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ECONOMIC GROWTH AND IMPACT OF SERVICES 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. Further this study discusses to economic policy and impact of services sector.
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. Along with this worldwide has been marked shift of FDI away from manufacturing sector towards services sector. In line with the global trend, services sector in India has also grown rapidly in the last decade. Its growth has in fact been higher than the growth in agriculture and manufacturing sector. Services sectors have become more important in recent years as advances in technology have permitted new means of providing services across borders. While there is little doubt that services trade is an essential ingredient to economic growth and sustainable development, it is widely accepted that it can only make such positive contribution if

appropriately liberalized and implemented across countries. An efficient service sector is crucial for the growth and competitiveness of an economy.

REVIEW OF LITERATURE

According to Gaurav Nayyar (2009) the dramatic growth of the services sector in India reflects rapid strides made by educated professionals. Some others see it as the expansion of an employer of last resort. Given this heterogeneity, the object of the paper is to analyze the nature of employment being created in the different subsectors of services, relative to the industrial sector. The nature of employment is defined to include educational requirements and quality, where the latter comprises wages, job security and social protection. Using different econometric models to analyses household survey data from India in 1993-94 and 2004-05, we find the following. First, sub-sectors of services are generally either 'good' or 'bad' employers. Second, service subsectors with low educational requirements have low overall quality of employment, and vice-versa. Moreover, employment expansion appears to be more in sub-sectors where educational requirements and quality of employment is low.
Seema Joshi (2008) this study provides the overview of performance, prospects and problems encountered by the services sector in India's economy. It is heartening to note that India is called the services hub of the world. The traditional perception of India stands changed today from a land of beggars, snake-charmers and cyber-coolies of yesteryear to a land of knowledge workers- thanks to IT and ITES. Telecom and ITES-BPO revolution have already hit the shores of India. A number of sector specific measures have been taken up by the government of India to promote IT and ITES and other sun rise sector like telecoms, organized retail, hospitality, entertainment, and financial services sectors. That is why: the futurists are very optimistic regarding the bright future and performance a head of the sector. On the tourism front, incredible India, but on the economic front, it is clearly opportunity India. According to Robert S. Sullivan (2002) the United States has undergone a transformation from an industrial society to the first postindustrial society. Consequently, the service sector has outstripped manufacturing in its contribution to the GNP and in employment. Steffen Lehndorff (2002) describes the diversity and unity of work organization in service activities. It distinguishes a trend to 'service-sector Taylorism' from a contrasting tendency of 'professional autonomy', alongside the joint core described by the notion of 'market-based governance' of service work, which confronts the individual (service) worker with internalized markets. The new mode of governance has substantial impacts on working conditions. The need for a public debate on the shortcomings of service work organization primarily driven by market forces. Market failures, such as labour shortages in social service activities, should be identified and confronted with a new basic assessment of the value of services and in particular social services. Trade unions may contribute to this debate by developing their own paradigms of good service work. H.S. Sandhu, Ritu Mehta, (2007) this study is examined that admittedly, in the happening world of today; the woman has become concertedly visible. She is treading every domain of activities with selfbelief and proven competence. Her forays into the male monopoly of executive role in management affairs have registered a significant success in spite of so many constraints in her march to hierarchical positions. Jay Kandampully, (2009) the service sector will play an important role in economic growth in developing countries like India. However, he said that as income levels increase people will be able to afford more services while they will be spending this additional income on quality services such as education, health, travel etc. On the other hand, small-scale entrepreneurs can step in to meet this need of the people for more and more services with growth in income levels and lifestyle changes while the service sector will provide more employment opportunities than manufacturing sector. Moreover, 80% of the employment opportunities in the U.S. are in the service sector whereas the 3 factors crucial to success for

entrepreneurs in the service industry are customer focus, reliability and consistency of services. Pal Suparna (2010) T he National Accounts Statistics provides a comprehensive data on macro-economic parameters for proper evaluation of the performance of an economy. During the last two decades it has been observed, in both developed and developing countries, that the service sector has emerged as the main driver of economic growth, as compared to the primary and secondary sectors. Some economists argued that the output of service sector is overestimated and thus showing such a robust growth rate. G. Ramakrishna (2010) investigates that apart from service sector growth, industry, agriculture and the open policies of 1990s also had positive impact on India's economic growth though, the service sector appears to contribute more. The sources of service sector growth in India appear to be income elasticity of demand, open policies and the growth in the service sectors like communications, business, banking and insurance and trade services.

OBJECTIVES

Helping are this in mind and efforts has been made to study the impact, growth and development of services sector of India. The stipulated 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.
• To study the Economic policy and implementation of services sector.

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
2000-01	24	20	56
2004-05	20	20	60
2009-10	15	28	57

Table1. 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.

Table 2: Growth of different Sectors of the Economy (constant price)

INDUSTRY	2005-06	2006-07	2007-08	2008-09	2009-10
Agriculture forestry and fishing	5.2	3.7	4.7	1.6	-0.2
Mining and quarrying	1.3	8.7	3.9	1.6	8.7
Manufacturing	9.6	14.9	10.3	3.2	8.9
Electricity gas and water supply	6.6	10.0	8.5	3.9	8.2
Construction	12.4	10.6	10.0	5.9	6.5

Trade hotels and restaurants	12.4	11.2	9.5	5.3	8.3
Transport storage and communication	11.5	12.6	13.0	11.6	
Financing insurance real estate and business services	12.8	14.5	13.2	10.1	9.9
Community social and personal services	7.6	2.6	6.7	13.9	8.2
GDP at factor cost	9.5	9.7	9.2	6.7	7,2

Table.2 shows the exception, as anticipated, is agriculture and allied sectors where the growth rate is estimated to be minus 0.2 per cent over 2009-09. Sectors including mining and quarrying; manufacturing; and electricity, gas and water supply have significantly improved their growth rates at over 8 per cent in comparison with 2008- 09. The construction sector and trade, hotels, transport and communication have also improved their growth rates over the preceding year, though to a lesser extent. However, the growth rate of community, social and personal services has declined significantly, though it continues to be around its pre global crisis medium term trend growth rate. Financing, insurance, real estates and business services have retained their growth momentum at around 10 per cent in 2009-10. India's economy has also successfully moved into a higher trajectory of growth and displayed strong dynamism in selected sectors. This encouraging performance brightens the prospects for stepping up India's growth rate and improving the competitive edge in the years to come through further appropriate economic reforms. India has also increasingly integrated its economy with global economy. After half a century of inward-orientation, the share of India's trade as a proportion of GDP rose from 13.1 percent in 1990 to 20.3 percent in 2000. By Indian standard this is an impressive performance. An important indicator of gains from economic reforms, reflecting the attractiveness of India as an investment destination, is shown by the increasing inflow of both FDI and foreign institutional investment into India. Inflow of both FDI and FII into India has increased in the decade to 2002.india's economy under the reforms has made rapid strides in selected industrial areas and knowledge and skill intensive services. These specific growth areas have experienced significant restructuring under more competitive condition in the marketplace through mergers and acquisitions and technological and managerial innovations. This has led to the achievement of recognizable increases in international competitiveness in a number of sectors including auto components, telecommunication, software, pharmaceuticals, biotechnology, research and development and professional services provided by scientist, technologist, doctors, nurses, teachers, management professionals and similar professions. The spillover effects of India's increasing international competitiveness have helped in improving the rate of growth of export earnings. They have also directly benefited Indian consumers by making better quality, lower priced goods available.

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 management level, possible only through giving a boost to human abilities.

ECONOMIC POLICY AND IMPLEMENTATION OF SERVICES SECTOR

Several major economic and political changes occurred during the 1970s and 1980s, which affected the developing countries and paved the way for the implementation of IMF-sponsored Structural Adjustment Policies (New Economic Policy) in India in 1991. New Economic Policy of 1991 includes globalization, liberalization and privatization (Disinvestment) .Globalization means flow capital (finance in the form of foreign direct investment (FDI) and foreign portfolio investment (FPI), technology, human resource, goods and service among countries. FDI is investment in real assets like automobile, consumer goods production, service sectors like insurance, telecommunication, air transport etc. Liberalization means freeing the economic activities and business from unnecessary bureaucratic and other controls imposed by the governments. Privatization or Disinvestment: Selling the government owned public sector enterprises to private industrialists and opening the government operating sectors for private investment. 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. Post 1991, a major restructuring has taken place with the emergence of more technologically advanced segments among industrial companies. Nowadays, more small and medium scale enterprises contribute significantly to the economy. The principal reforms initiated in the year 1991 included; reduction in import tariffs on most goods other than consumer goods, removal of quantitative restrictions and liberal terms of entry for foreign investors. India's simple average tariff rate was reduced from 128% in 1991 to about 32.3% in 2001-02. It is well known that from 1951 to 1991, Indian policy makers struck to a path of centralized economic planning accompanied by extensive regulatory control over the economy. The strategy was based on an 'inward- looking import substitution' model of development. This was evidence from the design of the country second Five Year Plan (1956-1961), which had been heavily influenced by the soviet model of development. Several official and expert reviews undertaken but the government recommended incremental liberalization of the economy in different area, but these did not address the fundamental issues facing the economy. In post 1991 period, there were several measures undertaken by the government to develop services sector, especially through deregulation of some sub sectors of services sector. Foreign direct investment vary between 26 per cent to 100 per cent in Information Technology sector, Business Process Outsourcing, E-commerce activities, Infrastructure etc has been permitted. There are several other promotional measures taken by the government to sustain the growth of the services sector. For example, having realized that in knowledge intensive world driven by IT, integration with the global economy cannot take place without making quality telecom services accessible at affordable prices, a large number of steps like launching of national Telecom Policy 1999, Broad Band Policy 2004 etc were undertaken. In addition to this a number of promotional measures have been taken up in IT and ITES segment, trade, tourism, banking, and insurance and real estate sectors. India has emerged as a top destination for off shoring as per global services location index 2007. There is a lot of scope for future expansion as only 10 per cent of the potentially addressable global IT and ITES market has been realized. The remaining 90 per cent remain to be tapped as per an approach to the eleventh five year plan. Reforms in the domestic economy have been able to reduce excessive government control of economic decision making. In the most of the reforms were incorporated into the industrial license policy of 1991, implemented subsequently through a series of government notifications. There is almost no sector in which the entry of the private sector is restricted by discretionary central government policy. Budget pronouncements since 1991 have ensured it. In the external sector, the government has continued the eliminating quantitative restrictions on imports and reducing import duties while floating the exchange rate. Import duties have continued to fall from 300 per cent levels in 1991to about 10 per cent today on non agricultural commodities. The further liberalization of FDI inflows awaits political consensus, but there are no serious business restrictions. The role of restrictive government policy is the role of liberalization, or market-oriented reforms and opening up more areas of activity to the private sector. A look at the fast-growth sub-sectors of the services industry makes this clear – the fast-growth areas are those where there has been significant liberalization. Till the liberalization of the early 1990s, the trend in private final consumption expenditure was a straightforward one – the share of services in the total consumption basket (at 1999-00 prices) rose by around 3 percentage points each decade, from around 8 per cent in 1950-51 to 11 per cent in 1960-61, 14 per cent in 1970-71, 17 per cent in 1980-81 and 21 per cent in 1990-91. However, this trend changed dramatically and, by 2000-01, the share of services in private consumption was up by 10 percentage points, to 31 per cent. By 2006-07, it was up another 8 percentage points, indicating that the pace quickened further in the 2000s. 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 15-fold, from $5bn in 1990 to $74 bn in 2006. Exports of business services, mostly IT/ITeS, have increased at over 25 per cent per year in the past decade, an unmatched record anywhere in the world. As a result, while India's share in global trade is approaching 1 per cent (up from 0.4 per cent in 1990-91), its share in the global services trade is double that. Much of this is related to the increased share of global services that have now become tradable and, on India's part, to liberalization which has made many sectors more efficient. Between 1965 and 2000, India's exports of business services rose by 43 per cent a year

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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