (No.)	2	1

Telecom

A three-tier structure exists in the Telecom network industries in Indian.

capacity (configuration) and price of the domestic leased circuits. In the NLDO segment, BSNL enjoys a 'near monopoly power' because BSNL has the optical fibre based system in place while other NLDOs have mainly wireless systems. The wireless based transmission systems have basically low capacities as compared to the optical fibre based system.

The International Long Distance Service Operators (ILDOs) facilitated ISD calls. The Department of Telecom traditionally provided ILD services through its overseas division (OCS). Subsequently Videsh Sanchar Nigam Ltd (VSNL) was incorporated in 1986, as an independent company for international long distance telecom service. As part of liberalisation of sector, Government offloaded its controlling stake in VSNL, which is now owned by the Tata group. Full competition was introduced in the year 2002 in the ILDO segment. There are six ILDOs viz., M/s Reliance Infocomm Limited, M/s Bharti Infotel Limited, M/s Data Access (India) Limited, M/s BSNL, M/s VSNL, M/s MTNL. Despite this, tariffs of international private leased circuits (IPLC)-the dedicated channels taken on lease by information technology firms- in India have not come down to the levels witnessed in other countries in Asia reflecting the lack of effective competition in the market.

In order to introduce more competition, the Government of India on November 10, 2005 announced major policy decisions in NLD and ILD services segments. These are as follows:

i. The one time entry and annual license fees have been reduced from the existing level of Rs 100 crore to Rs 2.5 crore, and from 15 per cent to 6 per cent of the adjusted gross revenue respectively for the new NLDOs. The later measure comes into effect from January 1, 2006.
ii. The present mandatory provision of setting up of a point of presence by each NLDOs in each of the long distance charging areas has been removed.
iii. The networth and paid up capital requirements for NLD licences have been reduced from Rs 2500 crore and Rs 250 crore respectively to the level of Rs 2.5 crore.
iv. NLD service providers have been allowed to provide leased circuits to closed user groups of customers.

Following are the policy changes in the ILD segment:

i. Entry fee and annual license fee will be reduced from Rs 25 to Rs 2.5 crores and from 15 per cent to 6 per cent of adjusted gross revenue respectively with effect from January 1, 2006.
ii. Except the condition that an ILD Licensee has at least one switch in India, all other roll out obligations have been removed.
iii. Like NLDOs, ILDOs have been allowed to provide leased circuits to closed user groups of customers directly.
iv. Networth and Paid up Capital of the ILD Licensee is reduced to Rs 2.5 crore.

FDI ceiling in the telecom sector increased from 49 per cent to 74 per cent for basic, mobile, unified access, long distance and value added services

The Government of India, on November 3, 2005 lifted the FDI ceiling in the Telecom Sector from 49 per cent to 74 per cent in the segments of basic, mobile, unified access, long distance and value added services. The FDI can be direct or indirect. The remaining 26 per cent is required to be owned by resident Indian citizens or an Indian company in which FDI does not exceed 49 per cent and the management is with the Indian owners. The proportionate foreign component of such an Indian company will also be counted towards the ceiling of 74 per cent. FDI up to 49 per cent will be automatic i.e., approval from Foreign Investment Promotion Board is not required, where as in the case of 74 per cent the same is required.

Besides the above stated measures, the Government also notified that henceforth prior experience in the telecom sector would not be a prerequisite for being granted telecom service licences. Access service providers are allowed to provide Internet telephony, Internet and Broadband services, which were earlier restricted to NLDOs. Thus access providers can provide broadband services including triple play i.e., voice, video & data. These measures are intended to bring competition in long distance voice as well as in data transmission services, which in turn help provide these services at lower tariff rates and reduce the gap between local and STD tariffs.

The Telecom Regulatory Authority of India, in its Consultation Paper on 'Revision of Ceiling Tariff for Domestic Leased Circuits', No. 12/2004, stated that the lack of effective competition in both NLDO and IPLC is resulting in high prices of domestic leased circuits and international circuits. These high prices are acting as major hurdles preventing the growth of telecom services in India. TRAI also opined that the artificial barriers that were created by the licensing system have contributed for the limited competition in the segment. The present policy measures are expected to address these problems. They mainly help bring down the cost of bandwidth in the country. As bandwidth is a crucial input for information technology (IT) and IT enabled industries like BPO etc., this in turn would go a long way in enhancing the competitiveness of these industries in the global market. Moreover, reduction in tariffs will also lead to higher growth in services and better capacity utilisation of networks, which would result in improved economic viability of the sector in the county.

Access service providers are allowed to provide Internet telephony, Internet and Broadband services