

GROWTH AND PERFORMANCE OF SERVICE SECTOR IN INDIA

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Abstract

The services sector is the dominant part of the Indian economy accounting for about 59 per cent of Gross National Product especially the Indian Information Technology (IT) and Information Technology enabled Services (ITeS). The industry has not only transformed India's image on the global platform, but also fuelled economic growth by energizing higher education sector (especially in engineering and computer science). The industry has employed almost 10 million Indians and hence, has contributed a lot to social transformation in the country. Furthermore, Indian firms, across all other sectors, largely depend on the IT & ITeS service providers to make their business processes efficient and streamlined. Indian manufacturing sector has the highest IT spending followed by automotive, chemicals and consumer products industries. Indian organizations are turning to IT to help them grow business in the current economic environment. The paper, analyses the performance & growth of service sector especially IT and ITeS of India.

Keywords: Service sector in India, Growth and performance of IT Industry and IT Enabled Services in India.

Introduction

The economic liberalisation of the 1991 has brought many changes in the Indian scenario. Liberal lending policies and lower interest rates motivated many people to become self employed. Different sectors like banking, Insurance, Power projects, telecommunication, medical sector, entertainment, transport sector etc witnessed intense competition, due to the entry of multinationals. The important reason for the growth of services in India is the rampant migration of rural to semi-urban and urban areas. Because of the poor agricultural growth rate which in turn diversified the occupational changes of the population. Migration to urban areas for the want of jobs and livelihood has resulted in the expansion of cities and townships due to which business like real estates, rentals, transportation and infrastructure services are rapidly growing. India is considered to be a potential source for services. There are no of services that India offers to various parts of the world. Tourism and software services are among the major foreign exchange earners of the country and their growth rates is also is very high as compared to the other sectors. This paper consists of three sections, section (a) analyses the impact of liberalisation policies had diversified the occupational structure and growth rate of the economy from agriculture to other sectors, section (b) analyses the growth of service sector in the Indian economy and section c explains the growth and performance IT and IT enabled services of India and their problems and suggestion.

Objectives

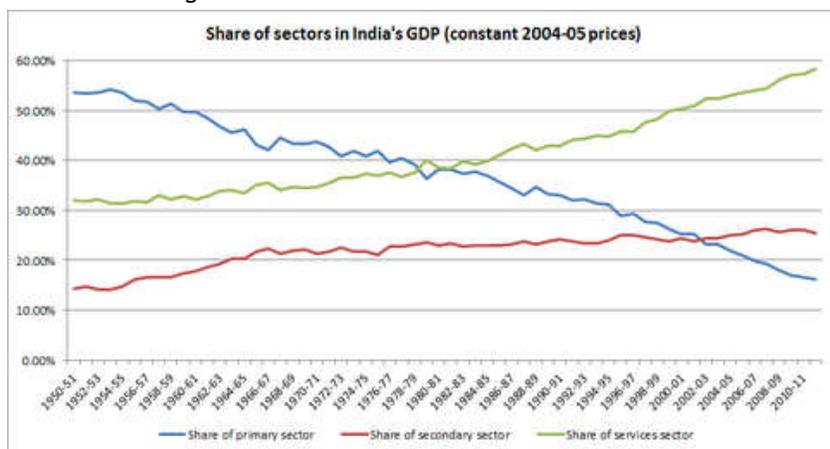
1. To examine the structural changes in the Indian economy
2. To analyse the significance of service sector in boosting the growth rate of the economy
3. To find out the performance of IT/ITeS of India and suggest remedies.

Methodology

This study is purely *based* on secondary data. The secondary data was collected from published and unpublished documents of Government Departments and private agencies, Research reports, research papers, journals, books and from Internet.

Sectoral Growth Rate

New Industrial policy 1991 has diversified and enabled the economic growth rate of the country from agricultural sector to other sectors of the economy, the same has been explained in the following chart.



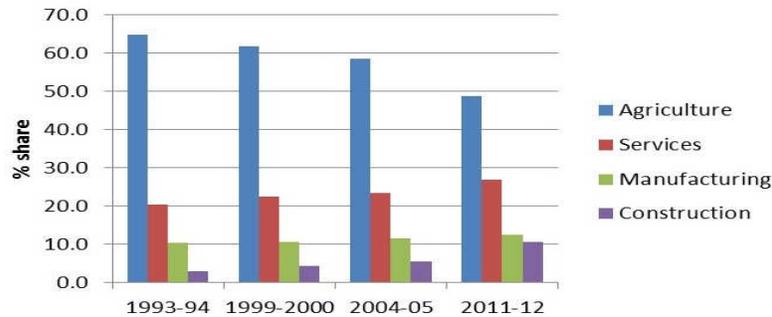
Source: Economic Survey 2012-13.

Economic Survey 2012-13, which depicts a calculation in constant (2004-05) prices, showing that the share of primary sector in India's GDP has gone down from 53.71% (1950-51) to 16.17%. The share of secondary sector (manufacturing, construction, electricity and water supply) has increased slowly from 14.35% (1950-51) to 25.45%, while the share of services (trade, hotels, transport and communication; financing, insurance, real estate and business services; community, personal and social services - all combined) has increased from 31.93% (1950-51) to 58.39%. Therefore the above concepts reveal that Indian economy has undergone a structural change from an agricultural based economy to a partially industrialised and service oriented economy. Among the service sectors IT enabled services has grown at a faster rate than the other service sectors in the Indian economy.

Service Sector and Employment

It is significant to note that the contribution of service sector in generating employment was significantly lower than the world average. Economic Survey emphasised that at the Global level, contribution of service sector to GDP accounted for 65.9 % and generated 44 of employment in 2012, where as in India, the service sector could generate just 28.1 per cent of employment. Its performance in employment generation has not been as spectacular as in its contribution to GDP. The chart below shows the relative share in employment of different sectors of the economy over the years..

Changes in employment share

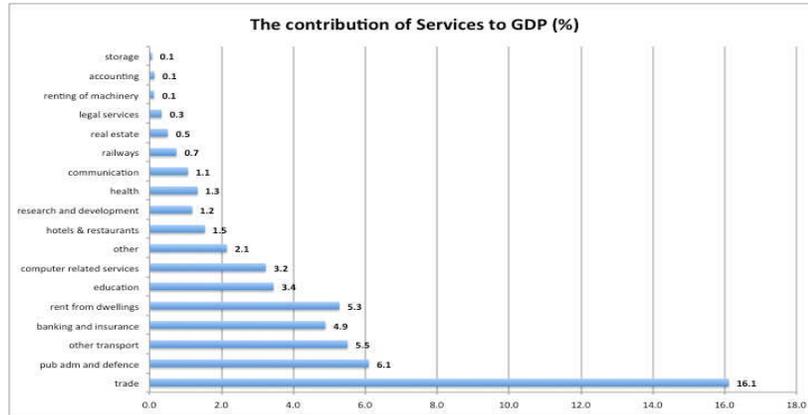


Source: NSSO data 2011-12

The chart taken at face value seems to show that Indian peasants are moving out of agriculture at an accelerated pace since 2004. The increase in the share of employment has been mainly in the construction sector and to a lesser extent in services. Employment share of manufacturing has increased only marginally. A closer examination of disaggregated NSSO data for agriculture throws more light on the shift out of agriculture

Contribution of Services to India's GDP

The services sector is now the dominant part of the Indian economy accounting for about 59 per cent of Gross National Product .The Economic Survey 2013-14 emphasised that: "India has the second fastest growing services sector with CAGR (compound annual growth rate) at 9 per cent, just below China's 10.9 per cent, during the last 11-year period from 2001 to 2012." The following chart explains the contribution of Service sector to GDP and their performance.



Source: Economic survey 2013-14

Central Statistical Organisation (CSO) indicates that the set of service sectors that could be identified as “modern services”—banking and insurance, education, computer related services, research and development, health, communication, legal services and accounting—together accounted for only 16.6 per cent of GDP in 2012-13. Add on public administration and defence and the railways and the figure rises to 23.3 per cent. Trade, dominated by the retail trade alone accounts for 16 per cent of GDP. This makes the argument that services are reflective of a new dynamism in India.

IT/ITeS Industry of India

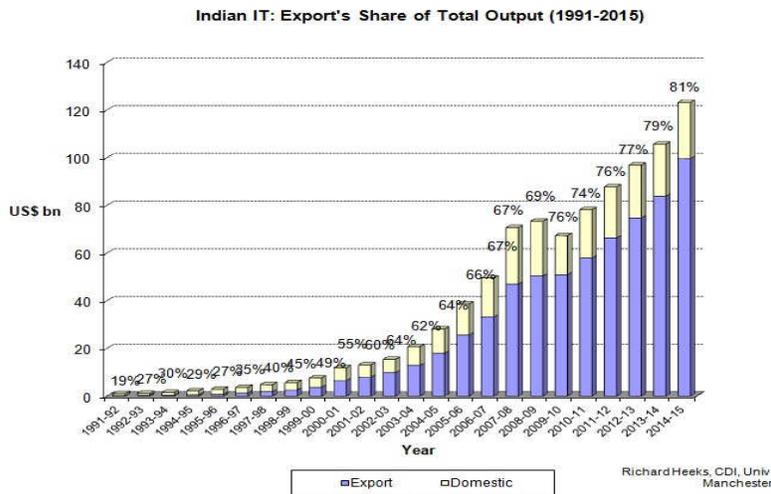
The information technology (IT) and information technology enabled services (ITeS) industry has been one of the key driving forces fuelling India’s economic growth. IT is one of the world’s fastest growing economic activities, which envisages easier flow of information at various levels in the desired pattern. Information Technology (IT) is defined as the design, development, implementation and management of computer-based information systems, particularly software applications and computer hardware. Today, it has grown to cover most aspects of computing and technology. The largest firms globally include IBM, HP, Dell and Microsoft.

The Information Technology enabled Services (ITeS) sector has not only changed the way the world looks at India but has also made significant contributions to the Indian economy. IT enabled Services (ITeS), also called web enabled services or remote services or Tele-working, covers the entire gamut of operations which exploit information technology for improving efficiency of an organization. These services provide a wide range of career options that include opportunities in call Centre, medical transcription, medical billing and coding, back office operations; revenue claims processing, legal databases, content development, payrolls, logistics management, GIS (Geographical Information System), HR services, web services etc. The Indian ITeS-BPO industry is growing at robust pace driven by

greater acceptability of the outsourcing concept, expansion of service offerings and high quality delivery capabilities. The industry remains one of the highest contributors of employment and foreign exchange to the country. The key drivers of the robust growth include verticals such as Banking and Financial Services companies, Pharma and Legal Services. Moreover India’s success in software and IT-enabled services (ITeS) exports has made it a significant services exporter with its share in world services exports rising from 0.6 per cent in 1990 to 3.3 per cent in 2013

The Following Chart Reveals the Growth of it and ITeS Services over the Planning Period

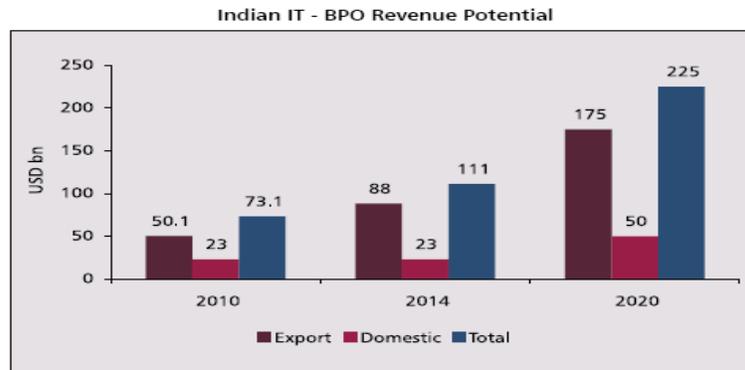
Indian software exports are huge - roughly US\$75bn in 2014/15 (and US\$100bn if BPO services are included) - and continuously registering double digit annual growth. Market diversification for Indian software remains limited. Location of production has changed. In the early 1990s, 75% of work took place on-site, 25% in India. By 2013/14, it was said that 20% of work took place on-site, 80% in India This means that net foreign exchange earnings will have risen as a proportion of gross since offshore work requires much less foreign exchange outflow than on-site working. Although the Indian domestic IT market is large and growing, production for exports is growing faster than production for the domestic market. As a result, the share of exports in total IT output has risen from 19% in 1991/92 to 49% in 2000/01 to 67% in 2007/08 to 81% in 2014/15.



The sector has increased its contribution to India’s GDP from 1.2% in 1998 to 7.5% in 2012.. The major cities that account for about nearly 90% of the sector’s exports are Bangalore, Chennai, Hyderabad, Trivandrum, Delhi, Mumbai and Kolkata, Bangalore is considered to be the Silicon Valley of India because it is the leading IT exporter and constitute about 77% of the total industry revenue. However, the domestic market is also

significant with a robust revenue growth. The industry's share of total Indian exports (merchandise plus services) increased from less than 4% in 1998 to about 25% in 2012.

The following chart explains the Revenue potential of Indian IT-BPO industries.



Source: NASSCOM Strategic Review 2010 , Perspective 2020

IT-BPO to reach US\$ 225 bn by 2020E According to NASSCOM estimates, the Indian IT-BPO industry has displayed potential to transform India into a globally preferred destination for IT and BPO services. Considering the large untapped demand potential and strong fundamentals, the Indian IT-BPO industry is favourably poised to attain a new milestone in terms of revenue by 2020. Revenue from exports is expected to continue to propel the Indian IT-BPO industry, reaching US\$ 88 bn in 2014 and US\$ 175 bn by 2020, recording a CAGR of 13%.

Conclusion

The present paper makes an analysis of Indian services sector through examining its growth and contributions in the economy. The study confirms that services sector have grown at the significant rate in comparison to other sectors. Rising share of this sector in GDP over covers the poor performance of agriculture sector. As a service sub-sector, trade is dominant all in terms of its contribution in Indian GDP. The employment generated by the service and industrial sector is increasing where as in agriculture it is falling continuously. Despite its rapid growth, the IT industry in India has attracted its fair share of criticism. This is primarily leveled against the industry's excessive political influence - as articulated through its association, Service sector is also facing severe infrastructural facilities in major metropolitans cities ,Service trade also faces a no of problems such as lack of set up like export promotion councils(other than computer software) various visible and invisible barriers to service trade like visa restrictions, sector specific restrictions and preferential market access etc., moreover service cannot grow in isolation it needs strong backing of other sectors, primary and secondary, In India such backing to be strengthened.

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