



Fast Growing Service Sector : Reasons and Its Role in Development

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ABSTRACT

India has the second fastest growing service sector with its compound growth rate at nine percent, just below China's 10.9 percent during the last eleven years period from 2001 to 2012. It is contributing significantly to G.D.P, GDP Growth, investment and growth. This paper throws light on reasons of fast development of service sector and its role in economic development.

KEYWORDS

Services, Employment, Trade, foreign Direct Investment

On the basis of occupational structure an economy can be categorized in the three sectors (a) Primary Sector (b) Secondary Sector (c) Tertiary Sector.

Primary Sector: The Primary sector of an economy is sector which is making direct use of natural resources. This include agriculture, forestry, fishing, mining etc. The primary sector is usually most important in less developed countries and typically less important in developed countries.

Secondary Sector : The secondary sector includes those economic sectors that produce a finished product. This sector take the output of primary sector as input and manufacture finished goods.

Tertiary Sector : This is also known as service sector. It consist the "soft" part of the economy, in other words it include those activities where people offer their knowledge and time to improve productivity, performance and potential etc. It include activities like banking, education, health, communication, transportation hotels, electricity, gas, water supply etc. So the basic characteristic of this sector is the production of services instead of end products.

Presently increasing income level has created demand for many more services like eating out, tourism, shopping, private hospitals, schools etc. Over the last decade certain new services which are based on information and communication technology have become important and essential. The production of these services has been rising rapidly.

India is distinctive among developing countries for its fastest growing service sector. This sector plays leading role in the economy of India. The current situation in India is that the growth rate of service sector overtaken both agriculture and industry. It is now more than 50% of G.D.P. The service sector has highest growth rate and is the least volatile sector. In some areas the rate of growth is more than 50%. The service sector of Indian economy that have grown faster than the economy are as follows:-

- Information and communication technology (most leading sector in Indian economy)
- I.T. enable services.
- Telecommunications.
- Financial Services.
- Community Services.
- Hotels and restaurants.

There has been 13% hike in the sector of trade hotels, transportation and communication in Indian economy as compared to 10.4% rise in previous year. The Services sector has also witnessed a remarkable rise in global market :-

- The software services in Indian economy has increased by 33 percent which registered a revenue of USD 31.4 billion.
- Business services grew by 82.4 percent.
- Financial services had a rise of 88.5 percent.
- Engineering services exports grew by 23 percent.
- Services concerning personal, cultural sector had grown by 96 percent.

According to Colin Clark, there is a close relationship between development of an economy and change in occupational structure. He writes, "A high average level of real income per head is always associated with a high proportion of working population engaged in tertiary sector. In every progressive economy there is a steady shift of employment and investment from primary sector to secondary and then to tertiary sector.

The growth of India's service sector has drawn global attention. Unlike other countries where economic growth shift from agriculture to industry. In India there has been a shift from agriculture to service sector.

Reasons for its fast development. Following are the some reasons of fast development of this sector :-

- The necessity for basic services like hospitals, educational institutions, post and telegraph services, police stations, courts, transportation and banking services have increased with increase in population.
- The development in agriculture and industrial sector has increased the need of services such as transportation, storage and trade.
- As per income of the people increased the demand for services like tourism, retailing, catering and elite education also increased.
- With increase in income people have started travelling long distances for getting education and for job etc. This results in increase in the need of fast transportation. So this increased the services of transportation and communication sector.
- Growing service sector is a sign of increasing standard of living. It enable the consumers to enjoy more with leisure based services such as restaurants, tourism and sports etc.
- An other factor behind development of service sector is increase in productivity of labour. Due to better technology and improved labour productivity there is a increase in output of manufacturing goods and agriculture with less labour.

Role of Service Sector :

Contribution to Gross Domestic Product:

The share of service sector in India's GDP at faster cost at

current prices increased rapidly from 30.5% in 1950-51 to 55.2% in 2009-10. The service sector contributed USD 783 billion to the 2014-15 GDP (at Constant prices). Out of overall service sector the financial services, real estate and professional services contributed 305.8 billion on 20.5 percent of GDP. Community, social and personal services contributed USD 188.2 billion or 12.6 percent of G.D.P. The third largest sub sectors comprising trade, repair services, hotels and restaurants contributed nearly USD 187.9 billion on 12.5 percent to the G.D.P.

So it is clear that the contribution of service sector in GDP of India has been increasing and it has been proved to be a major sector among all the three sectors of the economy. The growth of service sector was 9.96 percent as compared to 8.81 of industrial sector and 1.579% of agricultural sector.

Contribution to Exports:

Services export from India comprise travelling, transportation, insurance, communication, construction, financial services, software agency services etc. Services accounted for one third of total exports in India (2009-10). In 2006 India's share in World's total services export was 2.7% compared to 2.3% in 2005. Indian services exports grew by 27% in first half of 2010-11. In the list of exports of services (2005), India is ranked twelfth.

Helpful in Development of Infrastructure and Communication Services:

Service sector has also been playing an important role in development of infrastructure specially development of transportation and communication services. Infrastructure is the backbone of development. The contribution of transport, communication prices in India is between 8.2% in 2006-07 to 7.1% in 2011-12.

Helpful in FDI Inflows :-

There is 46 % Foreign direct Investment in service sector during 2014-15, out of F D I inflows of \$ 31 billion during 2014-15, the service sector accounted for almost 17 percent of commutative inflows. Sectors such as telecommunication, automobile industry and computer software and hardware received F D I worth of \$ 2.89 billion, \$ 2,57 billion and \$ 2.20 billion respectively. Service sector attracted foreign direct investment. F D I also play an important role in growth of service sector. So both are helpful to each other.

Contribution in growth of IT and ITes :-

The service sector has also helped the way for continuous growth of IT and IT enabled services. IT sector of the country has developed as young and powerful sector. It has earned brand identity in global market. Its main components are IT services, engineering products. IT and IT enabled services sector has generating considerable amount of revenue and employment in our economy. The proportion of IT and ITes sector revenue in GDP have grown 1.2 % in 1997-98 to 7.5% in 2011-12.

Software export from India in 2011-12 is US \$ 69 billion as compared to US \$ 59 billion in 2010-11. Exports continue to dominate the IT and ITes Industry. It constitute about 78.4% of total Industry revenue. The growth rate of the domestic sector of IT and ITes and export sector in 2010-11 were 20.6% and 18.8% respectively. So In this way helping the economy to attain higher growth.

Services Sector and Employment :-

Service sector comprised about 17.3% of working population in 1951. In 2007-08 around 25 of working population was dependent on service sector for occupation. During 2012-13 employment share of agriculture is 52.2%, share of Industry is 20.4 and that of service sector only 29.4%. There has been a lot of debate on employment generating capacity of service sector. Employment in different sectors in some service categories is as following in India.

Employment in different sector and some service categories as percentage of total employment in India.

Service	1999-00	2004-5	2009-10
Primary (Agriculture)	61.7	58.5	53.2
Secondary (Industry)	15.9	18.1	21.5
Tertiary/Service	22.4	23.4	25.3

So, It is clear from the table that employment growth in service sector has not been commensurate to the income growth in the sector as rise in its share in GDP. No doubt it is increasing but at very slow rate.

Although the primary sector is the dominant employer followed by the service sector. The share of service sector has been increasing over the years while that of primary sector has been falling. The share of services is about 25.3 percent during 2009-10. This indicate that India, witnessed a relatively jobless service sector growth. Especially when we compare it with other countries, India has exceptionally low share of service sector in employment.

Providing support to other sectors :-

Service sector provide support to agriculture and industry by providing a member of services in the form of financial services, transport services, storage services, distribution services, software and communication services and so on. No Sector can perform and grow in the absence of services sector.

At the end we can say the service sector in India remained the most vibrant in terms of contribution to national and state incomes, F D I, foreign trade etc. The service sector contributed 66.1% of its gross value added growth in 2015-16 and become the important net foreign exchange earner. It is also the most attractive sector for F D I (Foreign direct Investment) inflows.

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