

Prospects of growth in Service Sector in India

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Abstract

Indian Economy is experiencing Service-led-growth during the past few years and so the main reasons for the rapid growth of the service sector should be studied thoroughly. All service sectors participated in this boom growth are fastest in communications, banking, hotels and restaurants, community services, trade and business services. This paper is focused on the study of prospects of growth in India.

Keywords: Growth, Development, Service Sector, Foreign Trade, Financial Crisis

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Introduction

India has taken substantial steps towards economic liberalization during last few years, having worked out strategies for bringing about rapid economic development.

It is rather difficult to give a precise definition of economic growth. The U.N. Experts do not define "economic growth in any specific growth" is so widely understood that it hardly needs any precise definition. It can without difficulty, be measured in terms of national income aggregates. W.W. Rostow, on the contrary, defines economic growth as a "relation between the rate of increase in capital and the working force, on the one hand and increase in population, on the other, such that per capita output is rising"¹

In the Development Process the supremacy of the service sector is linked with the third stage. The rapid increase in the economic development which has occurred during the recent past few years is mainly due to increased momentum in the service sector, and the contribution made by the industry sector has remained almost static during the past three decades. Contribution made by the service sector in G.D.P. is almost 57%, and the contribution made for the development of India during past $1\frac{1}{2}$ decade is more than 60%. Nature, Structure and Development of service sector in India in the Indian Economy can be studied under the following heads:

1. Growth and Contribution of Service Sector in India.
2. Structural Changes in Service Sector.
3. State wise Service Sector.
4. Service Sector; International Comparison.

5. Foreign Trade in Services.
6. Reasons for rapid growth of services.
7. Is Services led growth sustainable?
8. Suggestions to encourage service sector.

Growth and Contribution of Service Sector in India

Growth and contribution of service sector in India can be studied under the following heads:

(i) Sectoral Growth Rates

During the past few years Indian economy has made a rapid growth and the main reason for this is the rapid growth and progress of the Service Sector. This becomes abundantly clear from the table given ahead:

Table 1: Sectorial Growth Rates during the Plan Period (In percentage)

Sector	1951-80	1997-2002	2002-2007	2009-2010	2010-11
1	2	3	4	5	6
Agriculture	2.1	2.5	2.5	0.4	6.6
Industry	5.3	4.3	9.2	8.0	7.9
Service	4.3	7.9	9.3	10.1	9.4
GDP at Factor Cost	3.5	5.5	7.8	8.4	849.4

Data given in the above table makes it clear that:

1. During the three decades from 1951 to 1980 growth rate of service sector was less in comparison to Industry Sector.
2. Due to worldwide recession, the growth rate of Service Sector was 8.4% both in the year 2009-10 and 2010-11. On the basis of details given above it can be said that during the past few years economic development in India has been mostly directed by the Service Sector.

(ii) Share of Services in GDP

During the past few years on the whole, the Service Sector has recorded very rapid growth, shares of Services in GDP have also recorded significant increase. This fact is clear from the table given ahead

Table 2: Shares of Services in GDP (In percentage)

Sector	1951-51	1991-91	2004-05	2010-11	2011-12
	At Prices	Prevalent in 1999-2000	At Prices	In 2004-05 Prices	In 2004-05 Prices
Agriculture	55.3	31.4	18.9	14.5	14.0
Industry	15.1	25.9	28.0	27.8	27.0
Service	29.6	42.7	53.1	57.7	59.0

Data given in the above table reveals that in case of the **Primary Sector**, (Agriculture, Forestry etc.) contribution of this sector which in the year 1950-51 at the prices of 1999-2000 was 55.3 per cent, got reduced to 31.4 per cent in the year 1990-91. This was reduced further to 14 per cent in 2010-11 at the prevalent prices in 2004-05. **This was partially compensated by the increase in Secondary Sector**, which in the year 1950-51 was 15.1 percent and went up to 27.0 percent in the year 2010-11.

The maximum increase recorded in total GDP was of the **Service Sector (Tertiary Sector)** and its contribution which in the year 1950-51 was nearly 29.6 per cent went up to 53.1% in the year 2004-05. Contribution of Service Sector recorded a further increase and went up to 59.0 per cent in the year 2011-12. In fact, during the growth and improvement period after 1991, the contribution of the Services Sector recorded increase at the maximum pace.

(iii) Contribution of Services to Growth

Table given below depicts the contribution made by Agriculture, Industry and Services towards the growth of GNP.

Table 3: Contribution Made by Different Sectors in Growth of GNP (In percentage)

Sector	1960-61	2001-08	2008-12
1	2	3	4
Agriculture	48.2	7.0	7.1
Industry	2.2	29.3	22.7
Services	22.6	63.6	70.2
Total GNP at Factor Cost	100.0	100.0	100.0

From the data given in the, above table it becomes clear:

1. In the year 1960-61 contribution made by different sectors in GNP was as under; Agriculture-almost 50%, Industry nearly 30% and Service Sector only 20%.
2. By the year 2008-12, total contribution made by Agriculture got reduced • to less than 7.1% while the contribution made by services was 70.2%.

Structural Changes in Services Sector

Central Statistics Organization: The Services rendered b C.50 are divided into 4 parts in a broader way:

(i) Trade, Hotel and Restaurants, (ii) Transport, (iii) Financial Management, Insurance, Immovable Property and Commercial Services, (iv) Community, Social and Individual Services.

During the year 2009-10 contribution made by service sector in Gross "Domestic Product (GDP) was as under:

(i) Trade, Hotel and Restaurants (16.3%), (ii) Warehousing and Communication (7.8%), (iii) Finance Management, Insurance, Immovable Property and Assets and Commercial Services (16.7%), (iv) Community, Social and personnel Services (14.4%).

During the time span from the year 2004-05 to the year 2009-10, under the Commercial Services, Information Technology recorded the most rapid growth.

Sub-sectors under commercial services have recorded the fastest growth. Growth rate of commercial services has recorded an annual increase of 20% on an average.

During the time span from the year 2004-05 to the year 2005-09, growth rate of this sector has been almost 17% on an annual basis, the main reason for such a rapid growth rate in this field has been the Information Technology Sector.

- (i) **Communication Services** recorded an increase at the rate of 14% per annum and made a very significant contribution in the total service sector. The basic reason for a rapid growth in this sector has been revolution in tele-communication network and services.
- (ii) While the contribution made by **tele-communication** services in the GDP during the year 1990-91 was only 1%, it increased to more than 14% in the year 2006-07.
- (iii) In the GDP for the year 1960-61 contribution made by Banking and Insurance sector was only 0.18% but it made a stupendous Contribution of 13.7% in the year 2006-07.

Statewise Service Sector

A comparison of the contribution made by the service sector in the GDP of various States and United provinces/union territories reveals that service sector is the major contributor. In this regard, most prominent amongst all the states are: Delhi, Chandigarh, Kerala, Maharashtra, Bihar and West Bengal. Contribution made by these states. Union Territories is almost equal to the contribution made by rest of country. In this way revolution in

the Service Sector is not confined to only a few states but is gaining a wider acceptance and acquiring a broader base.

Services Sector: International Comparison

With a major contribution of 64.2% in the total world GDP, Service Sector has been playing a major role in improving the economics of different countries in the world and more specifically in those countries where the per capita income is very high and those which are greatly affected by the change and converted into service-oriented economics.

India also has made good progress "and growth in service sector business. During world economic crisis in the year 2009, when most of the countries of the world recorded a negative growth in the service sector, only china (9.4%). India (6.8%) and Brazil (2.6%) recorded of positive growth. In the year 2009, at the currently prevalent prices for total GDP, India's world ranking was 11th and with regard to services GDP it was 12th.

Table 4: Increase in Service's Growth of 12 Top Nations

S.No	Country	Share of Services (In Total GDP) % Year 2009	Growth Rate of Service % 2000-09 (b)
1	U.S.A	76.5	2.0
2	Japan	71.0	0.5
3	France	71.1	1.5
4	U.K.	70.5	2.3
5	Germany	66.6	1.4
6	India	52.0	8.9

Foreign Trade in Services

India and China are two major developing nations which are advancing rapidly in Foreign Trade in Services, although the pattern of increase in different kind of services in India is at variance with other countries. Commercial Services for most of the top services exporters come in top category and with regard to India its proportionate share is comparatively higher. We can briefly study the structure and composition of Foreign Trade in Services under the following heads:

Composition of Service Imports

Composition of Service Imports in India have undergone vast changes during the past few years and this would become clear from the details given below

- (i) Amongst the Service Imports, the most important is Import of Commercial Services. While in the year 2000-01 import of such services was only 7% of total imports, it went up to 33.0% in the year 2010-11 and recorded a further increase and touched the high level of 30.1% in the year 2009-10.
- (ii) Share of Transport Service almost remained static between the periods 2000-01 to 2008-09 but recorded a decline in the year 2010-11.
- (iii) Share on account of Travel in the year 2000-01 was 19.2% but it got reduced to 13.2% in the year 2010-11.
- (iv) In the year 2009-10 share of communication service was 2.3% of the total import of services.

Composition of Service Exports

As we have already studied that whatever increase is being recorded in GDP of economy is mainly to **Service Oriented growth**. This is most specifically applicable to export of specialized kind of services because India is rapidly advancing towards service-oriented exports in a regular and consistent way. This is also confirmed by the fact that the compounded rate of services Export growth during the time period from 2004-05 to 2009-10 was 16.7% and this was higher than the annual compounded export growth rate of other commodities which was 16.4%.

Composition of service exports makes it clear that the services which recorded a rapid increase in exports include software services, commercial services, Finance Service and communication services. **Of the total Service Exports, share of software exports in the year 2000-01 was 39.0% and this increased to 41.7% in the year 2010-11.** Share of non-software exports in the total service exports was 21.3% and this increased to 34.2% in the year 2010-11.

Reasons for Rapid Service Growth

Indian Economy has experienced Service-led-growth during the past few years and so the main reasons for the rapid growth of the service sector can be studied under the titles given ahead:

Technological Advances: - Rapid progress made by the services sector in the fields of Technological Advancement and Information Technology has created a very favorable impact. Some of the examples of the progress made by Indian in the field of Information Technology which have created a very deep impact upon the growth rate are as under-Use of Internet in the field of Information Technology, development of Cellular Phone Services in this sector and in the Banking Sector use of ATM and Credit Cards etc.

Is Service Led Growth Sustainable?

In 1950-51 the field of activities supporting Agriculture was the most important sector and its contribution in the total GDP was 55.8% by 1980-81, contribution made by the service sector in GDP reached up to 38.0 percent which was higher than the share of Agriculture in GDP. During the Ninth Five-year Plan also when the pace of total economic development was comparatively low, service sector continued to grow at a fast pace. Gradually the contribution of service sector in GDP rose up to the level of 60%.

Suggestions to Encourage Service Sector

The potentials of service sector which were slightly diminished due to sub-prime crisis in USA and Global financial crisis are now showing signs of improvement. Hence, to maintain and sustain the growth of service sector and to provide proper encouragement for this, following suggestions can be given:

- (i) In sectors of Information Technology and I.T. Communications India has already attained a strong position and to maintain its competitive strength, India needs to pay special attention to efficient techniques and technology formation.
- (ii) India is yet to establish itself properly in traditional sectors such as road transport, tourism and shipping for which rationalization of taxes is required and greater transparency is needed for technological standards and sub-standards.
- (iii) In financial, medical and health services. Defense, education, accounting and other business-related services where India has its own vast market, it has succeeded in attaining a place of prominence in International Markets as well. Under such circumstances India must endeavor to get itself firmly established in global trade of such services.
- (iv) By concentrating on extension and expansion of such services during bilateral and multilateral discussions India must endeavor to create a favorable business environment for them.
- (v) Through establishment of a portal for organized marketing of such services, collection and dispersion of Market Information to linked different agencies can be easily done with the help of an effective data system. Amore well centered, co-operative and co-ordinated policy can enable the service sector to march ahead and attain a better status.

Craze for research and development is gradually increasing in India. However, Govt. needs to take more initiative and adopt measures for its advancement. There is a scarcity of research scholars and in the public sector enterprises only a few scholars have published their papers on this subject. However, there are some subjects which need immediate attention. Some of the subject matter requiring immediate attention are described below:

- (i) To reduce or eliminate restrictions on Public Sector Research Institutions,
- (ii) To introduce 'reward and punishment' system for research scholars,
- (iii) To prepare Brand Equity of Research Institutes that is to publicize their repute,
- (iv) To strongly implement the intellectual property rights.

Conclusion

All service sectors participated in this boom growth are fastest in communications, banking, hotels and restaurants, community services, trade and business services. One of the reasons for the sudden growth in the services sector in India in the nineties was the liberalization in the regulatory framework that gave rise to innovation and higher exports from the services sector. The agriculture sector contributed 17.2% industry contributed 29.1% while the service sector had a contribution of 52.7% according to 2008 estimates.

The growth in output in the sector in recent times has monthly come from the rapid development of skill intensive services in the information technology and professional service segments mostly oriented to serve the internal market.

A shift in the consumption pattern of this nature indicates that the demand side impetus to services growth will continue indeed will get stronger, since liberalization began, India's services export has increased.

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