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Futurology for the Service Sector in Indian Economy

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INTRODUCTION

Since the advent of Liberalization, Globalization and Privatization (LPG) in 1990s, the economic shape of world has seen unprecedented changes. World has gradually shrunk into a Global Village on economic front. Global citizens as a whole are getting richer. There are evidences that due to economic, technological and demographic changes occurring in the world, traditional relations of economic, cultural and political power between 'west' and 'the rest' are being transformed and reshaped. Economic attractiveness of the world has inclined towards Asian countries, specially, India and China. These new global trends have given an opportunity to the developing economies like India to get transformed into developed economy. The circumstances generated by global trade practices have warranted restructuring of existing communication, transportation, banking and insurance systems of the country so that it can keep pace with the changing times and grow with the world.

In India, there is substantial growth in services sector after the process of globalization and liberalization and reforms of the 1990s. In the first three decades (1950s to 1970s) After India got independence in 1947, the growth rate of GDP grew at an average rate of less than four per cent. The share of services sector was small and a large number of services were of government sector. Services sector happening to grow in the mid-1980s but growth speeded up in the 1990s when India took several of economic reforms after our country faced a harsh balance of payment crisis. So many reforms were also taken in the services sector also as a part of the overall reform process, which led to globalization, privatization and permitting the

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entry of foreign investors such as lifting the restrictions for FDI and reorganization of the approval procedures, among others.

According to the International Monetary Fund (IMF), in 2010, India's gross domestic product (GDP) grew at 10.6% compared to 10.4% for China, an average growth rate of 9.7% in developing countries within Asia and 7.5% average growth rate in emerging and developing economies. Although this growth rate slowdown substantially in 2011 to 7.2%, it was still higher than the average growth rate of up-and-coming economies (6.2%). Services sector has been a major contributor to India's GDP and growth (Bhattacharya and Mitra 1990). It is the second major employer after agriculture. India's service sector has increased overtime and this sector also contributes for the largest share in India's foreign direct investment (FDI) inflows and outflows.

As per the trend observed over the Globe, as and when the economy of any country comes in the category of being developed, share of services increases gradually. Initially this increase is accompanied by a similar increase in share of Industry but slowly the service sector takes over the Industrial sector. In most of the countries of the world , where economic growth depend upon the shifting of agriculture to industries, in India, it has led from agriculture to the services sector. In this respect, some economists (Ansari 1995) regarded India as an outlier among South Asian countries and other rising markets. Contending this view, Gordan and Gupta (2003), Banga (2005) and Jain and Ninan (2010) have pointed out that India is not an outlier as the share of services sector in Gross Domestic Product has increased with increase in per capita income. India's story of growth has also seen a decline in share of Agriculture in GDP, though share of Industry and service sectors have been consistent. Compared to other

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sectors, service sector has become more dominating in India, such that the success in this regard has been called as 'India's services revolution'. It has been realized with time that inefficient and insufficient infrastructure can tax the growth of entire economy, affecting efficiency and competitiveness. Government of India is also spending higher amounts on infrastructure, such as roads, railways, bridges, financial services and communication, etc. According to an estimate, the contribution of service sector in GDP is expected to rise up to 60% in 2019-20.

Literature Review

Services are key indicators of economic growth, accounting for 50-70% of the GDP depending upon the stage of development of any country, more than 50% contribution to employment generation and leading other sectors including manufacturing sector. There are so many studies that have already conducted in this field viewing the different aspects of the service sector, even then the data compiled for service sector comes very less from organized sector and more from unorganized one. Few researches showing the views of researchers about present status and future perspective of service sector in India are presented here.

Kuznet and Chenery during 1950s and 60s stated that growth of economies would be associated with a sharp decline in proportion of GDP generated by primary sector, counterbalanced by a significant increase in industry and a modest increase in service sector.

A study conducted by Kongsamut (2001) on 123 countries concluded that the sector share given up by agriculture as the economy matures goes more to service sector and less to industry. Modern thinkers also support the view that share of agriculture declines as economy grows with an increase in service sector, and the share of industry increases in the beginning and either stabilizes or declines.

Growth trends of Indian economy also follows same pattern. Share of agriculture in GDP declined by 25% during 1950-1990, while industry and services both gained equally. Afterwards, share of industry has stabilized since 1990 and entire subsequent decline in agriculture has been picked by service sector.

K. Srinivasan (2006) states that the service sector acts as a base for the other sectors in the business world, although this sector is called as tertiary sector; and terms the growth of the service industry and the resulting quality of life as 'Grey Revolution'. Considering the size of population, nature and quality of workforce and industry trends, it would take a full shape by the year 2025.

Objectives and Methodology

The most striking feature of Indian economic growth is the revolutionized growth of its service sector over the past decade. The objective of this paper is to identify the future trends of the service sector of India and assess its impact on Indian economy. The paper first explains composition of Indian service sector. Then it proceeds to highlight the futurology of service sector. In the last segment of the paper efforts have been made to suggest ways to further strengthen the service sector so that it contributes effectively in making Economy of India fully developed.

An insight to the Service Sector of India

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'Services can be defined as activities that add value either directly to another person or to goods belonging to another person'. The prime benefit of this sector is seen as the sole provider of jobs especially in developed and developing economies. Services are intangible, though often a part of tangible products; they are non-storable. The services are multidimensional and constitute a wide range of activities such as Information and communication technology, Banking, Insurance, Hotel and restaurants, transport, storage, accounting, architectural, technical consultancy, advertisement agencies, management consultancies, public administration and defense, legal services, entertainment, education, health, personal care and many more. Division of service sector has three broad segments:

1. Public Sector
2. Private Corporate Sector
3. Household Sector

Of these, Public and Private Corporate Sectors come under organized part of economy and household sector comes under unorganized sector.

Service sector in India:

Composition of Service Sector in India by CSO

In India, the national income classification given by Central Statistical Organization is followed. In the National Income Accounting in India, service sector includes the following:

1. Trade, hotels and restaurants (THR)

1.1 Trade

1.2 Hotels and restaurants

2. Transport, storage and communication

2.1 Railways

2.2 Transport by other means

2.3 Storage

2.4 Communication

3. Financing, Insurance, Real Estate and Business Services

3.1 Banking and Insurance

3.2 Real Estate, Ownership of Dwellings and Business Services

4. Community, Social and Personal services

4.1 Public Administration and defense (PA & D)

4.2 Other services

The service industry of India, which was contributing to just 35% of GPD in 1980s, after agriculture (42.8%of the GDP), has grown substantially in last three decades. Today, service sector has become major contributor to the Indian Economy. The dramatic growth of this sector has enabled every Indian to reach out to everyone in the world. Banking, which was restricted to a handful of people a few years ago, has spread to every street and home. Only a few people could dream of flying a few years back. But, the proliferation of low-cost Airlines has enabled even persons with moderate incomes to fly. India has also become back-end service provider to all European countries and USA, through Business Process Outsourcing (BPO), aided by the large English speaking population. This has further strengthened the service Industry culture in India.

Table: 1 Share of different service categories in GDP at (Current Price)

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	2004-05	2005-06	2006-07	2007-08	2008-09@	2009-10*
Trade, hotels & restaurants	**16.1**	**16.7**	**17.1**	**17.1**	**16.9**	**16.3**
Trade	14.6	15.1	15.4	15.4	15.4	14.9
Hotels & restaurants	1.5	1.6	1.7	1.7	1.5	1.4
Transport, storage & communication	**8.4**	**8.2**	**8.2**	**8.0**	**7.8**	**7.8**
Railways	1.0	0.9	0.9	1.0	0.9	1.0
Transport by other means	5.7	5.7	5.7	5.5	5.5	5.2
Storage	0.1	0.1	0.1	0.1	0.1	0.1
Communication	1.7	1.6	1.5	1.4	1.4	1.5
Financing, insurance, real estate & business services	**14.7**	**14.5**	**14.8**	**15.1**	**16.1**	**16.7**
Banking & insurance	5.8	5.4	5.5	5.5	5.7	5.4
Real estate, ownership of dwellings & business services	9.0	9.1	9.3	9.6	10.4	11.4
Community, social & personal services	**13.8**	**13.5**	**12.8**	**12.5**	**13.3**	**14.4**
Public administration & defence	5.9	5.6	5.2	5.1	5.8	6.3
Other services	8.0	7.9	7.6	7.4	7.5	8.1
Construction	**7.7**	**7.9**	**8.2**	**8.5**	**8.5**	**8.2**
Total Services (excluding Construction)	53.0	52.9	52.9	52.7	54.1	55.2
Total Services (including Construction)	60.7	60.8	61.1	61.2	62.6	63.4
Total GDP	100	100	100	100	100	100

Source: CSO @ provisional estimates * quick estimates

CSO's classification of the services sector falls under four broad categories, namely a) trade, hotels, and restaurants; b) transport, storage and communication; c) financing, insurance, real estate and business services; and d) community, social and personal services. Among these, financing, insurance, real estate and business services; and trade, hotels and restaurants are the largest groups accounting for 16.7% and 16.3% respectively on the GDP of India in 2009-10. The community, social and personal services category accounts for a 14.4% share, while transport, storage and communication accounts for 7.8% share. Construction, which is a borderline service inclusion, has a share of 8.2% (Table 1).

FDI in Service Sector in India

Service sector has been receiving good amount of FDI since 1991. But it witnessed exponential growth during the decade 2000-2010. Table 2 manifests the magnitude of FDI coming to Service sector as percentage of total FDI inflows during 1991-2010. On perusal of the Table, one can make the idea of manifold increase in the amount of FDI received by service sector of India. In the year 2000, service sector FDI constituted just 2.1 percent of total FDI inflows which escalated to 17.27 percent in the year 2003, though it fell marginally to 7.27 in 2004, again jumped up to 15.03 in 2005. FDI in service sector in the year 2006 recorded the highest percentage share of total FDI inflows to the tune of 34.76 percent. At present also service sector FDI is sharing the maximum in the total FDI inflows.

Table 2

FDI inflows to Service sector in India

Year	Amount of FDI inflows to India in US$ million	Amount of FDI in services in million Rs.	Percentage of total inflows*
1991-1999	365074.37	40443.82	11.08

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2000	88743.18	1861.5	2.1
2001	144598.19	8202.24	5.67
2002	139991.06	15431.41	11.02
2003	80506.2	13903.59	17.27
2004	147813.73	10741.49	7.27
2005	192707.22	28961.35	15.03
2006	503572.68	175032.22	34.76
2007	654949.86	145099.52	22.15
2008	1397254.74	339475.12	24.30
2009	1309798.53	277920.55	21.22
2010	960149.61	168723.89	17.57

Source: FDI Fact Sheets, SIA, DIPP, Govt. of India

* Author's calculations

There are sixty two sectors receiving FDI in India which have been categorized into three broad divisions (primary, manufacturing and services) on the basis of division given in sector wise FDI inflows data given in World Investment Report, UNCTAD (see Table). All the

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industries have been grouped broadly and are put into three large heads as shown in the Table 3

A close perusal of Table 2 indicates that during 1990s, the primary sector had virtually no FDI inflows but manufacturing sector received a substantial percentage (as high as 60.06) of the aggregate FDI inflows coming to the country. Many industries included in manufacturing sector were officially blessed as 'priority industries' by government of India. FDI in these industries was sought and readily approved to augment the level of technology in India, like metallurgical, chemicals, electric equipments, drug and pharmaceuticals, mechanical and engineering industry and agricultural machinery industry etc.

Table 3

Share of Different Industries Receiving FDI Inflows in India

	1991-99	**2000-2010**
Primary	0	3.02
Petroleum & Natural gas	0	2.39
Mining	0	0.60
Timber products	0	0.02
Coal production	0	0.01

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Manufacturing	**60.06**	**28.15**
Automobiles industry	0	4.63
Power	9.98	4.55
Metallurgical industry	1.73	3.16
Chemicals other than fertilizers	10.92	2.27
Electrical equipment	12.72	1.81
Cement & Gypsum product	0.46	1.81
Drug & Pharmaceuticals	2.25	1.48
Food Processing industries	6.49	0.95
Electronics*	0.00	0.71
Textiles (including dyed & printed)	2.27	0.72
Mechanical & Engineering industry	2.33	0.70
Fermentation industry	0.22	0.60
Industrial Machinery	0.99	0.96
Paper and pulp	2.37	0.35
Ceramics	0.47	0.32

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Machine tools	0.44	0.31
Rubber goods	0.84	0.25
Diamond, Gold ornaments	0.00	0.23
Medical & surgical appliances	0.24	0.31
Comm., office & Household Equipment	1.48	0.19
Non-conventional energy	0.00	0.55
Printing of books	0.00	0.16
Soaps, cosmetics &Toilet Preparation	0.01	0.15
Agricultural Machinery	0.52	0.12
Glass	1.55	0.12
Vegetable oils & vanaspati	0.13	0.16
Earth moving machinery	0.08	0.10
Fertilizers	0.19	0.10
Railway related components	0.00	0.09

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Processing coffee & rubber	0.00	0.08
Photographic film &paper	0.08	0.05
Sugar	0.07	0.03
Leather goods and pickers	0.31	0.03
Industrial instruments	0.11	0.05
Dye stuff	0.13	0.01
Scientific instruments	0.04	0.01
Boilers and steam generators	0.04	0.01
Glue & Gelatin	0.32	0.01
Prime movers	0.29	0.00
Coir	0.00	0.00
Maths & drawing instruments	0.00	0.00
Defence industries	0.00	0.00
Service Sector	**24.87**	**63.47**
Services (Fin. & Non Fin.)	11.08	20.84
Computer software & Hardware*	0.00	8.32

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Telecommunications	11.06	8.22
Housing & real estate	0.00	7.40
Construction activities	0.00	7.00
Trading	1.84	2.06
Hotel & Tourism	0.83	1.81
Information Broadcasting	0	1.69
Agriculture Services	0	1.29
Consultancy Services	0.06	1.41
Ports	0	1.18
Hospitals & diagnostic centers	0	0.75
Sea Transport	0	0.79
Education	0	0.31
Air Transport (including freight)	0	0.29
Retail Trading(single brand)	0	0.10
Others	**15.07**	**5.37**

Source: Author's calculations on the basis of SIA, DIPP

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data.

The measurement of the share of services in FDI inflows encounters problems as it is difficult to clearly differentiate activities between services and goods in sectors such as computer hardware and software, telecommunications, and construction. Nevertheless, the share of the four sectors combined (financial and non-financial services), computer hardware and software, telecommunications and housing & real estate, predominantly consisting of services, in FDI equity inflows in April 2000-December 2010 is around 44%. If construction is included then the share rises to 51%. Financial and non-financial services sector is largest recipient of FDI inflows with 21% share. As shown in Table 3 below:

Table: 3 Sectors Attracting Highest FDI Equity inflows (Rs. In Crores)

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Ranks	Sector	2008-09 (Apr.-Mar.)	2009-10 (Apr.-Mar.)	2010-11 (Apr.-Dec.)	Cumulative Inflows (Apr. 2000-Dec. 2010)	% age to Total Inflows (In US$ter-ms)
1	**Services Sector** (financial & non-financial)	28,516 **(6,138)**	20,776 **(4,353)**	13,044 **(2,853)**	1,18,274 **(26,454)**	**21%**
2	**Computer Software & Hardware**	7,329 **(1,677)**	4,351 **(919)**	3,054 **(670)**	47,144 **(10,601)**	8%
3	**Telecommunications** (radio paging, cellular mobile, basic telephone services)	11,727 **(2,558)**	12,338 **(2,554)**	6,021 **(1,327)**	46,727 **(10,258)**	8%
4	**Housing & Real Estate**	12,621 (2,801)	13,586 (2,844)	4,680 (1,024)	42,049 (9,380)	7%
5	**Construction Activities** (including roads & highways)	8,792 **(2,028)**	13,516 **(2,862)**	4,109 **(911)**	39,802 **(8,964)**	7%

Source : Department of Industrial Policy and Promotion.
Note : Figures in parantheses are US$ million.

The above table indicates that As India is gradually evolving to be a knowledge economy, many new ventures are seeing start-ups. As the industry is in its nascent stage, focus should be on creation of suitable infrastructure. Top conglomerates are also joining hands with government and are entering into service sector. The sector has produces some of the richest persons of the world of which Azim Premji of WIPRO, Deepak Parekh of HDFC are outstanding examples.

Some significant statistics related to service sector of India are:

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- A very high share of foreign direct investment (FDI) inflows and more than one-third of total exports, and recording very fast growth of 27.4% through first half of 2010-11.
- Share of GDP at factor cost registered a rapid increase from 30.5% in 1950-51 to 63.4% in 2009-10.
- India was among top 12 service exporters of the world in 2009. China was at 5th place and India on 12th rank.

Service Sector – Future of selected services		
Industry	1995	2020
Market Research	60	1000
Advertising	3500	20000
Press	1500	7000
TV (software)	1500	8000
Cable operations	200	1000
Cinema	1000	5000
Music	300	3000
Telecom	35000	700000

Source: India 2020 by APJ Abdul Kalam and Y S Rajan

Above table shows that many of the service industries are expected to grow manifold by 2020, not just by 100% or 200%, but by 10 times or 20 times of the present size. In the above table it is clearly indicated that every area in service sector is growing at a faster speed. Market research show that there is an increase of 60 persons from 1995 to 1000 employees in 2020. In

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the field of advertising the level there is the substantial increase from 3500 employees to 20000.In all the services there is abundant scope of progress and development.

Futurology of service sector in India

The forces of LPG and technological advancement that are shaping the financial landscape have a profound influence on the long-term development of most countries of the world. Entry barriers to markets, the availability of low cost and high speed transport, and impact of advances in ICT have posed new challenges for governments to review and revise their market regulations. The expansion of service industry has a direct impact on supply management as it meets the challenges of global sourcing, cost control and outsourcing. Management professionals think that there is need of thinking globally build strong relationship skills. Following are the trends identified by the experts:

Trend 1: Changing Role of Information and Telecommunication Technologies

Rapid development of the 'information technology' especially World Wide Web (www) has led to a new industrial revolution. It has changed the ways to transact business. New technologically advanced products like fax machines, e-mail, cellular phones etc have made business transactions fast and uninterrupted. These advances allow customers and clients to place orders safely over the net, while follow-up activities are expedited by fax and e-mail capabilities.

Trend 2: Globalisation of the Market Place

The globalization of economy has led to improvements in transportation and marketing capability. Reduced physical distances through efficient modes of transportation encourage

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suppliers and service providers to sell goods and services to distant customers across the borders of their own countries. Entrepreneurs are able to seek out niche markets and target new customers. This intensifies the need for new information and telecommunication technologies, which can help a service provider to fulfill the basic requirements for the business success: efficiency in production, responsiveness to the tastes and needs of customers, and effective marketing.

Trend 3: Changing Purchasing habits of Consumers

The new ways in which consumers buy products and services are evolving that favour the service providers especially those operating in rural areas. Mail order and electronic shopping are increasing decentralisation of purchasing. This means that business is no longer a physical facility, such as a showroom or store, to connect with the customers. A strong service organization in any business is an important factor in purchase decision. People make purchasing decision based on the quality of service. Customer loyalty is stronger in service performance than with a product.

Trend 4: Towards a Knowledge based Service Economy

The global economy is moving away from a manufacturing, hard goods based economy towards a knowledge based economy. Innovation and creativity are now leading to nations which are more advanced economically and technologically. Today the shift is towards a primary knowledge based economy with a secondary, supporting service-based economy. This shift is taking place in the arena where electronic transfer of information is rapidly and dramatically changing the rules of engagement in global economy. Business school professors

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now, with new unique knowledge no longer confine their teaching to localized classrooms. They can earn a higher return on their knowledge by reaching out to global audiences via teleconferencing, videotapes, internet based courses and international book launches.

Ways to further strengthen the Service Sector

The overall economic statistics bear that the service industry is responsible for the 'productivity miracle' in the economy. Even sectors such as tourism and travel that were dealt with a devastating blow after September 11 terrorist attacks, are making a comeback. It is believed that services will continue to dominate the economy and although there are as many reasons as there are for industry sectors. One key reason is that world is turning towards a knowledge based economy, with open and free trade for all. As predicted earlier, more people will get employment with rapid globalization of service industries. Strategists, therefore, need to focus on the areas like trade, finance, customs, logistics and IT infrastructure. The policy makers might take actions in the following areas:

- Regulatory Reforms: There is need to create open domestic service markets, which in turn will create new job opportunities and foster innovation and productivity. Further steps are needed to reduce the degree of public ownership in competitive industries like air transport, banking and insurance.
- It will be beneficial for the economy to take unilateral and multilateral steps to open international markets to trade and investment in services. This can be done by reducing barriers to foreign direct investment.
- Effective labour and social policies are also required to help economies adjust to globalization, structural change and the shift to services. Employment protection

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legislations are needed to be reformed and tax systems are to be simplified so that it helps improve the capacity of economies to create more employment opportunities and enhance productivity growth.

- Human resources are key to effective service performance. So, there is need to frame and improve existing education and training policies, so that they learn new skills to adapt to the changing technically improved environment. This will require improved incentives for private financing of lifelong learning and actions to ensure equitable access to formal and on-the-job learning.
- To seize the benefits of ICT for services, governments should continue to encourage effective competition in ICT infrastructure, network services and applications specifically for broadband. Regulatory barriers to digital delivery and digital content also need to be reformed, as they are not adapted to new potential offered by IT business.
- Further, there is need on the part of Government to provide a fiscal environment which is conducive to the growth of services. For this, they need to avoid duplication of value added taxes and sales taxes as it creates barriers to cross-border services. Tax treaties should be revised to avoid such activities that are subject to double taxation.

Reforming of service sector policies will provide an important opportunity for the policy makers to strengthen the employment, productivity and innovation. It will also enhance the capacity of economies to adjust to economic globalization of services.

Conclusion

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As a major economic driver, the service industry touches all categories of business these days. That makes it mandatory to understand its impact on overall economy, employment, supply chain and outsourcing. It will help professionals to understand what is happening now and what is ahead in service industry. Services might not drop at our feet, but failing to achieve progress multilaterally could leave some service-starved countries limping on the sidelines of regional and bilateral deals and struggling in global economy. There is need on part of authorities to strengthen the regulatory framework as traditional boundaries are melting away. Improved and transparent policies are required to be framed in financial and banking sector and unnecessary market entry restrictions are to be removed.

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