

# SEVICE SECTOR LED GROWTH

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# What are services ?

- A type of economic activity that is intangible, is not stored and does not result in ownership. A service is consumed at the point of sale. Services are one of the two key components of economics, the other being goods. Examples of services include the transfer of goods, such as the postal service delivering mail, and the use of expertise or experience, such as a person visiting a doctor.

# Service sectors mainly includes

- Trade
- Hotels and restaurants
- Transport including tourist assistance activities as well as activities of travel agencies and tour operators
- Storage and communication
- Banking and insurance
- Real estate and ownership of dwellings
- Business services including accounting; software development; data processing services; business and management consultancy; architectural, engineering and other technical consultancy; advertisement and other business services
- Public administration and defence (i) Other services including education, medical and health, religious and other community services, legal services, recreation and entertainment services (ii) Personal care services .

# Listing methods

- The National Accounts classification of the services sector incorporates: trade, hotels and restaurants; transport, storage, communication, financing, insurance, real estate, business services; and community, social and personal services.
- In the World Trade Organization (WTO) list of services and the Reserve Bank of India (RBI) classification, construction is also included.

# Missing middle

- Growth in India has flung straight from Primary sector to Tertiary sector which is definitely an alarm to the Indian Manufacturing Sector.
- The growth process seems to have been led by the tertiary sector—both in terms of value added and employment, rather than manufacturing.
- The earnings level in the tertiary sector has been significantly above that in manufacturing, suggesting that growth in the tertiary sector has been productivity-led rather than employment-led.
- The manufacturing sector in India has been characterized by a persistent ‘dualism’.

# Growth in service sector

- Within the service sector, the driving force Business Services (software and IT) banking and communication whereas services such as railways, public administration and real estate services have grown more slowly.
- Previously the decline in the share of agriculture in the GDP was shared equally by increases in the shares of manufacturing and services. However since 1990 manufacturing has stagnated and the decline in agriculture share is matched by a corresponding rise in the share of services industry. India seems to be unique as it is the only developing country experiencing service led growth.
- On the other hand, employment in the service sector has been lagging. The share of services in total employment was 23% in 1999–2000 and compared to the world average of 30%. This is primarily due to the fact that growth is in technology intensive services and not in labor-intensive services.
- The data available on services in India is not exhaustive there are problems of disaggregation and coverage even the wholesale price index excludes services.

# Trade

The service sector has a strong export orientation:

## A. Services vs Goods

Indian services have penetrated the world market faster than Indian goods. Between 1996 and 2000 Revealed Comparative Advantage (RCA) of services increased by 74% while that of goods fell by 15%.

## B. Composition

The structure of Service Exports shows shift away from traditional services, such as transport and travel , towards emerging services, such as software and business services.

## C. On-Site Services:

India has an advantage in skill and knowledge intensive services on-site. Cross border movement of service providers constitute 40% of software services exports. India features among the top 5 recipient country of specialty occupation Visas in US for service categories. India also supplies services to the Middle East and Gulf countries.

## D. Outsourcing

Indian labour endowment varied skill sets and low cost manpower coupled with the growing IT sector has led to it being the hub of business Outsourcing half of the top 500 companies have BPO units in India. Indian BPO industry is projected to keep growing at double-digit annual growth rates.

## E. Barriers

Although there is more scope for services like medical tourism and education there are numerous internal and external barriers. The internal barriers are infrastructural, financial, regulatory, technical and standard related constraints. The external barriers include immigration and labor market regulations that inhibit India's capabilities in providing on-site services.

# India's Share of Services Export in the World

- India's share of services in the world exports of services, which increased from 0.6 per cent in 1990 to 1.0 % in 2000 and further to 3.3 per cent in 2011, has been increasing faster than the share of merchandise exports in world exports.
- The growth rates of exports of services of India and the world show two distinct phases.
- The first till 1996 when the two growths had a scissor-like movement
- The second phase after 1996 when the growth of services exports was higher than that of the world in almost all the years except 2009.

In this second phase, the former was much above the latter in upswings but almost converged with the latter during downswings.

The overall openness of the economy reflected by total trade including services as a percentage of GDP shows a higher degree of openness at 55.0 per cent in 2011-12 compared to 38.1 per cent in 2004-5.

# FDI

- The average share of services in FDI rose from 10.5% in 1990–4 to 28.3% in 1995–9 period.
- The FDI has mainly been directed to telecommunication and financial services and not evenly to the entire sector.
- Even in outward flows of investment from India, services are becoming increasingly prominent, accounting for 45% of total FDI outflow between 1999 and 2003.
- The liberalization for De regulation strategies adopted in banking insurance and telecommunication are mainly towards attraction of foreign capital.
- FDI telecommunication is the most liberalized sector with government Monopoly eliminated and regulations minimized. Sorting services such as legal accountancy and air transport are still curtailed by restrictive policies until recently retail distribution was closed due to foreign firms

- IT, Communication, Banking and Insurance have exhibited higher growth rates with wider efficiency and linkage effect for the rest of the economy. However, air transport, legal and real estate have been plagued by slow growth and lack of economy-wide competitiveness.
- On the same lines, a report by McKinsey indicates that telecommunication and software services have much higher productivity levels than other service sector in India ,owing to factors such as global and domestic competition and changes in ownership structure. In addition, liberalization has also promoted export market expansion.

# FDI in retail

- Since 2006, India allowed FDI in single-brand retail to the extent of 51 per cent. In January 2012, the government removed restrictions on FDI in the single-brand retail sector, allowing 100 per cent FDI and from September 2012.
- FDI in multi brand retail has been allowed up to 51 per cent under the government route and subject to specified conditions. While agricultural products could get vastly improved access to markets with the growth of modern retail trade, the revenue to the government could also increase, as at present the retail sector is largely unorganized and has low tax compliance
- As per the A.T. Kearney, Global Retail Development Index 2012 report, India ranked at 5th place remains a high-potential market with accelerated retail market growth of 15 to 20 per cent expected over the next five years.

# Trade agreements

- CECA (Indo-Singapore Comprehensive Economic Cooperation Agreement) to facilitate Singapore countries to invest in telecommunication, transport and so on, and also to promote exports to Singapore in areas such as IT, accountancy, Healthcare, and, so on.
- Indo-ASEAN Agreement is being received in a similar way with a focus on services.

India undertook Joint Submissions (under GATS) for :

- Service Provide Visa, which would expand and ensure guaranteed market access for intra company transferees independent professional and contractual service supplier.
- Securing market access in outsourcing by committing in 'cross border supply of services' to pre exempt protectionism in this area. India is an active participant in WTO (World Trade Organisation) negotiations on services.

# Conclusion

- India's liberalization of services has been a challenging process in several subsectors but clearly these services where integration through trade and FDI has gone further also the ones that have exhibited more rapid growth along with positive spill overs on the rest of the economy .
- The prevailing view is that for services growth to be sustained , the sector cannot remain dependent on external demand. It must also be driven by internal demand . More broad based growth within service sector is also required to ensure balanced, equitable , and employment oriented growth with backward and forward linkages to rest of the economy . In this regard , further infrastructural and regulatory reforms and FDI in services can provide the required momentum.