

Services Sector In India's Economic Growth

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ABSTRACT

“The remarkable expansion of services worldwide led to the services being regarded as an engine of growth and even as an important contributor of economic growth.”

Services Sector is also known as tertiary sector is essential for economic growth in any economy including India. India's services sector has shown rapidly growth since 1990s by contributing to major share in nation's GDP, TRADE and FDI inflows. Among other sectors, it is the single largest contributor to economic growth of India.

India ranked 9th in overall GDP and 10th in services GDP. A comparison of the services performance of the top 15 countries in the eleven year period from 2001 to 2011, shows that increase in share of services in GDP is the highest for India (8.1percentage points) followed by Spain. This paper makes an analysis of Indian Services Sector through examining its growth and contribution in the economy. To maintain and accelerate the growth and contributions of this sector and to develop it as a true engine of economic growth, more investment in physical infrastructure as well as human capital is required.

KEYWORDS: Services Sector, Economic Growth, GDP, FDI inflows.

INTRODUCTION

In the path of economic development, it is well known fact that a country experiences a structural shift. Firstly the primary sector dominates but when development process starts, the contribution of the secondary sector rises in relation to the primary sector which was initially a predominant sector, with industrialization the secondary sector became a major contributor to the GDP followed by the tertiary and primary sector and the economies transformed into developed nation in a period from 75 to 100years(Kuznets 1966). But the case of India is different, since 1950s with the onset

of economic development India's services sector has grown at a rapid rate compared to the growth of the secondary sector. At that time of 1950s, the Indian economy showed structural characteristics similar to most developed countries of today when they are embarked on the process of industrialization.

Agriculture contributed approximately 56% of GDP, industry around 14% and services about 30% (1950-51). But between the period of 1950-1951 to 2009-2010, the share of the agriculture sector in GDP fell from 55.9% to 14.6%, whereas that of the industrial sector rose from 14.3% to 28.1% and that of the services sector rose from 29.8% to 57.3%.

TABLE 1. Sectoral share in India's GDP 1950-51 to 2009 -2010

SECTORS	1950-51	1960-61	1970-71	1980-81	1990-91	2000-01	2004-05	2009-10	CHANGE BETWEEN 1950-51 TO 2009-10
Agriculture	55.9	46.7	46.0	38.9	31.3	24.6	21.1	14.6	-41.3
Industry	14.3	19.0	20.3	24.5	27.6	26.6	27.2	28.1	13.8
Services	29.8	34.3	33.7	36.6	41.1	48.8	51.7	57.3	27.5

Source : Central Statistical Organization, National Accounts, statistical.

In India, growth in services sector has been linked to the liberalization and reforms of the 1990s. During the first three decades (1950-1970) after independence, GDP grew at an average decadal growth rate of less than four percent. India was largely an agrarian economy. The share of services sector was small and a large number of services were government monopolies. Services sector started to grow in the mid-1980s but growth accelerated in the 1990s when India initiated a series of economic reforms after the country faced a severe balance of payment crisis. It was the early nineties, when India was passing through an unprecedented economic crisis, following political instability that was further aggravated by the impact of the Gulf war. Our country was trapped in galloping position of foreign exchange reserves and other micro-economic imbalances.

Reforms paved the way for faster manufacturing growth, which in turn raised the demand for certain types of producer services. Second, the financial sector reform resulted in a rapid growth of financial services. Three, reforms in certain infrastructure areas also contributed to a growth in services sector. Reforms in the

services sector were a part of the overall reform process, which led to privatization, removal of FDI restrictions etc.

The rest paper is organized as follows: Section II explain the composition of services sector in Indian economy. Section III. Analyze the overall contribution of the services sector in Indian economy by examining its contribution in total GDP, EMPLOYMENT & FDI inflows. Section IV throws light on certain challenges faced by the services sector and ultimately Section V concludes the paper with policy implications.

Section II. COMPOSITION OF SERVICES SECTOR

WTO divide services into two categories : Change- effecting services (transformation services) and margin services. First refers to the activities of producers that change properties of consuming unit e.g. medical services, transportation, education and entertainment while later is defined as the change of ownership of goods, financial assets or other kind of services of institutional units.

Special examples of these services are insurance, packing, intellectual property rights and distribution.

Services sector can be classified in following main four sub – sectors...

1. Trade, Hotels & Restaurant

2. Transport, Storage & Communication

3. Financing, Insurance, Real Estate and Business Services

4. Community, Social and Personal Services

Activities Included under the Sub-Sectors.

1. Trade, Hotels & Restaurants

- i. Trade includes wholesale & retail trade in commodities both produced at home (including exports) and imported purchase & selling agent, brokers and auctioneers.
- ii. Hotels & Restaurants includes services rendered by hotel & other lodging places, restaurant, cafes & other such places.

2. Transport, Storage & Communication

i. Railways

ii. Transport by other means includes road, water, air transport & services incidental to transport.

iii. Storage includes agriculture storage for agriculture produce, food grains, fertilizers, manure, etc. Industrial storage for industrial goods, import cargo and excisable cargo; inland container depots (ICDs) container freight stations (CFSs) for facilitating import/export trade; and special warehouses for cold and temperature controlled storage.

iv. Communication includes postal, money order, telegrams, telephones, overseas communication services.

3. Financing, Insurance, Real Estate and Business services

- i. Banking & Insurance includes banks, banking department of RBI, post office saving bank, NBFI, employees PF & Life insurance, postal life & non life insurance.
- ii. Real Estate, Ownership of Dwelling and Business services this includes accounting, software development, data processing services, business and management consultancy, architectural, engineering and other technical consultancy, advertisement and other business services.

4. Community, Social and Personal services

- i. Public Administration & Defence
- ii. Other Services includes Personal Services ; Domestic laundry, barber, beauty shops, tailoring and other.

Community Services; Education, research, scientific medical, health, religious & other community services.

Others; Recreation, entertainment, radio, television, broadcast, sanitary services.

Source; CSO

Section III. OVERALL CONTRIBUTION OF THE SERVICES SECTOR IN INDIAN ECONOMY

In this section, we discuss the overall contribution of the services sector in the Indian economy. Firstly discuss the growth rate of all the sectors during 2011-2012.

TABLE 2. Quarterly Growth of all the main sectors with sub- sector (in percentage)

Sectors	2011-12				2012-13		2011-12	2012-13
	Q1	Q2	Q3	Q4	Q1	Q2	H1	H1
Agriculture, forestry & fishing	3.7	3.1	2.8	1.7	2.9	1.2	3.4	2.1
Industry	5.6	3.7	2.5	1.9	3.6	2.8	4.7	3.2
Mining & quarrying	-0.2	-5.4	-2.8	4.3	0.1	1.9	-2.8	0.9
Manufacturing	7.3	2.9	0.6	0.3	0.2	0.8	5.1	0.5
Electricity, gas & water supply	8.0	9.8	9	4.9	6.3	3.4	8.9	4.8
Construction	3.5	6.3	6.6	4.8	10.9	6.7	4.9	8.8
Services	10.2	8.8	8.9	7.9	6.9	7.2	9.5	7.0
Trade, hotels, transport & communication	13.8	9.5	10	7	4	5.5	11.6	4.7
Financing, insurance, real estate & business services	9.4	9.9	9.1	10	10.8	9.4	9.6	10.1
Community, social & personal services	3.2	6.1	6.4	7.1	7.9	7.5	4.7	7.7
GDP at factor cost	8.0	6.7	6.1	5.3	5.5	5.3	7.3	5.4

Source: CSO

Table 2. reveal the growth rate of all the three sectors along with their sub- sectors from the period 2011-2013. The growth rate is shown quarterly of all the years, by analyzing the table, it can be easily interpreted the growth rate of services sector

is higher than all the other sectors with little bit fluctuations.

After discussing the sectoral growth rate, in this section the sectoral contribution in total GDP can be checked with the help of following table....

TABLE 3. Sectoral contribution of GDP at factor cost from 2011-2013(in percentage)

Sectors	2011-12				2012-13		2011-12	2012-13
	Q1	Q2	Q3	Q4	Q1	Q2	H1	H1
Agriculture, forestry & fishing	13.5	11.1	17.2	13.9	13.2	10.7	12.3	12.0
Industry	27.7	27.5	26.1	26.7	27.2	26.9	27.6	27.1
Mining & quarrying	2.1	2.0	2.0	2.2	2.0	1.9	2.0	2.0
Manufacturing	15.8	15.7	14.6	15.0	15.0	15.0	15.8	15.0
Electricity, gas & water supply	2.0	2.0	1.8	1.8	2.0	2.0	2.0	2.0
Construction	7.8	7.9	7.6	7.8	8.2	8.0	7.0	8.1
Services	58.8	61.3	56.7	59.4	59.6	62.4	60.0	61.0
Trade, hotels, transport & commun.	28.9	28.5	27.1	28.1	28.5	28.6	20.7	28.5
Financing, insurance, real estate & business services	18.2	18.7	17.4	17.4	19.1	19.4	18.4	19.3
Community, social & personal services	11.7	14.1	12.1	13.9	12.0	14.4	12.9	13.2

Source: CSO

It is clearly explain in the table that among all other sectors , the services sector is one which contributing huge share in total GDP of India. In the first half year of 2012-13, the

contribution of the agriculture sector was 12.0%, industry contributes 27.1% and the contribution of services sector was 61.0%.

SHARE OF SERVICES SECTOR IN TOTAL EMPLOYMENT

In context of providing employment, the services sector occupies an important place. Although the agriculture sector is the major dominant sector in providing employment, services sector occupies second place after

agriculture. Till the period of 1990s, the employment growth in services sector is not high, it is basically termed as ‘jobless’.

But at present time, services sector holds good position for providing employment to the population of India. This is clearly explained in the following table...

TABLE 4. Sectorwise share in employment (in percentage)

Year	Agriculture sector	Industrial sector	Services sector
1990-2000	60.3	16.2	23.5
2004-05	57.0	18.2	24.8
2009-10	51.3	22.0	26.7

Source; Economic survey

It is clearly explain that for providing employment services sector occupies second place next to agriculture.

FDI INFLOWS IN THE SERVICES SECTOR

The present performance of the services sector in India is closely linked with the FDI inflows. Under services sector the share of

five sectors (services both financial & non-financial, computer hardware and software, telecommunications, housing & real estate, hotel & tourism) is dominant in FDI equity inflows from 2000-2012, which is 47%. The following table reveals the top 10 sectors attracting FDI inflows in India during December 2012.

TABLE 5. Sector-wise distribution of FDI inflow in India in Dec.2012.

Sectors	IN- DEC.2012
Services(financial & non financial)	19%
Construction development	12%
Telecommunication	7%
Computer, hardware & software	6%
Drugs & Pharmaceutical	5%
Chemicals (other than Fertilisers)	5%
Power	4%
Automobiles	4%
Metallurgical industries	4%
Hotel & Tourism	3%

Source: Ministry of External Affairs, GOI, Investment & Technology Promotion (ITP) Division.

Table 5 explains the top ten sectors of India for attracting FDI in the year 2012, shows that services sector including financial & non-financial hold major position among the above stated ten sectors.

Section IV. Challenges in the services sector.

The previous sections shows that services sector remarkably contributing to the economic growth of Indian economy by giving its huge share in GDP, EMPLOYMENT, FDI inflows. But during the period 2012-13, services sector 'growth showing downward trend FDI inflows also fell down compared to the last year. India have a potential for attracting FDI, but it has been not been successful in doing so. It is because of the reason that still services

sector faces a number of challenges which are discussed below.

-To retain and spread our competitiveness in those services where we have already made a mark such as IT, ITes & telecommunication.

-Unavailability of the infrastructure is also the major challenge faced by the services sector due to which full potential is not still tapped.

-Low research and development (R&D), information and communication Technology (ICT). India's R&D expenditure is low both in terms of its GDP and in comparison to the rest of the world.

-High corporate tax 30-40% compared to 17% in Singapore and up to 25% in China.

-Challenge lies in collecting better data and developing a better coordinated strategy to pull together all the scattered information.

Regulatory improvements will also be important as many domestic regulations and market access barriers could come in the way of fully tapping this growth accelerating sector. The need of the hour is to address the above challenges and take more healthy steps for strengthen the services sector which contributes a lot is to bring more inclusive and balanced growth in Indian economy.

Section V. CONCLUSION & POLICY IMPLICATIONS

The present paper discussed the contribution services of the sector in the Indian economy by examining its contribution in GDP,

EMPLOYMENT &GDI inflows. Services sector is the fastest growing sector in India, contributes major share in GDP, second largest employer after agriculture. It is a hub for attracting FDI inflows. The study found that the growth rate of the services sector is found to be higher than the growth of overall GDP of India.

By analyzing this can be judged that services sector is dominant in terms of its growth and share serves as an engine of growth for an Indian economy.

To maintain and accelerate the growth and contribution of this sector, it is very much required that all the barriers and challenges faced by this sector is properly addressed and reforms should be introduced within the sub- sectors of the services sector, investment done in both physical and human capital and make this sector faster grower through attraction of FDI.

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