
UNIT 4 SERVICE

Structure

- 4.1 Introduction
- 4.2 Service Sector: Concept and Role
- 4.3 Important Services Sectors in India
- 4.4 Factors Contributing to the Growth of Service Sector
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4.1 INTRODUCTION

In the previous two chapters you read about role of public and private sector in Indian economy. Unlike these two sectors there is another sector called the service sector which now a days plays an important role in Indian Economy. This unit will deal in detail with the tertiary or service sector. The tertiary sector is now the largest sector of the global economy as well as of Indian economy. It is also the fastest-growing sector. It is also known as the service sector or the service industry. It is one of the three economic sectors, the others being the secondary sector and the primary sector. For the last 30 years there has been a substantial shift from the primary and secondary sectors to the tertiary sector in all industrialized countries. The service sector consists of the “soft” parts of the economy. It is composed of various activities where people offer their knowledge and time to improve productivity, performance, potential, and sustainability. The basic characteristic of this sector is the production of services instead of end products. Services (also known as “intangible goods”) include attention, advice, experience, and discussion. The service sector includes retail, banks, hotels, real estate, education, health, social work, transport, computer services, recreation, media, communications, electricity, gas and water supply.

Examples of service sector employment include: Government , Healthcare/ hospitals , Public health, Waste disposal, Education Banking, Insurance, Financial services, Legal services, Consulting, News media Hospitality industry (e.g. restaurants, hotels, casinos), Tourism, Retail sales Franchising, Sales and Real estate

After studying this unit you should be able to:

- Explain the concept and role of service sector
- Examine the factors contributing for rapid growth of service sector
- Discuss the contribution of service sector to economic growth

- Describe various challenges of service sector
- Narrate various measures required for the promotion of service sector

4.2 SERVICE SECTOR: CONCEPT AND ROLE

4.2.1 Service Sector in India: Meaning and Composition

The tertiary or service sector provides a service, not an actual product. Services or the “tertiary sector” of the economy covers a wide gamut of activities like trading, banking & finance, infotainment, real estate, transportation, security, management & technical consultancy among several others.

In the National Income Accounting in India, service sector includes the following:

1. Trade, hotels and restaurants (THR)
 - 1.1 Trade
 - 1.2 Hotels and restaurants
2. Transport, storage and communication
 - 2.1 Railways
 - 2.2 Transport by other means
 - 2.3 Storage
 - 2.4 Communication
3. Finance, insurance, real estate and business services
 - 3.1 Banking and insurance
 - 3.2 Real estate, ownership of dwellings and business services
4. Community, social and personal services
 - 4.1 Public administration and defense (PA&D)
 - 4.2 Other services

4.2.2 Growth of Service Sector in India

India is the 4th largest economy and 2nd fastest growing major economy of the world today. India ranks 50 out of 117 economies in terms of competitiveness. Its rank is 15th in service sector of the world. Strong growth across sectors promises not just to beat back the recession blues but also cement India’s position as a leading growth center in Asia alongside China. FDI in India are flowing into mainly three service sub sectors : Telecommunication equipments and services, Financial services (banking and non banking) and Hospitality industry. More than two decades of opening up has produced new dynamism in India People force of India is growing fast. India is the largest English speaking country in the world. Therefore India has experienced hyper growth of its service sector. It is illustrated in Figure -1. India exports software to 102 countries. India’s potential for the IT sector is really immense. It has great future.

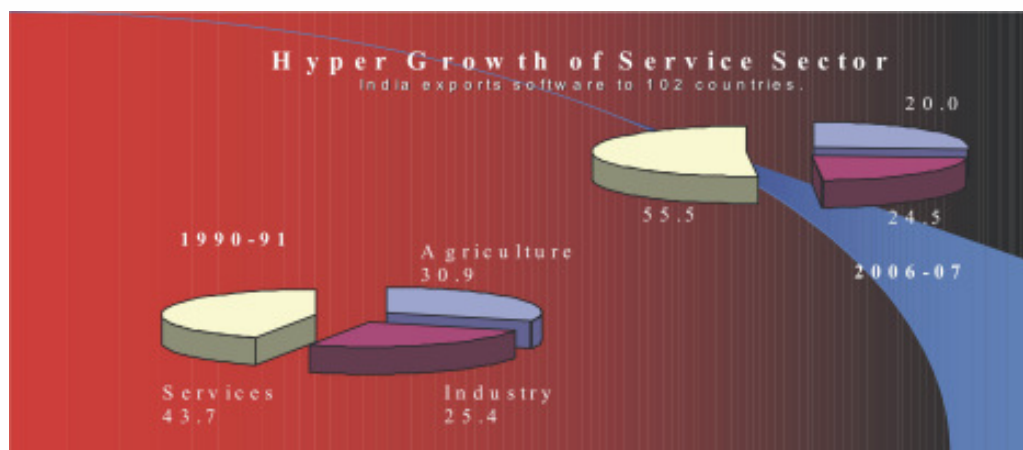


Figure 1: Growth of service sector

Service Sector in India today accounts for more than half of India's GDP. According to data for the financial year 2006-2007, the share of services, industry, and agriculture in India's GDP is 55.1 per cent, 26.4 per cent, and 18.5 per cent respectively. The fact that the service sector now accounts for more than half the GDP marks a watershed in the evolution of the Indian economy and takes it closer to the fundamentals of a developed economy. There was marked acceleration in services sector growth in the eighties and nineties, especially in the nineties. While the share of services in India's GDP increased by 21 per cent points in the 50 years between 1950 and 2000, nearly 40 per cent of that increase was concentrated in the nineties. While almost 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 boom in the services sector has been relatively "jobless". The rise in services share in GDP has not accompanied by proportionate increase in the sector's share of national employment. Some economists have also cautioned that service sector growth must be supported by proportionate growth of the industrial sector, otherwise the service sector growth will not be sustainable. In the current economic scenario it looks that the boom in the services sector is here to stay as India is fast emerging as global services hub.

4.2.3 Contribution of Service Sector to Economic Growth

The service sector has unprecedented growth in India over last sixty years. The sectoral share of service sector has increased from 29% in 1950s to 57% in 2009. But the share of agriculture in GDP has decreased from 55% to 17% during the same period. It is seen from the following table.

Table 1: Sectoral Share of GDP in India

Sectors	1950-51	1960-61	1970-71	1980-81	1990-91	2000-01	2007-08	2008-09
Agriculture	55.3	50.8	44.3	37.9	31.4	23.9	17.8	17.0
Industry	15.1	18.8	22.1	24.1	25.9	25.8	26.5	25.8
Services	29.8	30.4	33.6	38.0	42.7	50.3	55.7	57.3

Source: Reserve Bank of India, Handbook of Statistics of Indian Economy, 2008-09 and Government of India, Economic Survey, 2009-10, New Delhi

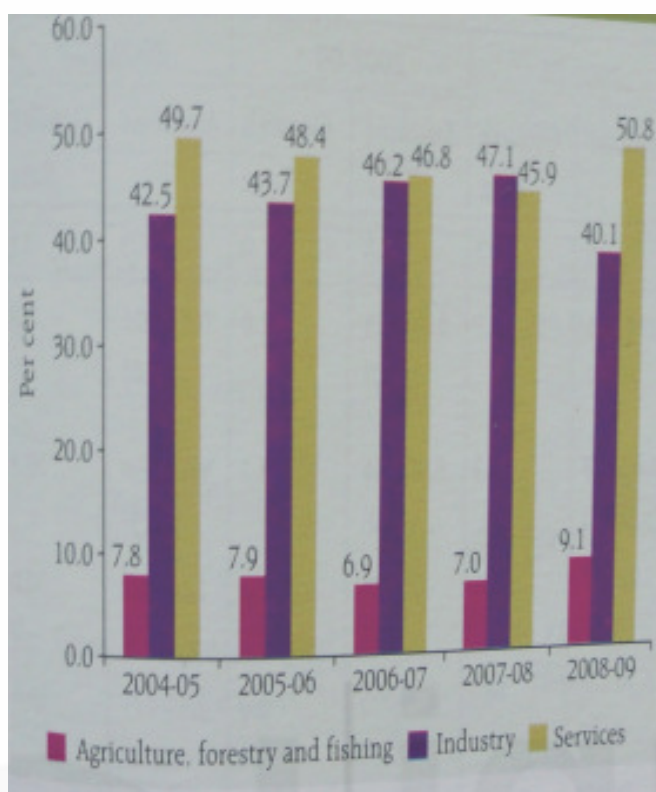


Figure 2: Sectoral share in GDP of India (2004-2009)

Source: RBI Bulletin, 2010

It is also observed from the following table -2 that the growth rate of service sector among three sectors is very startling. The growth rate of service sector was only 4.5% in 1950-51, but it has increased to 10.8% in 2007-08. But the growth rate of agriculture has decelerated to 1.6% in 2008-09.

Table 2: Sectoral Growth Rates During the Planning Period

Sectors	1950-51	1960-61	1970-71	1980-81	1990-91	2000-01	2007-08	2008-09
Agriculture	2.1	4.4	3.1	4.8	2.5	2.5	4.9	1.6
Industry	5.3	6.8	5.8	7.3	4.3	9.2	8.1	3.9
Services	4.5	6.6	7.5	7.3	7.9	9.3	10.8	9.7
GDP at FC	3.5	5.8	5.8	6.6	5.5	7.8	9.0	6.7

Source: Sankar Acharya and Rakesh Mohan, *India's Economic Performance and Challenges, 2010*, and Reserve Bank of India, *Handbook of Statistics on Indian Economy, 2008-09*

It is also observed from the following figure -3 that the growth rate of industry is fluctuating and growth rate of agriculture is decelerating. But the growth rate of service sector is adversely affected by the recent global slowdown.

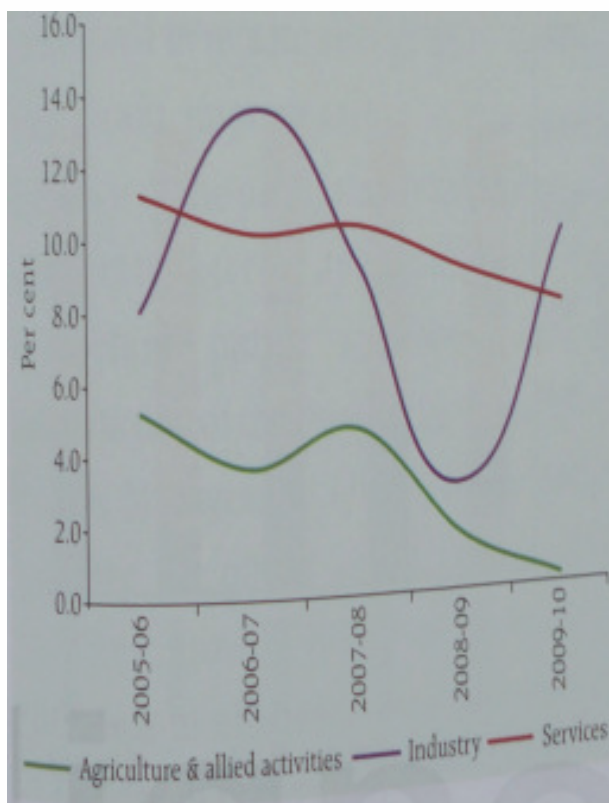


Figure 3: Growth Rate of Three Sectors

Source: RBI Bulletin, 2010

It is noticed from the following table -3 that the contribution of service sector has been consistently rising from 29% to 68 % in 2007, after which it declines due to world financial crisis. But the contribution of agriculture has fallen to only 7% over the years.

Table 3: Contribution of Different Sector to GDP Growth

Sectors	1950-51	1960-61	1990-91	2000-01	2007-08	2008-09
Agriculture	34.9	48.2	23.8	21.1	11.5	7.0
Industry	35.5	29.2	35.2	29.0	20.2	29.3
Services	29.6	22.6	41.0	49.8	68.3	63.6

Source: Sunil Jain and TN Ninan, Servicing India's GDP Growth and Sankar Acharya & Rakesh Mohan, India's Economy- Performance and Challenges, New Delhi, 2010

The following table -4 depicts the growth rate and share of service sub-sectors of India. The share of all service sector except legal and real estate services have been consistently rising from 29% to 68 % in 2007, after which it declines due to world financial crisis. But the contribution of agriculture has fallen to only 7% over the years.

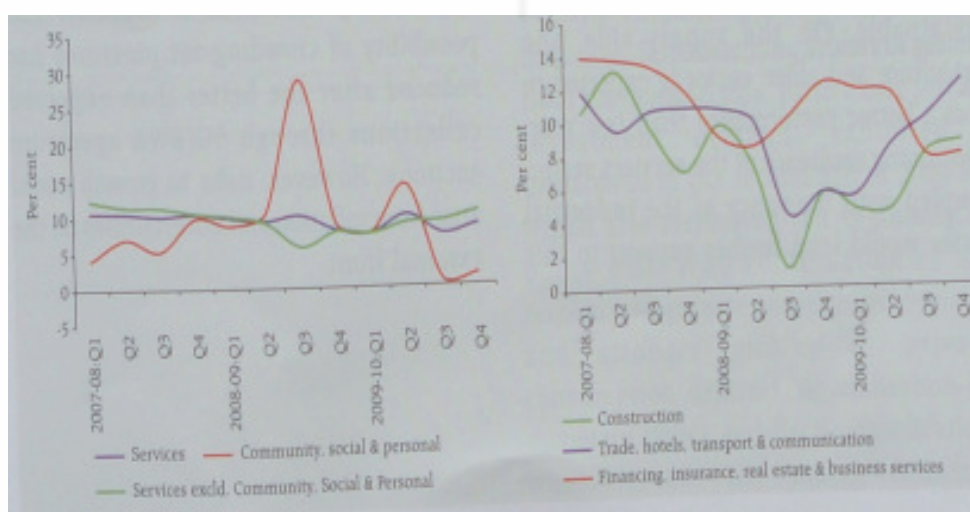
Table 4: Growth Rates of Service sub sectors and Their Shares in GDP

Sl.No	Service sub sectors	1950 & 1970s	1980s	1990s ^c	2003-2008
1	Trade	4.8(11.7)	5.9(11.9)	7.3(13.7)	9.3(14.3)
	Hotels/Restaurants	4.8(0.7)	6.5(0.7)	9.3(1.0)	13.4(1.6)
2	Railways	4.2(1.5)	4.5(1.4)	3.6(1.1)	8.8(1.2)
	Other Transports	6.3(3.6)	6.3(3.8)	6.9(4.3)	9.3(5.2)
	Storage	5.5(0.1)	2.7(0.1)	2.0(0.1)	4.2((0.1)
	Communication	6.7(1.0)	6.1(1.0)	13.6(2.0)	26.1(5.7)
3	Banking	7.2(1.9)	11.9(3.4)	12.7(6.3)	14.6(6.0)
	Insurance	7.1(0.5)	10.9(0.8)	6.7(0.7)	15.5(1.1)
	Real Estate	2.6(4.0)	7.7(4.8)	5.0(4.5)	2.5(3.7)
	Business services	4.2(0.2)	13.5(0.3)	19.8(1.1)	14.7(3.7)
	Legal services	2.6(0.6)	8.6(0.1)	5.8(0.0)	3.7(0.1)
4	Public admn & defence	6.1(5.3)	7.0(6.0)	6.0(6.1)	4.9(5.2)
	Personal services	1.7(1.6)	2.4(1.1)	5.0(1.1)	7.0(1.4)
	Community services	4.8(4.0)	6.5(4.3)	8.4(5.5)	8.4(6.2)
	Other services	3.4(1.1)	5.3(1.0)	7.1(0.7)	2.5(0.4)

Figure in parenthesis represents the share in GDP

Source: CSO, National Accounts Statistics, 2009 and Jin Jordon and P Gupta, 2003, Understanding India's service revolution, IMF working papers

When we analyze the quarterly growth rate of different sub sectors, it is found that community and social services are fluctuating at a lower level during 2007 and 2009. But the highest growth is registered by financing, insurance and real estate, followed by trade, hotel, transport and communication. After global financial crisis construction and trade, hotel and transport sector had quicker recovery than financing and insurance sector of India.

**Figure 4: Growth Fluctuations in the Service Sub Sectors**

Source: RBI Bulletin, 2010

4.2.4 Contribution of Service Sector to Employment

It is important to point out that, within the services sector employment growth rate is highest in finance, insurance, and business services, followed by trade, hotels and restaurants and transport etc. the community social and personal services occupy the last rank in growth rates of employment. Even though there has been substantial growth of service sector after the globalization, commensurating to its growth, the employment absorbing capability of the service sector is slow. It is found that during 1990s although the service sector growth was from 42 percent to 48 percent of GDP, during the same period, the employment share of the services actually declined by about one percentage point during the decade. In other words, it can be concluded that while activity has shifted to services, employment creation in services has lagged far behind.

Table 5: Share of services sector in employment and capital formation (In percent to Total)

Year	Employment	Gross Capital Formation
1965-66	18.1	46.1
1970-71	20.0	43.7
1980-81	18.9	44.0
1990-91	24.4	41.2
1999-2000	23.5	39.6

Source: Hansda (2002)

As far as employment is concerned, it can be commented that India’s service sector growth is jobless growth as compared to other development countries, where share of service sector in employment is substantial.

In this section, we discussed the concept and role of service sectors, contribution of service sector to economic growth and contribution of service sector to employment. Now answer the questions in check your progress 1.

Check Your Progress 1

Note: a) Write your answer in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1) What are the service sectors to which FDI flows are significant?

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2) Which service sectors are fluctuating after the global financial meltdown?

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3) What are the constituents of service sector in India?

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4) What is the trend of contributions of three sectors in our economy?

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4.3 IMPORTANT SERVICES SECTORS IN INDIA

4.3.1 Financial Sector

Some of the important services sectors in India follow:

Financial sector and financial services sector have grown considerably in recent years, catalysed by deregulation in the 1990s. The financial sector consists of two types of market: Money market and capital market. The privatization process in banking and insurance sector of India has been very powerful. International acquisitions and internal growth have swollen the banks’ combined balance sheets .The foreign commercial banks have subsidiaries and branch offices in India and elsewhere. Total assets of the commercial banks have significantly increased. Many other credit institutions and non banking institutions currently operate in every country including India: Life Insurance Company (LIC) represents the largest portion of total assets of insurance companies. There are three types of Insurance in India

- 1) Life Insurance - guaranteeing a specific sum of money to a designated beneficiary upon the death of the insured, or to the insured if he or she lives beyond a certain age.
- 2) Health Insurance - against expenses incurred through illness of the insured.
- 3) Liability Insurance – for property such as automobiles, property and professional/business mishaps.

Because of extensive reforms undertaken in the banking sector after 1991, the performance of banking sector has improved significantly. The operating profits and net profit of public sector banks has increased by 33% 28.3% during 2008-09. There were 15 old private sector banks and 7 new private banks (Axis, HDFC, ICICI, Development Credit Bank Ltd, Indus Ind. Ban ltd, Kotak Mahindra Bank Ltd and Yes Bank Ltd) have started operating in India. The operating profits of old private banks were 33.2 % while it is 24.6 % in case new private banks

during 2008-09. The net profit of old private and new private banks rose by 21.8% and 12.1% respectively during 2008-09.

4.3.2 IT and Software Sector

The Indian information technology (IT) industry has played a major role in placing India on the international map. India is witnessing resurgence in the service sector most dramatically in IT sector, Bio Technology etc. Some Indian firms in IT business have become world-beaters. India is meeting almost 70 % of worldwide BPO demand. Multinational firms come to India for lower cost and ultimately stay here for quality. The Indian IT sector is growing rapidly and it has already made its presence felt in all parts of the world. The industry is mainly governed by IT software and facilities for instance System Integration, Software experiments, Custom Application Development and Maintenance (CADM), network services and IT Solutions. IT has a major role in strengthening the economic and technical foundations of India. Indian professionals are setting up examples of their proficiency in IT, in India as well as abroad. The sector can be classified into 4 broad categories - IT Services, Engineering Services, ITES-BPO Services, E Business. IT Services can further be categorized into Information Services (IS) outsourcing, packaged software support and installation, systems integration, processing services, hardware support and installation and IT training and education.

The IT/ITES industry provides direct employment to the about 2.23 million and indirect employment to the 8 million people. Due to the high demand of India's vaunted IT outsourcing sector, companies have been forced to raise wages by 10 to 15 per cent. IT sector is dynamic sector which is continuously evolving. As per NASSCOM, IT exports in business process outsourcing (BPO) services attained revenues of US \$ 48 billion in FY 2008-09 and accounted for more than 77 percent of the entire software and services income. Over the years India has been the most favourable outsourcing hub for firm on a lookout of offshore their IT operations. The factors behind India being a preferred destination are its reasonable priced labour, favourable business ambiance and availability of expert workforce.

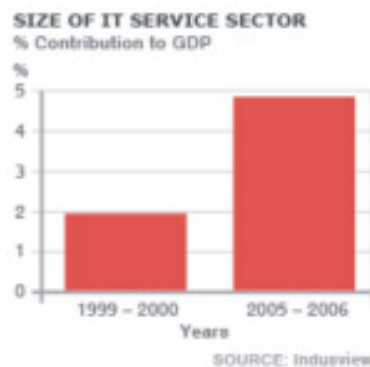


Figure 5: Size of IT Service Sector

Top Software Companies in India

There are number of software companies in India which have been doing well. However, some of the top Indian software companies can be listed as:

Tata Consultancy Services	Mphasis
Wipro Limited	IBM India
Infosys	Patni Computer Systems
HCL Technologies	L&T Infotech
Tech Mahindra	i-flex Solutions

In this section, we discussed some of the important services sectors in India in the areas of financial sector and IT and software sector. Now, answer the questions in check your progress 2.

Check Your Progress 2

Note: a) Write your answer in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1) What are the new private banks in India?

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2) What are different types of insurance in India?

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3) What are the constituents of capital market in India?

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4) What are the factors contributing for the success of IT sector of India?

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4.3.3 Indian Telecom Industry

Indian Telecom Industry is the fifth largest and fastest growing in the world. It has provided 110.01 million connections. It is currently expected to contribute nearly one percent to India's GDP. The subscriber base has grown by 40% in 2005 and is expected to reach 250 million in 2007. Over the last 3 years, two out of every three new telephone connections were wireless. Consequently, wireless now accounts for 54.6% of the total telephone subscriber base, as compared to only 40% in 2003. Wireless subscriber growth is expected to grow at 2.5 million new subscribers every month in 2007. The wireless subscriber base skyrocketed from 33.69 million in 2004 to 62.57 million in FY 2004 -2005. The wireless technologies currently in use Indian Telecom Industry are Global System for Mobile Communications (GSM) and Code Division Multiple Access (CDMA). Telecom Industry in India is regulated by 'Telecom Regulatory Authority of India' (TRAI). It has earned good reputation for transparency and competence. Three types of players exist in Telecom Industry in India:

- State owned companies like - BSNL and MTNL.
- Private Indian owned companies like - Reliance Infocom and Tata Teleservices.
- Foreign invested companies like - Hutchison-Essar, Bharti Tele-Ventures, Escotel, Idea Cellular, BPL Mobile, Spice Communications etc.

The Indian Telecom Industry services is not confined to basic telephone but it also extends to internet, broadband (both wireless and fixed), cable TV, SMS, IPTV, soft switches, etc.

4.3.4 Foreign Trade in Services

The largest service sub sector in India is trade. The share of this sector in GDP was almost 12 per cent or more throughout the period of planning. Now it has become more than 14%. This sector registered a growth of about 6% per annum in 1980s, 7% per annum in 1990s and it is more than 9% per annum in the current decade. There are number of services which are traded across the countries. Transport and insurance are traditional components of trade in India. With the spread of telecommunication and computer technologies, virtually all types of commercial services have become tradable among countries. The liberalization policies of nineties and the removal of regulatory obstacles have fueled the steady growth of foreign investment and trade in services.

The following table shows that there is significant change in the composition of import of services from abroad. The total amount of imports of services became

\$52 billion in 2008-09 having CAGR of 20.4% .The share of Import of business services has increased significantly to 29.7% having growth rate of 57.9%. The shares of transport and travel services in the import are 24% and 18% respectively.

Table 7: Import of Services (2000-09)

Commodity group	Share of Service Import (%)		CAGR(2000-2007)
	2000-01	2008-09	
Travel	19.2	18.1	15.6
Transport	24.4	24.6	14.6
Insurance	1.5	2.2	19.3
Software services	4.1	5.4	25.1
Business services	7.0	29.7	57.9
Financial services	13.5	5.7	7.2

CAGR= compound annual growth rate

Source: Government of India, Economic Survey, 2008-09, 2009

Conversely the following table shows that there is significant change in the composition of export of services to abroad. The total amount of exports of services has increased manifold from \$4.6 billion in 1990-91 to \$102 billion in 2008-09 having CAGR of 28.7%. It has reduced our balance of payment deficits. The share of export of business services has increased significantly to 16.2% having growth rate of 87.6%.

Table 8: Export of Services (2000-09)

Commodity group	Share of Service Export (%)		CAGR (2000-07)
	2000-01	2008-09	
Travel	21.5	10.7	17.3
Transport	12.6	11.1	25.4
Insurance	1.7	1.4	28.1
Software services	39.0	45.5	30.5
Business services	2.1	16.2	87.6
Financial services	2.1	3.9	44.1

CAGR= compound annual growth rate

Source: Government of India, Economic Survey, 2008-09, 2009, New Delhi

4.3.5 Hospitality and Tourism Sector

Tourism is the second largest industry of the world and sixth largest industry in India .Tourism comprises the largest component of the tertiary sector. It constitutes

the major item in the world trade, which is growing at a faster rate than the world trade in tangible goods. It has now become a highly organized industry representing about 12 percent of world's gross income. World's revenue from this business has been constantly growing at a faster rate. In developing countries Tourism is also one of the largest industries with fastest expansion in its range and dimension. It is an industry with great employment potential. In fact one in every 16 workers world wide owns his or her job to tourism sector. It has emerged as the most lucrative business of the world, having tremendous potentiality for earning foreign exchange, yielding tax revenue to the state, promoting ancillary industries, generating income and employment and developing backward regions through various linkage effects. Indian tourism as a sector of economic significance received the widest recognition after II world war. The two most important and obvious components are:

- i) Accommodation and Hospitality
- ii) Travel and Transportation

There are many other ancillary services and informal activities having direct effects on tourism. Ancillary services having direct connectivity with tourism are: handicrafts, souvenir industry, horticulture, floriculture, leisure and entertainment services, and activities of all personals dealing with tourists across the counter in customs, immigration, airports, airlines, railway stations, ferry services, museums, bus terminals, taxi stands, banks, medicals , police stations, post offices, communication, advertising, shopping centers, sports and many other organizations both in the private and public sector.

4.3.6 Hotel Industry

Hotel accommodation is the significant segment of hospitality industry of India. The 'Incredible India' destination campaign and the recently launched 'Atithi Devo Bhavah' (ADB) campaign have also helped in the growth of domestic and international tourism and consequently the hotel industry. Hotel Industry in India has witnessed tremendous boom in recent years. Hotel Industry is inextricably linked to the tourism industry and the growth in the Indian tourism industry has fuelled the growth of Indian hotel industry. The thriving economy and increased business opportunities in India have acted as a boon for Indian hotel industry. The arrival of low cost airlines and the associated price wars have given domestic tourists a host of options. Growth story of hotel industry of India seconds only to China in Asia Pacific. Hotel industry of India has the supply of 110,000 rooms. According to the tourism ministry, 4.4 million tourists visited India in 2009 and at current trend; demand will soar to 10 million in 2010 - to accommodate 350 million domestic travelers. With tremendous pull of opportunity, India is a destination for hotel chains looking for growth. The World Travel and Tourism Council, India, data says, India ranks 18th in business travel and will be among the top 5 in this decade. Sources estimate, demand is going to exceed supply by at least 100% over the next 2 years. Hotel Industry' is adding about 60,000 quality rooms, currently in different stages of planning and development MNC Hotel Industry giants are flocking India and forging Joint Ventures to earn their share of pie in the race. Government has approved 300 hotel projects, nearly half of which are in the luxury range. Sources said, the manpower requirements of the hotel industry will increase from 7 million in 2002 to 15 million by 2010.

4.4 FACTORS CONTRIBUTING TO THE GROWTH OF SERVICE SECTOR

The service sector has rapidly grown due to many reasons. The following factors have mainly contributed towards its growth.

i) Liberalization Policy

The globalization process after 1991 has considerably liberalized the industrial and trade policies and opened up the banking, insurance, transport and communication sectors to private entrepreneurs. This liberalization has boosted the growth of service sector in India. Some sectors which are more liberalized, like banking, IT, communication, insurance services have experienced faster growth. The share of communication has increased from 1% in 1991 to 5.7% in 2007-08.

ii) Technological Advancement

Growth of service sector is also stimulated by technological advancement. New activities and new products emerge as a result of technological breakthrough. The technological advancements that have positive impact on economic growth in India are the increasing use of internet in case of IT sector, expansion of cellular phone in case of telecom sector and wider use of ATM/credit cards in case of banking sector.

iii) Splintering

With maturing of the economy specialization takes place. Industrial units tend to outsource some of the activities which were previously undertaken by them. They use and hire the services of the specialist contractors and sub contractors to provide accounting, R/D, cleaning, legal and security services, etc. This process of specialization splintering leads to a growth in the share of services in GDP, even when GDP itself not growing. Jobs outsourced are counted as service sector contribution to GDP rather than being subsumed in manufacturing value-added.

iv) Sectoral Interdependence

The growth of industry and other sectors has positive impact on the service sector because the interdependence among sector has also increased. There is direct and reverse interrelationship between industry and service sector. The impact of manufacturing sector on service sector is significant. But the contribution of service input to manufacturing in 1980 was only 1% of output growth, while it has increased substantially upto 25% in 1990s. This implies that increasing use of services in manufacturing in the 1990s favourably affects the TFP (total factor productivity)

v) Demand-side impetus

Demand for different type of services increased by leaps and bounds after 1991. The share of services in the consumption basket increased by 3% points each decade; that is from 8% to 11% during 1960-61, 14% during 1970-71, 17% during 1980-81 and 20% during 1990-91. Thereafter the trend changed significantly, when private sector consumption of services increased to 31% and during 2006-07 it increased to 39%. Thus the growth of service sector is due to the impetus given by domestic consumers as well as foreign buyers. The export

of services from India increased from \$4.9 billion in 1992 to \$101.2 billion in 2008-09.

4.5 CHALLENGES OF SERVICE SECTOR

Some of the challenges of service sector are narrated below:

- i) Indian money market is not integrated with debt and foreign exchange market. According to Y.V Reddy, Governor of RBI, while the base has been created with the variety of products in the money market, the market has not acquired the required depth in terms of both volume and liquidity. Though the banks have expanded their branches in an unprecedented scale, the banking facilities in the country are still inadequate. One branch serves about 160000 population in India while it is only 1200 persons in US. There more competition than cooperation and coordination between various players of money market.
- ii) There is no integration between the organized sector and unorganized sector of Indian money market. The indigenous bankers do operate as individuals and private firms, whose volume of operates are unknown. They do not constitute a homogeneous group. They are engaged in many banking and non-banking business, which remain largely unregulated. The credit o f money lender has remained as the necessary evil.
- iii) There is absence of organized bill market. There is lack of rational interest rates structure. There is shortage of funds in money market. The market for short-term asset has not yet developed. In terms of organization, resources, stability and elasticity financial institutions are hardly comparable to the money market of London or New York. The emergence of parallel economy and vast amount of black money in India has also caused shortage of financial resources in the money market.
- iv) With western imitation through free market policy, rapidity in tourism sector may result in creation of new tourism facilities. These developments in many cases lead to competition and conflict .In turn they have generated a wide range of deleterious environmental impacts. It has many negative social and cultural impacts. The local people of the tourist centers stand to lose in the current process of tourism development. It has become another element of the destructive process, which exploits the local population, damages the environment, promotes consumerism, widens the gap between rich and poor and reinforces the global status quo.
- v) Educational system has an unintended consequence of producing an “educational vacuum” for the society at large. Because all good students now are running after lucrative jobs as per the imperative of commodity-centric society and as per the new trend of higher education. Maximization of the short run individual objectives is being done at the cost of long run social objectives. The society ultimately remains neglected and bypassed.
- vi) The year 2011 is likely to be a boom for skilled worker in IT & ITES, biotechnology as against the 15 per cent hike in their salaries in 2010. The employers are trying to catch up the highly skilled manpower and the salaries are going through the roof. The youth force of India is contributing to the

growth in IT sector. However, the huge numbers of Indian youth are not only unemployed but unemployable on the contrary a large numbers of white collar jobs are waiting for suitable candidates. IT and ITES industry and biotech industry are facing skill manpower shortages. Companies are not only facing the problem of retention difficult and job hoping extensive, but there is a clear shortage of skill. Mainly IT/ITES, academics, engineering, HR, hospitality, insurance and biotechnology sectors, which are driven by the highly skilled manpower but the supply of capable labor is not up to the demand at the point.

- vii) The employment generation in service sector has been increasing at a slower rate than the growth of output in the eservice sector over the years. Thus India is witnessed a jobless service sector growth during 1990s. It is very different experience compared to other countries. Service sector accounts for more than 55% of GDP, but its share in employment continues to be very low; less than one-fourth of the total. It means the growth in value addition in service sector is higher than the employment growth in the service sector. It implies that the growth of average productivity of labour is higher than the growth of employment in service sector. For example finance, insurance and real estate business account for 13 % of GDP in 2000, but employed only 1.2 % of the labour force. So service sector alone cannot sustain the present trend of economic growth in the long run.

4.6 MEASURES FOR PROMOTION OF SERVICE SECTOR

Some of the measures required to be taken for the promotion of service sector in India are as follows:

- i) Institutional reforms should be made to integrate money market with debt and foreign exchange market. It should facilitate RBI (Reserve Bank of India) to use indirect tools of monetary regulations. There should be integration between the organized sector and unorganized sector of Indian money market. There should be cooperation and coordination between various players of money market. The RBI should regulate the lending operations of the money lenders and indigenous bankers which is weakening the credit control system. It should stop the exploitation of money lenders and protect the small borrowers by developing institutional sources of credit.
- ii) The stringent policy is necessary to curb parallel economy and vast amount of black money in India in order to overcome the shortage of financial resources in the money market. The RBI should mop up the excess liquidity generated on account of the accretion to the foreign exchange assets of the banks to neutralise the monetary impact of capital flows.
- iii) Given the synergistic relationship between education, health, nutrition, energy, adequate allocation of public investment should be made on the social overheads and efficient measures should be adopted to magnify its trickle-down effect on rural people. The new approach requires human development goals to be an integral part of the economic development. It should be more and more inclusive process. Community involvement is necessary in order to reduce the urban bias in the emerging health care system. Health for all

should entail the removal of various obstacles to these services such as elimination of ignorance, malnutrition, unhygienic housing, contaminated water supply etc. Thus concerted efforts should be made in all directions.

- iv) India should adopt a new set of values in tourism development. In order to have a distinguished niche in the international tourism market India should develop its tourism in its own way and vision. In pursuing the efficient and profitable path of tourism development should not result in high environmental distortions. Healthy tourism should not result in unhealthy environment. Unmanaged tourism can be disastrous but organized tourism can only contribute to the genuine prosperity of the region. Suitable policy of the state should be designed to ensure 'green tourism' and 'rural tourism'. In this pursuit more resources should be invested to reinforce the ecosystem rather than making it vulnerable to risks from unplanned activities.
- v) The education should be perceived as an integral part of both social development and economic development. Educational reform should aim at promoting: 'neo-professionalism' and 'value-based education.' The knowledge-based society emerges from a progressive educational system. Thus our educational system should promote quality in order to have a knowledge-based society for India. The education should integrate materialism with morality and liberation of mind. The higher education system should help in building a society which automatically rejects any type of malfunctioning and mal-development.
- vi) The IT industry should depend more on exports of software products to advanced countries of the world. It should enhance its credibility as a business destination by creating a new model of global delivery, forging the relationship with MNCs, generating saving for the customers and promoting a focus on quality. There should be diversification in order to neutralize the effects of fluctuation in the global demand. There should strong agenda and high priority for R & D activities in service sector

The growth of Indian economy in the post liberalization period has been service-led growth. Thus the future of Indian economy depends on the growth potential of service sector. The dynamism in the service sector plays the crucial role in maintaining the growth momentum of the economy. Service sector now accounts for 70 % of the global output. The characteristics of the service have been altered by the revolution in the services sector. Services can now be produced and exported at lower cost. The old idea of services being non-transportable, non-tradable, and non-scalable no longer holds for a host of modern impersonal services. Therefore India can sustain a service-led growth as there is huge room for catch-up and convergence. Thus industrialization is not the only route to economic development. Thus service sector is highly growth-stimulating with positive externalities for other sectors and remains as the catalytic agent for economic growth. The growth in the service sector has not been uniform. In order to arrive at some policy direction it is imperative to examine the performance of different services and assess the economy's potentials and constraints in these services. We should examine the performance of aggregate as well as disaggregated services in terms of their growth rates; share in GDP, employment, trade and FDI.

In this section, we discussed the factors contributing to the growth of service sector, challenges of service sector and various measures for promotion of service sectors. Now, answer the questions in check your progress 3.

Check Your Progress 3

Note: a) Write your answer in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1) What are the factors responsible for rapid growth of service sector of India?

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2) What are the major bottlenecks of Indian telecom industry?

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3) What are the services available in foreign trade?

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4.7 LET US SUM UP

In this unit we dealt with the definition and significance of Tertiary sector in the process of economic growth. We examined the role of service sector in economic growth of India. We analyzed the significance of service sector in IT sector, Banking, Insurance, Trade, infrastructural development, tourism development, education and health care. We analyzed the problems and challenges of service sector of India. We have given the suggestive measure for the improvement of the service sector.

4.8 REFERENCES AND SUGGESTED READINGS

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4.9 CHECK YOUR PROGRESS – POSSIBLE ANSWERS

Check Your Progress 1

Answer1: Mainly FDI in India are flowing into mainly three service sub sectors: Telecommunication equipments and services, Financial services (banking and non banking) and Hospitality industry.

Answer2: The highest growth is registered by financing, insurance and real estate, followed by trade, hotel, transport and communication. After global financial crisis construction and trade, hotel and transport sector had quicker recovery than financing and insurance sector of India

Answer3: In the National Income Accounting in India, service sector includes the following:

- 1) Trade, hotels and restaurants (THR)
- 2) Transport, storage and communication
- 3) Finance, insurance, real estate and business services
- 4) Community, social and personal services

Answer4: The contribution of service sector has been consistently rising from 29% to 68 % in 2007, after which it declines due to world financial crisis. But the contribution of agriculture has fallen to only 7% over the years while the contribution of industry is stagnating in India.

Check Your Progress 2

Answer1: There were 15 old private sector banks and 7 new private banks are: Axix, HDFC, ICICI, Development Credit Bank Ltd, Indus Ind Ban Ltd, Kotak Mahindra Bank Ltd and Yes Bank Ltd.

Answer2: There are three types of Insurance in India: **a)** Life Insurance - guaranteeing a specific amount in case of death **(b)** Health Insurance - against expenses incurred through illness of the insured. **(c)** Liability Insurance – for property such as automobiles, property and professional/business mishaps.

Answer3: The capital market has two constituents: (1) The financial institutions and (2) the securities Market. The financial institutions e.g IFCI, IDBI, Exim Bank, SIDBI, IDFC, SFCs, LIC etc provide long term and medium term loan facilities. The securities market is divided into (i) the Government (gilt edged) securities market and (ii) the corporate securities market.

Answer4: There are four major factors which have contributed for the success of IT of India. They are: (i) skilled professionals in IT. (ii) demographic factor like 60% of the population belong to age group of 15-65. (iii) vast academic infrastructure.(iv) India has the second largest English-speaking workforce in the world.

Check Your Progress 3

Answer1: The rapid growth of service sector has been possible for following five factors: (i) Liberalization Policy. (ii) Technological Advancement (iii) Splintering (iv) Sectoral Interdependence and (v) Demand-side impetus.

Answer2: Indian Telecom Industry has the following bottlenecks: (i) Slow reform process. (ii) Low penetration- achieving break-even is difficult. (iii) Huge initial investments (iv) Limited spectrum availability and interconnection charges between the private and state operators.

Answer3: After liberalization variety of services are exported and imported. Now it constitutes about 14% of India's GDP. These services are mainly relating to Travel, Transport, Insurance, Software services, Business services ,Financial services etc.