

Role of Service Sectors in India's Growth

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ABSTRACT

Services or the "tertiary sector" of the economy covers a wide gamut of activities like trading, banking & finance, infotainment, real estate, transportation, security, management & technical consultancy among several others. The various sectors that combine together to constitute service industry in India. There was marked acceleration in services sector growth in the eighties and nineties, especially in the nineties. While the share of services in India's GDP increased by 21 per cent points in the 50 years between 1950 and 2000, nearly 40 per cent of that increase was concentrated in the nineties. While almost all service sectors participated in this boom, growth was 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.

1. INTRODUCTION

The boom in the services sector has been relatively "jobless". The rise in services share in GDP has not accompanied by proportionate increase in the sector's share of national employment. Some economists have also cautioned that service sector growth must be supported by proportionate growth of the industrial sector; otherwise the service sector grown will not be sustainable. In the current economic scenario it looks that the boom in the services sector is here to stay as India is fast emerging as global services hub. India has the second fastest growing services sector with its compound annual growth rate at nine per cent, just below China's 10.9 per cent, during the last 11-year period from 2001 to 2012, the Economic Survey for 2013-14 said. Russia at 5.4 per cent is a distant third. Among the world's top 15 countries in terms of GDP, India ranked 10th in terms of overall GDP and 12th in terms of services GDP in 2012, it said, adding that services share in world GDP was 65.9 per cent but its share in employment was only 44 per cent in 2012. As per the survey, in India, the growth of services-sector GDP has been higher than that of overall GDP between the periods FY2001- FY2014.

2. BANKING AND INSURANCE SECTORS IN INDIA

The banking and insurance industries are mostly government owned despite a lot of private participation in this segment. Both banks and insurance companies have introduced technology to ensure greater customer convenience. "Customized services" is the norm today in this competitive world. Basically, financial services are intangible. Financial services are presented to customers in varied forms – current account, savings account, mortgage account, credit cards by banks; likewise, various insurance policies are offered to suit the diverse needs of customers. All these financial services are intangible which are supported by certain tangibles like pass

book, cheque book, policy documents, etc. They enhance the image of both the service provided and the customer.

Banking is an industry which is service oriented. The traditional function of banking is to accept deposits and lending loans and advances. The changing needs of customers reflect the exception of value-added servicing for basic banking requirements. Technology enables banks to provide anytime-anywhere-banking to the increasingly demanding customers. Banking has come to be recognized as a virtual necessity to face the imminent challenge completion that is growingly felt in modern days owing to globalization and liberalization of the Indian economy.

Many banks have modernized services with the facilities of computers and electronic equipments. The electronics revaluation made it possible to provide flexibility in banking operations to the benefit of customer. In the new digital market place, banks and financial institutions are not lagging behind and have started providing electronically over the internet. This type of services provided by the banks on internet called e-banking, lowers the transaction costs, adds value to the banking relationship and empowers customers. A wide range of services are being offered by banks using the electronic media. The time limitations of only hours of customer service, banking services, in including deposits withdrawals requisitions, instructions and transfer. The customer need not be more security, as most ATM locations have guards, or alternatively are located in lobbies, access to which is electronically controlled by means of customer's ATM card.

Insurance sector in India is one of the booming sectors of the economy and is growing at the rate of 15-20 per cent annum. Together with banking services, it contributes to about 7 per cent to the country's GDP. Insurance is a federal subject in India and Insurance industry in India is governed by Insurance Act, 1938, the Life Insurance Corporation Act, 1956 and General Insurance Business (Nationalization) Act, 1972, Insurance Regulatory and Development Authority (IRDA) Act, 1999 and other related Acts. The origin of life insurance in India can be traced back to 1818 with the establishment of the Oriental Life Insurance Company in Calcutta. It was conceived as a means to provide for English Widows. In those days a higher premium was charged for Indian lives than the non-Indian lives as Indian lives were considered riskier for coverage. The Bombay Mutual Life Insurance Society that started its business in 1870 was the first company to charge same premium for both Indian and non-Indian lives. In 1912, insurance regulation formally began with the passing of Life Insurance Companies Act and the Provident Fund Act. By 1938, there were 176 insurance companies in India. But a number of frauds during 1920s and 1930s tainted the image of insurance industry in India. In 1938, the first comprehensive legislation regarding insurance was introduced with the passing of Insurance Act of 1938 that provided strict State Control over insurance business. Insurance sector in India grew at a faster pace after independence. In 1956, Government of India brought together 245 Indian and foreign insurers and provident societies under one nationalized monopoly corporation and formed Life Insurance Corporation (LIC) by an Act of Parliament, viz. LIC Act, 1956, with a capital contribution of Rs.5 crore. The (non-life) insurance business/general insurance remained with the private sector till 1972. There were 107 private companies involved in the business of general operations and their operations were restricted to organized trade and industry in large cities. The General Insurance Business (nationalization) Act, 1972 nationalized the general insurance business in India with effect from January 1, 1973.

The 107 private insurance companies were amalgamated and grouped into four companies: National Insurance Company, New India Assurance Company, Oriental Insurance Company and United India Insurance Company. These were subsidiaries of the General Insurance Company (GIC). In 1993, the first step towards insurance sector reforms was initiated with the formation of Malhotra Committee, headed by former Finance Secretary and RBI Governor R.N. Malhotra. The committee was formed to evaluate the Indian insurance industry and recommend its future direction with the objective of complementing the reforms initiated in the financial sector.

3. INFORMATION TECHNOLOGY SECTOR

Information Technology (IT) industry in India is one of the fastest growing industries. Indian IT industry has built up valuable brand equity for itself in the global markets. IT industry in India comprises of software industry and information technology enabled services (ITES), which also includes business process outsourcing (BPO) industry. India is considered as a pioneer in software development and a favorite destination for IT-enabled services. The origin of IT industry in India can be traced to 1974, when the mainframe manufacturer, Burroughs, asked its India sales agent, Tata Consultancy Services (TCS), to export programmers for installing system software for a U.S. client. The IT industry originated under unfavorable conditions. Local markets were absent and government policy toward private enterprise was hostile. The industry was begun by Bombay-based conglomerates which entered the business by supplying programmers to global IT firms located overseas. During that time Indian economy was state-controlled and the state remained hostile to the software industry through the 1970s. Import tariffs were high (135% on hardware and 100% on software) and software was not considered an "industry", so that exporters were ineligible for bank finance. Government policy towards IT sector changed when Rajiv Gandhi became Prime Minister in 1984. His New Computer Policy (NCP-1984) consisted of a package of reduced import tariffs on hardware and software (reduced to 60%), recognition of software exports as a "relicensed industry", i.e., henceforth eligible for bank finance and freed from license-permit raj, permission for foreign firms to set up wholly-owned, export-dedicated units and a project to set up a chain of software parks that would offer infrastructure at below-market costs. These policies laid the foundation for the development of a world-class IT industry in India. Today, Indian IT companies such as Tata Consultancy Services (TCS), Wipro, Infosys, HCL et al are renowned in the global market for their IT prowess. Some of the major factors which played a key role in India's emergence as key global IT player are: of Indian IT industry, it seems that Indian success story is all set to continue.

REAL ESTATE SECTOR

Real estate sector in India is witnessing tremendous boom. Real estate industry in India is presently worth \$12 billion and is growing at the rate of 30 per cent per annum. The importance of real estate sector in India can be gauged from the fact that it is the second largest employer next only to agriculture. The real estate industry has significant linkages with several other sectors of the economy and over 250 associated industries. According to a study One Rupee invested in real estate sector results in 78 paise being added to the GDP of the country. Eighty percent share of the real estate market is garnered by residential sector and the rest is comprised of offices, shopping malls, hotels and hospitals. The sustained demand from the Information Technology (IT) sector has fuelled the growth of real estate sector. It has been estimated that

the demand for IT space would be 66 million square feet over the next five years. Several multinational companies are shifting their operations to India to take advantage of the relatively low costs. With human resources being the key element in this industry, hiring people and housing them assume great importance. The need to create space for people to work and live triggers the development of other related infrastructure.

Traditionally, the government's support to housing had been centralized and directed through the State Housing Boards and development authorities. In 1970, the Government of India set up the Housing and Urban Development Corporation (HUDCO) to finance housing and urban infrastructure activities. In 2002, the government permitted 100 per cent foreign direct investment (FDI) in housing through integrated township development. However, FDI rules at the moment are quite stringent. For FDI in real estate prior approval of the Foreign Investment Promotion Board is required, which, can be rather tedious and there is a lock-in period for repatriation of the original capital invested for a period of three years. On the top of it the rules stipulate a minimum land holding of 100 acres. Getting 100 acres of free land in an urban area is almost impossible. Hence the permission of FDI in real estate hasn't had the desired effect. The boom in retail industry has also spurred the growth in real estate sector. India at the moment is witnessing a spurt in extremely large retail spaces. Shopping malls with over 1 million sq ft of space have become the order of the day. As the competition in the market intensifies, builders are going out of their way to be different. Specialized malls, designer brands and multi-movie options are the order of the day. With the big players like Reliance, Big Bazaar, and Bharti entering retail market, real estate sector would be the big beneficiary. The prospects for real estate industry in India looks buoyant. All the factors which contributed to the growth of real estate sector-high disposable incomes, sharp increase in global liquidity, selective capital account liberalization, looser credit policies, a greater availability of leverage due to financial liberalization and a consequent increase in mortgage lending and price increases-look set to continue.

RETAIL SECTOR IN INDIA

The Retail Sector of Indian Economy is going through the phase of tremendous transformation. The retail sector of Indian economy is categorized into two segments such as organized retail sector and unorganized retail sector with the latter holding the larger share of the retail market. At present the organized retail sector is catching up very fast. The impact of the alterations in the format of the retail sector changed the lifestyle of the Indian consumers drastically. The evident increase in consumerist activity is colossal which has already chipped out a money making recess for the retail sector of Indian economy. With the onset of a globalized economy in India, the Indian consumer's psyche has been changed. People have become aware of the value of money. Nowadays the Indian consumers are well versed with the concepts about quality of products and services. These demands are the visible impacts of the Retail Sector of Indian Economy. Since the liberalization policy of 1990, the Indian economy, and its consumers are getting whiff of the latest national & international products, the with help of print and electronic media. The social changes with the rapid economic growth due to trained personnels, fast modernization, and enhanced availableness of retail space is the positive effects of liberalization.

4. THE GROWTH FACTORS OF THE RETAIL SECTOR OF INDIAN ECONOMY

- Increase in per capita income which in turn increases the household consumption
- Demographical changes and improvements in the standard of living
- Change in patterns of consumption and availability of low-cost consumer credit
- Improvements in infrastructure and enhanced availability of retail space
- Entry to various sources of financing

The infrastructure of the retail sector will evolve radically. The emergence of shopping malls are going steady in the metros and there are further plans of expansion which would lead to 150 new ones coming up by the year 2008. As the count of super markets is going up much faster than rate of growth in retail sector, it is taking the lions share in food trade. The non-food sector, segments comprising apparel, accessories, fashion, and lifestyle felt the significant change with the emergence of new stores formats like convenience stores, mini marts, mini supermarkets, large supermarkets, and hyper marts. Even food retailing has become an important retail business in the national arena, with large format retail stores, establishing stores all over India. With the entry of packaged foods like MTR, ITC Ashirbad, fast foods chains like McDonald's, KFC, beverage parlors like Nescafe, Tata Tea, Café Coffee and Barista, the Indian food habits has been altered. These stores have earned the reputation of being 'super saver locations'.

With the arrival of the Transnational Companies (TNC), the Indian retail sector will confront the following round of alterations. At present the Foreign Direct Investments(FDI) is not encouraged in the Indian organized retail sector but once the TNC'S get in they would try to muscle out their Indian counterparts. This would be challenging to the retail sector in India.

THE FUTURE TRENDS OF THE RETAIL SECTOR OF INDIAN ECONOMY

- The retail sector of Indian economy will grow up to 10% of total retailing by the year 2010.
- No one single format can be assumed as there is a huge difference in cultures regionally.
- The most encouraging format now would be the hypermarts
- The hypermart format would be further encouraged with the entry of the TNC's

TELECOM INDUSTRY IN INDIA

In 1990s, telecommunications sector benefited from the general opening up of the economy. Also, examples of telecom revolution in many other countries, which resulted in better quality of service and lower tariffs, led Indian policy makers to initiate a change process finally resulting in opening up of telecom services sector for the private sector. National Telecom Policy (NTP) 1994 was the first attempt to give a comprehensive roadmap for the Indian telecommunications sector. In 1997, Telecom Regulatory Authority of India (TRAI) was created. TRAI was formed to act as a regulator to facilitate the growth of the telecom sector. New National Telecom Policy was adopted in 1999 and cellular services were also launched in the same year. Telecommunication sector in India can be divided into two segments: Fixed Service Provider (FSPs), and Cellular Services. Fixed line services consist of basic services, national or domestic long distance and international long distance services. The state operators

(BSNL and MTNL), account for almost 90 per cent of revenues from basic services. Private sector services are presently available in selective urban areas, and collectively account for less than 5 per cent of subscriptions. However, private services focus on the business/corporate sector, and offer reliable, high-end services, such as leased lines, ISDN, closed user group and videoconferencing. Cellular services can be further divided into two categories: Global System for Mobile Communications (GSM) and Code Division Multiple Access (CDMA). The GSM sector is dominated by Airtel, Vodafone-Hutch, and Idea Cellular, while the CDMA sector is dominated by Reliance and Tata Indicom. Opening up of international and domestic long distance telephony services are the major growth drivers for cellular industry. Cellular operators get substantial revenue from these services, and compensate them for reduction in tariffs on airtime, which along with rental was the main source of revenue. The reduction in tariffs for airtime, national long distance, international long distance, and handset prices has driven demand.

TOURISM SECTOR IN INDIA

The **Tourism sector of Indian economy** is at present experiencing a huge growth. The Tourism sector of Indian economy has become one of the major industrial sectors under the Indian economy. The tourism industry earns foreign exchanges worth ` 21,828 crore. Previous year the growth rate of the tourism sector of Indian economy was recorded as 17.3%. The growth in the tourism industry is due to the rise in the arrival of more and more foreign tourists and the increase in the number of domestic tourists. Tourists from Africa, Australia, Latin America, Europe, Southeast Asia, etc. are visiting India and there are growing by the thousands every year. Indian Tourism offers a potpourri of different cultures, traditions, festivals, and places of interest. There are a lot of options for the tourists. India is a country with rich cultural and traditional diversity. This aspect is even reflected in its tourism. The different parts of the country offers wide variety of interesting places to visit. While the international tourism is experiencing a decelerated growth, the Indian counterpart is not affected.

THE FACTORS FOR THE GROWTH OF THE TOURISM SECTOR OF INDIAN ECONOMY

- Increase in the general income level of the populace
- Aggressive advertisement campaigns on the tourist destinations
- Rapid growth of the Indian economy

5. THE OBJECTIVES OF THE NATIONAL ACTION PLAN FOR TOURISM

- Socio economic development of areas
- Increase in the opportunities for employment
- Development of the domestic tourism for the middle class segment of the society
- Preservation and restoration of the national heritage and environment
- Developing international tourism
- Promotion of tourism based product diversification
- Increasing the Indian share in global tourism

HOTEL SECTOR IN INDIA

Hotel Industry in India has witnessed tremendous boom in recent years. Hotel Industry is inextricably linked to the tourism industry and the growth in the Indian tourism industry has fuelled the growth of Indian hotel industry. The thriving economy and increased business opportunities in India have acted as a boon for Indian hotel industry. The arrival of low cost airlines and the associated price wars have given domestic tourists a host of options. The 'Incredible India' destination campaign and the recently launched 'Atithi Devo Bhavah' (ADB) campaign have also helped in the growth of domestic and international tourism and consequently the hotel industry. In recent years government has taken several steps to boost travel & tourism which have benefited hotel industry in India. These include the abolishment of the inland air travel tax of 15%; reduction in excise duty on aviation turbine fuel to 8%; and removal of a number of restrictions on outbound chartered flights, including those relating to frequency and size of aircraft. The government's recent decision to treat convention centres as part of core infrastructure, allowing the government to provide critical funding for the large capital investment that may be required has also fuelled the demand for hotel rooms. According to a report, Hotel Industry in India currently has supply of 110,000 rooms and there is a shortage of 150,000 rooms fueling hotel room rates across India. According to estimates demand is going to exceed supply by at least 100% over the next 2 years. Five-star hotels in metro cities allot same room, more than once a day to different guests, receiving almost 24-hour rates from both guests against 6-8 hours usage. With demand-supply disparity, hotel rates in India are likely to rise by 25% annually and occupancy by 80%, over the next two years. This will affect the competitiveness of India as a cost-effective tourist destination. To overcome, this shortage Indian hotel industry is adding about 60,000 quality rooms, currently in different stages of planning and development, which should be ready by 2014. Hotel Industry in India is also set to get a fillip with Delhi hosting 2010 Commonwealth Games. Government has approved 300 hotel projects, nearly half of which are in the luxury range. The future scenario of Indian hotel industry looks extremely rosy. It is expected that the budget and mid-market hotel segment will witness huge growth and expansion while the luxury segment will continue to perform extremely well over the next few years.

ENTERTAINMENT SECTOR IN INDIA

Entertainment Industry in India comprises of Film Industry and Television Industry. The Indian entertainment industry is among the fastest growing sectors in the country. In the past two decades entertainment industry in India has witnessed explosive growth. In television alone, from a single state owned television network, Doordarshan in 1991, today there are over 300 national, regional and local channels being beamed across the country. Indian film industry is the largest film industry in the world, producing on an average, close to a thousand films a year in all languages. In terms of film production India exceeds Hollywood's production volume by over three times. Some of the fastest growing segments in the Indian entertainment industry include music, cable and satellite television, animation and FM. According to an estimate by FICCI and Ernst and Young Indian entertainment industry would worth more than Rs. 400,000 million in 2008. Several positive developments like the accordance of the 'industry' status to the film industry, satellite channel penetration, the retail boom in the channels for music sales (Music World & Planet M), the use of digital technology in all spheres of entertainment and the growth of multiplexes have contributed to the growth of this sector. Entertainment industry in India is presently in a consolidation phase as boundary lines between films, music and

television are fast disappearing. Skills and resources are being pooled extensively. Besides adaptation to high-end digital technology, the entertainment industry is also witnessing rapid development of state-of-the-art studios and post production facilities. The future prospects of Indian entertainment industry look to be extremely good. As India's profile rises on the global stage outside interest in India's culture and entertainment industry is also bound to grow.

6. CONCLUSION

The portion of the economy that produces intangible goods. According to the U.S. Census Bureau, the service sector primarily consists of truck transportation, messenger services and warehousing; information sector services; securities, commodities and other financial investment services; rental and leasing services; professional, scientific and technical services; administrative and support services; waste management and remediation; health care and social assistance; and arts, entertainment and recreation services. Individuals employed in this sector produce services rather than products. Examples of service sector jobs include housekeeping, psychotherapy, tax preparation, guided tours, nursing and teaching. By contrast, individuals employed in the industrial/manufacturing sector might produce goods such as cars, clothing and toys. Countries with primarily service-based economies are considered to be more advanced than countries with primarily industrial or agricultural economies. Examples of countries with a heavy emphasis on the service sector include the United States, Australia, Japan and the United Kingdom. In the U.S., the Institute for Supply Management's (ISM) monthly index provides a measure of the general state of business in the non-manufacturing sector. Because approximately two-thirds of U.S. economic activity resides in the service sector, the index is considered a measure of the country's overall economic health.

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