

## **ECONOMIC GROWTH AND IMPACT OF SERVICE'S SECTOR IN INDIA**

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### **ABSTRACT:**

Service sector is the lifeline for the social economic growth of a country. It is today the largest and fastest growing sector globally contributing more to the global output and employing more people than any other sector. Services sectors have become more important in recent years as advances in technology have permitted new means of providing services across borders. The growth in output in the sector in recent times has mostly come from the rapid development of skill intensive services in the information technology and professional service segments, mostly oriented toward the external market. This study investigates to growth, contribution and development of services sector in Indian economy.

**Keywords:** contribution, services, development, growth, etc.

## **INTRODUCTION**

Economy is divided into three sectors: primary, secondary and tertiary sector. The primary sector consists of farming, forestry, animal husbandry and fisheries. The manufacturing sector is composed of mining, construction and manufacturing. All other economic activities which are not covered by the agricultural or manufacturing sectors are broadly defined as services and hence belong to the service sector. They include services provided for the agricultural sector, activities associated with the supply of water, electricity and gas, transport and communications, wholesale and retail trade, finance and insurance, business and personal services, and community and social services. Services can be broadly distinguished between two types, that is, old and new. The old or traditional services include petty trading, domestic services, catering and hotel services. The new services are generally associated with communications, business and legal practices, culture, research and education. Service sector is the lifeline for the social economic growth of a country. It is today the largest and fastest growing sector globally contributing more to the global output and employing more people than any other sector. The real reason for the growth of the service sector is due to the increase in urbanization, privatization and more demand for intermediate and final consumer services. Availability of quality services is vital for the well being of the economy. In advanced economies the growth in the primary and secondary sectors are directly dependent on the growth of services like banking, insurance, trade, commerce, entertainment etc. The growth in services has also been accompanied by the rising share of services in the world transactions. Testimony to the rise in international supply of services is the fact that trade in services has grown as fast as trade in goods in the period 1990-2003. Services sectors have become more important in recent years as advances in technology have permitted new means of providing services across borders.

## **OBJECTIVES**

The objectives of the current study are given below:

- To Study the Growth and Development of Service Sector.
- To Study the Impact of Service Sector in Indian Economy.

## **RESEARCH METHODOLOGY**

To achieve the objectives of the study secondary data from 1990 to 2012 were collected from the different published sources like: Economic Surveys, Statistical Abstract of India, Statistical Abstract of Punjab, Agricultural Statistics At a Glance, RBI Bulletins, NCEAR, Online Data, Journals, Articles, Newspapers, etc.

## GROWTH AND DEVELOPMENT OF SERVICES SECTOR

While India is distinctive among developing countries for its fast-growing service sector, skeptics have raised doubts about the quality and sustainability of this service-sector growth and its implications for economic development. We show, consistent with the views of the skeptics, that while growth of the sector has been unusually rapid, it started 15 years ago from unusually low levels. That the share of services has now simply converged to the international norm raises questions about whether it will continue growing rapidly. In particular, whether service-sector output and employment continue to grow in excess of international norms will depend on the continued expansion of modern services: business services, communication and banking but, also, on the application of modern information technology to more traditional services: retail and wholesale trade, transport and storage, public administration and defense. The second aspect obviously has more positive implications for output than for employment

The services sector scenario in India is complex and is characteristics by uneven development in different types of services and across regions. In global perspective, the growing importance of services sector within the Indian economy cannot be denied. The growth in output in the sector in recent times has mostly come from the rapid development of skill intensive services in the information technology and professional service segments, mostly oriented toward the external market. However not all services have shown equal dynamism in their growth. The star performer has been IT and IT enable services while other services that serve as crucial input to working of the national economy ( as support for agriculture and industry ) have not developed as fast as expected

Table1: Contribution of Service Sector towards Indian Economy

Year	Agriculture %	Industry %	Services %
1950-51	55	15	30
1960-61	51	19	30
1970-71	44	23	33
1980-81	38	24	38
1990-91	31	26	43

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2000-01	24	20	56
2004-05	20	20	60

Table shows that during the 60 years of Planning between 1950-51 and 2009-10, the share of agriculture in GDP has fallen by more than two third from 55% to 15%, whereas the share of industry has increased from 15% to 28% and the share of services has nearly doubled from 30% to 57%. Services sector growth has continued to be broad-based. Among the three sub-sectors of services, ‘trade, hotels, transport and communication services’ has continued to boost the sector by growing at double-digit rates for the fourth successive year. Impressive progress in information technology (IT) and IT-enabled services, both rail and road traffic, and fast addition to existing stock of telephone connections, particularly mobiles, played a key role in such growth. Growth in financial services (comprising banking, insurance, real estate and business services), after dipping to 5.6 percent in 2003-04 bounced back to 8.7 percent in 2004-05 and 10.9 per cent in 2005-06. The momentum has been maintained with a growth of 11.1 per cent in 2006-07 (Economic Survey 2006-07) Services contributed as much as 68.6 per cent of the overall average growth in GDP in the last five years between 2002-03 and 2006-07. Practically, the entire residual contribution came from industry. As a result, in 2006-07, while the share of agriculture in GDP declined to 18.5 per cent, the share of industry and services improved to 26.4 per cent and 55.1 per cent, respectively. (Economic Survey 2006-07).The modern services that are growing most rapidly are now large enough where their future performance could have a significant macroeconomic impact. The expansion of modern service-sector employment is not simply disguised manufacturing activity. Finally, we show that the mix of skilled and unskilled labor in manufacturing and services is increasingly similar. It is no longer obvious therefore that manufacturing is the main destination for the vast majority of Indian labor moving into the modern sector and that modern services are a viable destination only for the highly-skilled few. We conclude that sustaining economic growth and raising living standards will require shifting labor into both manufacturing and services.

### **IMPACT OF SERVICES SECTOR ON INDIAN ECONOMY**

India has taken substantial steps towards economic liberalization during last few years, having worked out strategies for brining about rapid economic development. India has managed to achieve a six percent annual growth rate in her economic agenda. During these years, a large increase in the middle class category income has been seen and it is estimated that there are about

200 million people in the middle class category. And particularly on the basis of this figure, all the efforts are concentrated. This category will have a substantial demand for service in the next century. With increasing standards in education, which in India is provided free of cost and compulsory till the age of 14 years by the Indian government, there will be increasing demand for educational services. Primary school, secondary and higher secondary school, junior degree colleges-all these institutes are in great demand, with the increase in population and an awareness of the benefits of seeking education. As the number of students goes on increasing, there is also increasing demand for tuitions, private classes etc. With the establishment of technical institutes even at the district level, these has emerged an increase in demand for the services of professionally qualified technicians. With the increasing amount of trade and business covered by road, there exists a substantial demand for transport services, which benefits various automobile manufacturers, who cash boxes start overflowing. Large sections of the population appreciate having their own vehicles, providing a good business proposition for the automobile industry. Banking services are very necessary to meet financial requirement of the public and the national industrial sector. The electric services provide benefits to the society, industry and so no. adequate hospital services are essential for the well beings of the society. Personal care services are essential to develop potentiality of an individual for a perfect personality and positive image projection. Hospitality services (hotels etc.) work on strategies to satisfy the business class through their services in term of comfort and satisfaction. The tourism industry is a potential one which has geared itself to make tourists enjoy the holiday in destinations of their choice, and take them away from the monotonous life in cities. The entertainment industry plays an equality important role towards this end. All these services have left management scientists, professionals and socio economic thinkers to analyze and understand that managing services to the consumers, the main thing in this business is that they have unlimited potentialities and we have to explore these opportunities and tap them against the background of the changing, social, cultural and economic condition. The professional requirements need a change when technology develops and evolves. These necessitate proficiency in the manage management level, possible only through giving a boost to human abilities.

## CONCLUSION

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. The agriculture sector contributed 17.2%; industry contributed 29.1% while the service sector had a contribution of 52.7% according to 2008 estimates. The growth rate in the current fiscal is expected to be 19.5% for IT-BPO services, 18.5% for exports and 22.8% for domestic IT related services in 2011. The growth in output in the sector in recent times has mostly come from the rapid development of skill intensive services in the information technology and professional service segments, mostly oriented toward the external market. The New Economic Policy includes reduction in government expenditure, opening of the economy to trade and foreign investment, adjustment of the exchange rate from fixed exchange rate system to flexible exchange rate system, deregulation in most markets and the removal of restrictions on entry, on exit, on capacity and on pricing. A shift in the consumption pattern of this nature indicates that the demand-side impetus to services growth will continue indeed will get stronger. Since liberalization began, India's services exports have increased.

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