

## Competitive Exams: General Studies Economics Services Sector

### Services Sector and Its Contribution to the Indian Economy

- The country's high growth path in the post-reform period since 1991 is mostly paved with the spectacular and consistently robust growth of its tertiary sector, i.e.. services sector. This is particularly so as both the primary (agriculture) and the secondary (manufacturing) sectors' growth remained substantially subdued. That the services sector has emerged as an indisputably important component of the country's overall gross domestic product (GDP) is a testimony and recognition so much so that the Pre-Budget Economic Survey of the Ministry of Finance did set apart a separate chapter to chronicle the developments in this crucial sector for the first time. Rightly did the Survey contend that having a separate chapter on services will be a catalyst for better and more regular data on this sector.
- Be that as it may, it would be important to recount the role and share of this sector in the country's growth story. The share of services in India's GDP at factor cost (at current prices) rose rapidly from 30.5 percent in 1950 – 51 to 55.2 percent in 2009 – 10. If construction segment is also included, then the share increases to a lion's share of 63.4 percent in 2009 – 10. A caveat is in order here because RBI and international institutions like WTO included construction industry under services, although from a national accounts classification it is part of the secondary rather than the tertiary sector.
- Central Statistical Organization (CSO) classification of the services sector consist of four broad categories viz. trade, hotels and restaurants; transport, storage and communication; financing, insurance, real estate and business services and community, social and personal services.
- Among these, financial, insurance, real estate and business services and trade, hotels and restaurants remain by far the largest groups accounting for 16.7 percent and 16.6 percent respectively of the national GDP in 2009 – 10. The community, social and personal services category accounts for a 14.4 percent share, while transport, storage and communications accounts for a 7.8 percent share. Construction industry, which is a borderline services category, has a share of 8.2 percent.
- It is being pointed out in official reports that the ratcheting up of the country's overall growth rate (compound annual growth rate-CAGR) from 5.7 percent in the 1990s to 8.6 percent during the period 2004 – 05 to 2009 – 10 was to a large extent due to the acceleration of the growth rate in the services sector from seven & half percent in the 1990s to 103 percent in 2004 – 05 to 2009 – 10. The services sector growth was markedly faster than the six point six percent for the combined agriculture and industry sectors annual output growth during

the same period. In 2009 – 10, services growth was 10.1 percent and in 2010 – 11 it was nine point six percent (advance estimates). WTO's latest statistics show that services continue to be the most dynamic sector in India in recent years, expanding at an average annual rate of around or over 10 percent, thus exceeding GDP growth and exhibiting resilience to the negative repercussions and ramifications of the global crisis since 2008.

- According to WTO, India is a net exporter of services. The services trade surplus as a percentage of GDP rose from \$29.5 billion or three point one percent in 2006 – 07 to \$54 billion or four point seven percent in 2008 – 09 as software and information technology (IT) exports, as well as transportation, travel and business services grew considerably. After peaking in 2008 – 09, however, services exports from India declined, as were strongly buffeted by the global financial meltdown, while imports of services continued to rise. This led to a substantial reduction in the surplus to \$35.7 billion or two point eight percent of GDP in 2009 – 10. WTO reckons that the surplus for 2010 – 11 is also likely to be significantly lower than in 2008 – 09 with most affected by the global crisis being business services and communications, while exports of India's software services continued to grow. The Survey report contends that India with a services sector share of 52 percent in national GDP in 2009 and 55.2 percent in 2009 – 10 compares favourably even with the advanced nations in the top dozen countries with the highest overall GDP. China's share of services in its national GDP at thirty nine point two percent is relatively low, though it is ahead of Indian in absolute terms (as its overall GDP is more than three times that of India). In terms of services growth rate, China (10.5 percent) followed by India (8.9 percent) remain the two fastest growing economies in the top 12 countries. Interestingly when most of the top 12 countries logged negative growth in services in the global financial tsunami, only China (nine point four percent), India (six point eight percent) and Brazil (two point six percent) recorded positive growth, attesting to the ascendancy and inherent resilience of this robust services sector in the scheme of things.
- Official reports continue to state in no unmistakable terms that India is moving towards a services-led export growth even as the export-led growth era in the manufacturing sector for goods appears uncertain in recent years in the face of global slowdown and rising protectionist sentiments among India's traditional and nontraditional trading partners. The Survey report citing balance of payments data show that during 2004 – 05 to 2008 – 09, merchandize (goods) and services exports grew by 22.2 percent and 25.3 percent respectively. Services growth slowed in 2009 – 10 as a result of the global recession, but the decline was less pronounced than the slowdown in merchandize export growth and has recovered rapidly in the first half of 2010 – 11 with a growth of twenty seven point four percent. Some services contributed to this improved show. Software is one sector in which the country has compassed a remarkable global brand identity. Tourism and travel-related services and transport services are also major items in India's services. The potential and growing services include many professional services, infrastructure-related services and financial services.

- Official reports that refer to the services sector rightly laid the stress on the vast and untapped potential of the tertiary sector, given the myriad activities in services. Hence underpinning this sector underscores the need for careful and differentiated strategies to the variegated components of the services sector as each segment has its own strengths to build on and weaknesses to overcome. Undoubtedly there is unanimity of view on the need for retaining the country's competitiveness in those services sectors where it has already distinguished such as information-technology and information technology enabled services (ITeS) and telecommunications. The next task is to make foray into some traditional realms such as tourism and shipping where other nations have already established themselves. But here more homework and ground work ought to be done in the form of fostering an enabling milieu for attracting tourists and providing facilities in the country's major and minor ports to accommodate sea-faring business on a seamless fashion.
- The Survey report aptly identified the third task as that of making serious inroads into globally traded services in still nascent but niche areas for India such as financial services, health care, education, accountancy, legal and other business services where the country possesses a huge domestic market but has also displayed signs of making a dent in the global market. But this requires reciprocal movements on the part of India in opening up its own market, liberalizing Foreign Direct Investment (FDI) not only to improve the infrastructure but also to absorb the best practices universes that are so universally acclaimed. It is a sensitive domestic issue as most of the political parties do not see eye to eye on liberalization of services trade with the domestic stakeholders expressing unrelenting reservations over the entry of Foreign Service providers upsetting their domestic applegart and filching business from them. In order to overcome such apprehensions, the onus is on the authorities to set up strong institutional bodies in the form of regulatory agencies to take care of both domestic and international interests in case when market-distorting moves are made by either party.
- It is also a small consolation that most of the States in India too are showing up higher share of services in the gross state domestic product (GSDP). States such as Delhi, Chandigarh, Kerala, Maharashtra, Bihar, Tamil

Nadu and West Bengal have shares equal to or above all-India share of services in the GDP. The Survey report recounts how even small States such as Chhattisgarh and Rajasthan which have relatively low overall growth rates have begun piggy-backing on the sound performance of their services sectors to climb up the ladder of progress to catch up the ladder of progress to catch up with the rest of India. It is sobering to note that the services revolution in the country appear to be becoming more broad-based rather than being concentrated in only a few States. If this trend gets pan-India and if all the major political parties sink their short-term gains to score political points, the services sector's unobtrusive revolution to change the profile of the Indian economy and to push it into higher growth trajectory would become a reality devoutly to be relished.

Courtesy: Yojana