

GROWTH OF THE SERVICE SECTOR IN INDIA – WHAT DOES IT AUGUR FOR THE FUTURE

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ABSTRACT

The existence of a strong service sector is one of the pre-conditions of economic progress of any country. The service or tertiary sector covers a wide range of services ranging from the most sophisticated ones to those provided by the unskilled workers in the unorganized sector. India has made substantial progress on this front since the attainment of independence and is credited with having the second fastest growing service sector in the world.

Several factors have contributed to the growth of this sector in India. These include growing affluence, improving status of women, growth of IT sector, development of markets, health care consciousness, opening up of the economy etc. However, the sector has to face a number of hurdles in the form of inadequate infrastructure, absence of customer friendly attitude, bureaucratic inertia, existence of multiple public bodies and slow implementation of reforms.

What is worse is that the contribution of this sector to employment is much less as compared to its share of India's GDP. Two important socio economic problems are plaguing the economy in the form of poverty and population. However, this sector has a lot of potential and with just the right policy mix can take the economy to global heights in the near future.

KEYWORDS: Services, GDP, Liberalization, IT Sector, Women Empowerment

INTRODUCTION

The existence of a strong and competitive service sector is a pre-condition for economic development of a country. In fact the transition from agriculture to services via manufacturing is a clear indicator of progress of a country. This Paper, attempts to discuss the concept of service sector, examine the trends in the development of India's service sector, discuss the reasons for the growth of the sector in India, mention the hurdles which can impair its growth and dwell on the future prospects.

OBJECTIVES

The study "Growth of the Service Sector in India – What does it augur for the future" has the following objectives:

One, of the three sectors primary, secondary and tertiary or services the latter is the fastest growing one in India and the study aims at analyzing the trends in the growth of this sector;

Two, a number of obstacles are impairing its growth and the paper examines the impediments to growth;

Three, Indian service sector has a lot of potential and in keeping with the requirements of the competitive global environment; the topic under consideration tries to make a few recommendations.

The study is essentially descriptive in nature and therefore secondary sources of data collection have been used.

CONCEPT OF SERVICE SECTOR

The Service sector, also called the tertiary sector covers a wide range of activities ranging from services which are provided by different sectors. They include the most sophisticated sectors like tele-communication, satellite mapping and computer software; simple services provided by the unskilled menial workers like the barbers, the plumbers and the carpenters; highly capital intensive activities like civil aviation and shipping; employment oriented activities like tourism, real estate, and housing; infra-structure related activities like railways, roadways and ports to social related activities like health and education.

SERVICE SECTOR IN INDIA

India has the second fastest growing service sector in the world, with a compound annual growth rate of 9% which is just below the Chinese growth of 10.9% in the period between 2001 and 2012. One can say that the share of the secondary sector in the GDP increased moderately in the Post-Independence Period. The primary sector on the other hand has been registering a continuous decline in its share of GDP. The said period however has witnessed a sharp increase in the service sector with the latter accounting for more than half of the GDP.

Table 1: Sectoral Compound Growth Rate Sector Wise

Years	Primary	Secondary	Tertiary
1951-60	3.2	7.60	6.40
1961-70	11.80	10.9	10.20
1971-80	9.20	14.00	12.80
1981-90	11.70	14.50	15.30
1991-2000	13.10	15.30	16.60
2001-2011	8.3	15.00	14.8

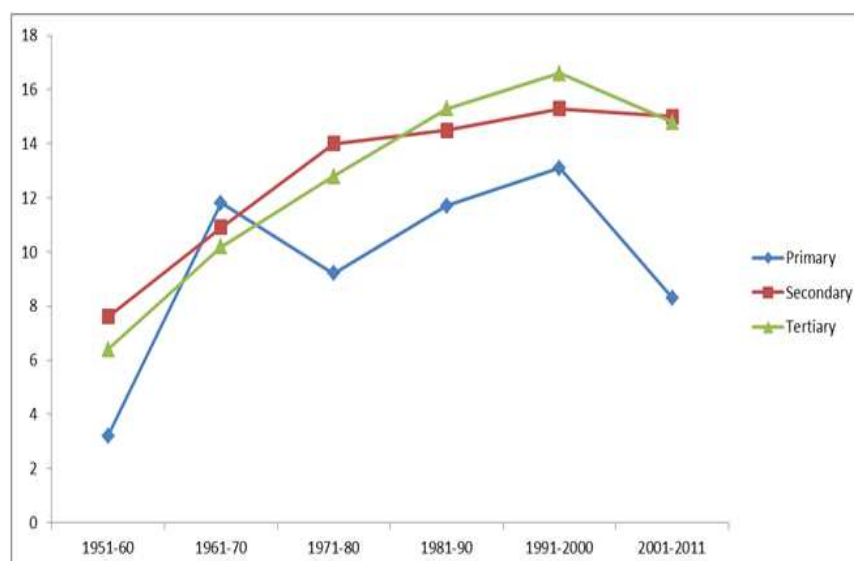


Figure 1

The graph clearly indicates the trends in the three sectors. The share of the primary sector, barring two periods 1961-70 and 1991-2000, has been consistently falling. The secondary sector had a more gradual rise till 1991-2000 and has grown at a constant rate thereafter. The Indian tertiary sectoral compound growth rate has a steep slope reaching its peak in the period 1991-2000.

The service sector accounted for 30% of the total GDP in 1950s which increased to 38% in 1980s, 43% in 1990s and about 56.5% in 2012-13. This can be illustrated by the table given below:

Table 2: Percentage Share of Service Sector in Gross Domestic Product

Components	Years						
	1950-51	1960-61	1970-71	1980-81	1990-91	2000-01	2010-11
1) Trade Hotels and Restaurants	6.35	7.61	8.29	11.6	12.69	14.59	17.80
2) Transport, Storage and Communication	3.84	4.56	4.41	5.47	6.21	7.68	8.30
3) Finance, Insurance, Real Estate and Business Services	12.34	13.56	12.00	10.57	11.62	13.23	16.90
4) Community, Social and Personal Services	10.43	11.96	12.02	11.43	12.32	14.49	14.90

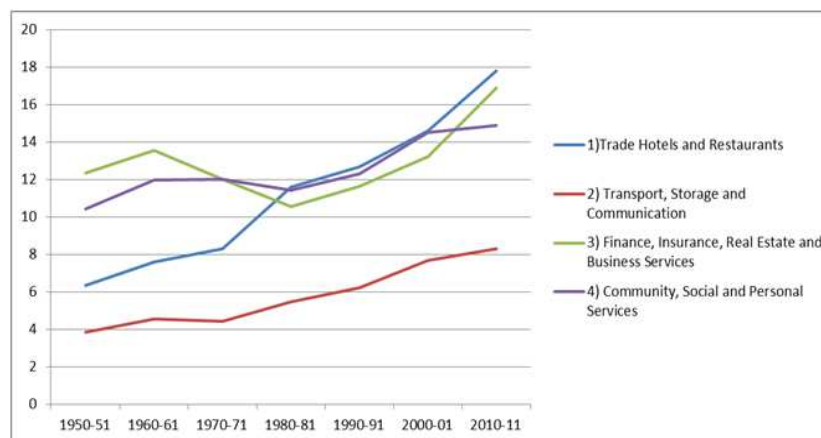


Figure 2

A look at this table and the following graph shows that post liberalization period has witnessed the largest contribution by trade, hotel and restaurants followed by community, social and personal services; and finance, insurance, real estate and business services.

The contribution of trade, hotels and restaurants picked up after 1990-91, -that is after the introduction of reforms. The share of transport, storage and communication has had a steady increase while community, social and personal services reached the peak in 1960-61, followed by a fall in 1980-81 and since then are making a steady contribution to India's GDP. The contribution of finance, insurance, real estate and business services was the highest in 1960-61, and fell drastically in 1980-81 only to rise once again.

Foreign direct investment in the services sector declined sharply by 37.6% to US 6.4 billion as compared to an overall growth in the FDI inflows at 6.1%. On a more general basis one can say that the Indian services sector attracted the highest number of foreign direct investment equity inflows amounting to US Dollars 40, 684, 98 million which amounts to about 18% of the total capital inflows.

India's share in world services exports increased from 0.6% in 1990 to 1.1% in 2000 and further to 3.3% in 2013 and has been increasing faster than its share in world merchandise exports.

Exports of software services account for 46% of India's total service exports. They declined from 5.9% in 2012-13 to 5.4% in 2013-14. Travels which account for a near 12% share witnessed a negative share.

CAUSES OF GROWTH OF SERVICE SECTOR IN INDIA

India's service sector is the 12th largest in the world by nominal GDP and 4th largest when purchasing power is taken into account. The service sector provides employment to 27% of the population. Let us look into the factors that have led to the growth of the service sector in India:

- **Economic Affluence**

The Indian society is characterized by an increasing middle class. In addition the liberalization of the Indian economy has had a positive impact on the Indian households. Their income and expenditure has been pushed up fostering the demand for goods and services;

- **Changing Role of Women**

Earlier women were a neglected lot, who only had to carry out household chores. But with time there has been a change in the way of thinking. Women are educated and allowed to work. They are employed in several erstwhile male dominated services such as defence services, police services, postal services, software services, health services etc.

An increase in the number of working women has led to the creation of a market for a number of products and services.

- **Changing Culture**

The traditionally common joint family system is slowly disintegrating and making way for a nuclear family way of living. This has been accompanied by an increased demand for a number of services like education, health care, entertainment, tourism etc. There has also been a marked change in a person's way of thinking with respect to investment, recreation and time perception leading to increased demand for services.

- **Growth of IT Sector**

In India information technology and business outsourcing are amongst the fastest growing sectors having a cumulative growth rate of revenue.

The growth of IT sector can be attributed to several factors such as increased specialization and availability of a large pool of low cost, highly skilled educated and fluent English speaking workers. This supply is matched by increased demand from foreign customers who are interested in India's service exports or those looking to outsource their operation.

- **Development of Markets**

Both the urban and the rural areas have witnessed wide spread retailing and whole selling. In fact retailing has even extended to remote rural areas.

- **Health Care Consciousness**

The present generations are becoming more and more diet and health conscious. They are resorting to services of gymnasiums and fitness clubs to maintain their physical and mental health.

- **Economic Liberalization**

The opening up of the Indian economy in 1991 was followed by a policy of disinvestment. This facilitated the entry of multinational Corporations leading to its accompanying increase in demands. This acted as a spurt for the development of the service sector.

- **Migration from Rural to Urban Areas**

With rapid industrialization and other developments in this era of globalization, there takes place large scale migration from the rural to the urban areas. This changes the life-style and enhances the demand for services.

- **Export Potential**

The services offered by India to various parts of the world include banking, insurance, transportation, company data services, education, software services, tourism etc. In fact tourism and software services are among the major foreign exchange earners of the country.

- **Service Tax**

The coverage of this tax has been extended. The tax net covers hotels and restaurants, transport, storage and commercialization, financial services, real estate, business services and social/personal services.

HURDLES FACED BY THE SERVICE SECTOR

The service sector in India faces a number of hurdles as mentioned below:

Firstly, there is want of adequate infrastructure not only in the rural areas but also in the urban areas. Our mega cities face constraints in the form of power cuts, bumpy roads, traffic congestion and pollution. This has a telling effect on the quality of services provided.

Secondly, while the share of the service sector was 56.9% in 2012, the share in employment was only 28%.

Thirdly, tourism is a lucrative service in view of India's natural beauty and other pleasing factors, but bureaucratic delays and harassment /cheating by touts and agents act as an impending factor.

Fourthly, good mannerism and etiquettes are the hallmarks of service providers but many of our banks, hotels, restaurants and hospitals are seriously lagging on this front. The problem is even more adverse in case of the public sector institutions.

Fifthly, there are too many administrative procedures involved, resulting in various visible and invisible barriers like visa and sector specific restrictions.

Sixthly for the service sector to grow and have an impact on the growth process, it has to be accompanied by simultaneous developments of both the primary and secondary sectors.

Seventhly, Indian service providers face stiff competition particularly Business Process outsourcing and IT providers. They have to improve their quality if they have to compete with the best in the world.

FUTURE PROSPECTS

Indian economy which was growing at an accelerated rate from 1998 to 2010 had a setback of sorts in 2012. The economy however is gradually picking up and moving in the right path. This will lead undoubtedly to increase the Per Capita Income of the high and middle income groups, while simultaneously striving to reduce the number of people below the poverty line.

The entire process would have stimulating effect with an increase in the literacy level. India has to her credit one of the youngest populations in the world. The cumulative effects of all this will be an increase in the demand for services like education, health, hotels, restaurants etc.

According to the Planning Commission India's service sector is expected to grow at the rate of 10% per annum in the period between 2012 and 2017.

India also ranks high in international trade accounting for 3.34% of exports and 3.31% of imports of services. She is in addition among the top 10 rankers of WTO members as regards export and import of services.

CONCLUSIONS

As we have discussed the service sector is the fastest growing sector in India, contributing significantly to the GDP and is projected to rise even further. However, the increase in employment is not in keeping with the share of the sector in the GDP and even among those employed the big question is how many of these work in the organized service sector?

India has a number of problems which are socio economic in nature. Poverty and accelerated population growth are major constraints, thereby depriving several people of access to basic health and education.

A number of obstacles hamper the progress of this sector and its contribution to inclusive growth. Bureaucratic inertia, multiple government bodies having their own sets of rules and regulations, rampant corruption and absence of a uniform concrete policy have an adverse effect on the system.

Slow reform process, restrictions on foreign direct investment, poor infrastructural facilities, absence of uniformity in the quality and standard of education, in spite of having renowned Brain Power and the existence of unemployable educated youth are all limiting factors.

India, however, has vast potential for promotion of service economy. This is attributed to factors such as emergence of a new middle class with increasing aspirations, opening of the economy leading to the availability of a wide range of goods and services, growing retail and improving domestic and international market for Information Technology.

With just the right policy mix, propelled further by the revival of the US economy and the potential for India's IT and Business Process outsourcing sectors in different parts of the world together with increased domestic demand will no doubt take our country to greater heights.

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