SERVICE SECTOR IN INDIA

Dr. Amarja Satish Nargunde
Associate Professor, Department of Management Studies,
Bharati Vidyapeeth Deemed University,
Institute of Management and Rural Development Administration, Sangli, India

ABSTRACT

According an Economic Survey which was tabled in the parliament in 2012 the sector has seen a phenomenal rise in the global market. India’s service sector grew in the world with a compound annual growth rate (CAGR) at 9 percent which was just next to China’s 10.9 per cent, during 2001 to 2012. India ranked 10th in terms of overall GDP among the world’s top 15 countries in terms of GDP, and 12th in terms of services GDP in 2012. According to the survey the services share in world GDP was 65.9 percent but comparatively its share in employment was less to that of only 44 per cent in 2012.

Key words: Service Sector, GDP, Employment

Cite this Article: Dr. Amarja Satish Nargunde, Service Sector In India. International Journal of Advanced Research in Management, 7(2), 2016, pp. 20–26.

http://www.iaeme.com/IJARM/issues.asp?JType=IJARM&VType=7&IType=2

INTRODUCTION

The contribution of service sector to Indian economy amounted to 55 percent of her GDP during 2006-07. The sector plays a foremost role in the economy and contributed to around 68.6 percent of the overall average growth in GDP between 2002-03 and 2006-07. During 2006-07 the sector witnessed 9.4 percent growth in the economy. During this growth the sector saw a rise of 11 percent in the year 2006-07 against the 9.8 percent growth in 2005-06. The following industries in service sector of Indian economy have grown faster than the economy:

- Information Technology
- IT-enabled services (ITeS)
- Telecommunications
- Financial Services
- Community Services
- Hotels and Restaurants
In 2006-07 Indian economy saw a 13 percent hike in the service sectors of trade, hotels, transport and communication as compared to the 10.4 percent rise in 2005-06. The financial services consisting of banks, real estate, insurance, and business services observed a rise of 11.1 percent during 2006-07 against the 10.9 percent growth in the previous year.

In India, the services sector captured a high share in income at 56.9 percent with a lower share of 28.1 per cent in employment. The growth rate of the services sector in 2013-14 was at 6.8 per cent which was marginally lower than the previous year. The reason was attributed to slower growth rate of the combined category of trade, hotels, restaurants, transport, storage and communications.

The survey pointed out that the services in India are emerging as a leading sector in terms of contribution to national and states' incomes, trade flows, FDI inflows and employment. The survey also pointed out that the immediate challenge in this sector is revival of growth.

The sector which was growing at a consistent rate of over 10 percent since 2005-06 witnessed somber performance in the last three years prior to 2012.

The revival of the sector was possible through reforms and speeding up of the policy decision making, a targeted approach with focus on big ticket services. Services like software and telecom were seen as big ticket items which could give India a brand image in services. The survey pointed out that year 2014-15 to do well for the services sector with expansion in business activity in India. It also indicated to signs of revival in growth of the aviation sector with the entry of new players like Air Asia and Tata-SIA Airline after the stormy period of withdrawals and losses by some airlines.

However survey called for some quick reforms and removal of some barriers and obsolete regulations in the services sector for translating into increase investment and growth. It pointed to urgent need for a nodal agency and marketing for the sector. Although sector had strong growth potential in various services sub-sectors, it was brought to the notice that there was no single nodal department or agency for services. It also called for promotional activities for service exports like setting up a portal, showcasing India's competence in non-software services in exhibitions, having dedicated brand ambassadors and experts. It also urged for disinvestment in services PSUs under both central and state governments. It pointed that it would not only...
provide additional income for the government but also fasten the growth of these services.

The survey also called for improvement in port services which do not measure up to world standards. What that is meant for transportation is that third-generation ships cannot enter the harbor and smaller ships are used for offloading goods outside, which further increases the costs.

The survey also pointed that proposal has been commenced by Indian Railways, so that appropriate changes can be made in the existing FDI policy in order to allow foreign investment in railways, to foster creation of world class rail infrastructure.

The proposal asked for allowing FDI in all areas of the rail sector except railway operations. For railway operations too, FDI was proposed in PPP projects, for suburban corridors, high speed train systems, and dedicated freight lines. But also cautioned regarding privatization of railways as it succeeded in countries like Japan but didn’t succeed in countries like UK.

BrandZ, a WPP property, which conducted a survey regarding business-to-consumer brands of the listed companies and interviewed 25,000 consumers in India about 500 brands and 37 categories. It included only those companies which have reported positive earnings. It observed that in the case of banks, at least 25 per cent of revenue came from retail business.

The survey brought to the notice that services businesses like banking, telecom and insurance, which are the focal point of today's Indian economy, are prominent in the ranking. Out of top 10 brands, seven are from the services sector and looking at the total 50 brands 30 percent brands belonged to it.

**Seven of the top 10 brands come from services sector**

<table>
<thead>
<tr>
<th>BRANDZ TOP 10</th>
<th>Brand</th>
<th>Brand Value 2014 (US$ bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rank 2014</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>HDFC Bank</td>
<td>9.4</td>
</tr>
<tr>
<td>2</td>
<td>Airtel</td>
<td>8.2</td>
</tr>
<tr>
<td>3</td>
<td>State Bank of India</td>
<td>6.8</td>
</tr>
<tr>
<td>4</td>
<td>ICICI Bank</td>
<td>3.5</td>
</tr>
<tr>
<td>5</td>
<td>Bajaj Auto</td>
<td>3.0</td>
</tr>
<tr>
<td>6</td>
<td>Asian Paints</td>
<td>2.8</td>
</tr>
<tr>
<td>7</td>
<td>Hero MotoCorp</td>
<td>2.1</td>
</tr>
<tr>
<td>8</td>
<td>Idea</td>
<td>1.8</td>
</tr>
<tr>
<td>9</td>
<td>Kotak Mahindra Bank</td>
<td>1.7</td>
</tr>
<tr>
<td>10</td>
<td>Reliance Communications</td>
<td>1.6</td>
</tr>
</tbody>
</table>

(Image Source: business-standard.com, August 19, 2014)

The expansion of ITeS sector has witnessed an increasing competition between the different brands in the e-commerce sector. Its dominant role is believed to generate approximately 150,000 jobs within the next 2-3 years. India’s logistics sector
was valued at US$ 101 billion in 2013 and it was enlarge by 10 percent per annum to reach US$ 136 billion by 2016, according to Mr. R Dinesh, Chairman, CII Institute of Logistics Advisory Council and Joint Managing Director, TVS Sons Ltd.

INVESTMENTS
According to the Department of Industrial Policy and Promotion (DIPP), the highest amount of FDI equity inflow was witnessed by the sector during the period April 2000-December 2014 which amounted to about US$ 41,755.46 million which was about 18 percent of the total foreign inflows.

In the recent past following major investments by companies were made in the services sector:

- Zomato acquired one of Italy’s largest restaurant search services, Cibando. The acquisition made the company’s presence possible in 20 countries. Zomato targeted to widen its international reach with entry into 15 more countries by 2015.
- An increase 20 percent is expected in the private security services industry in India over the next few years which could double its market size to Rs 80,000 crore (US$ 12.94 billion) by 2020.
- Snapdeal.com has bought gifting recommendation technology platform Wishpicker.com. It will enable Snapdeal to increase personalization of user experience and stimulate conversions through intelligent recommendations.
- Ricoh India Ltd and Telecommunications Consultants India Ltd (TCIL) received a Rs 1,370 crore (US$ 221.63 million) contract from the Government of India for the modernization of 129,000 post offices through automation.
- The leading international mobile and online food ordering marketplace Foodpanda purchased TastyKhana in India. It gives Foodpanda access to over 2,500 restaurants in 10 cities.
- The easiest and fastest way to book a cab or a taxi in the city Ola has plans to expand its operations to over 100 cities where the number is currently at 19. It is mainly considering small towns for expansion, also plans to put more money in driver eco-system, like training centres and technology upgrade.

GOVERNMENT INITIATIVES
Government of India has also taken a strong and consistent lead over a past decade for economic development based on self-reliance with a buildup of a large and multifaceted pool of individuals. That has enabled India to have capable and skilled professionals across extensive range of disciplines, like, tourism, health care, engineering, education, transportation, communications, banking, information technology, management, finance, among others.

Here are some of the initiative the Government of India has taken that can further strengthen the service sector in India:

- The GOI plans to make mobile network reach to nearly 10 per cent of Indian villages that are still unconnected by December 2016.
- Third-party white label automated teller machines (ATM) are allowed by the Reserve Bank of India that can accept international cards, including international prepaid cards, and has also given green signal for tie up of white label ATMs with any commercial bank for cash availability.
On 27 November 2014, the Electronic Travel Authorisation (ETA) facility was made available for citizens of over 40 countries, including those who are eligible for visa on arrival. The list was further extended to 113 countries in August 2015. ETA is given for tourism, visiting friends and family, short duration medical treatment and business visits. The scheme got a new name e-Tourist Visa (eTV) on 15 April 2015.

A Joint Working Group conference was held between India and Japan for all inclusive cooperation for Information and Communication Technologies (ICT). India also made an offer to manufacture ICT equipment in India for Japan.

The GOI is also planning to make a minimum of 2 megabits per second (MBPS) Wi-Fi speed available to its citizens at every government owned service point like railway stations, bus stops, hospitals, airports and all government departments which deals with the public daily.

A task force was formed by Prime Minister Narendra Modi which aimed to study ways in which the existing postal network could be used more purposes. It was headed by T. S. R. Subramanian. The task force submitted its report on 4 December 2014, to Minister for Communications and Information Technology Ravi Shankar Prasad. The report recommended that more services should be provided in the field of banking, insurance and e-commerce.

An announcement was made in later December 2014 that India Post would issue ATM-cum-debit cards to its Post Office Savings Bank (POSB) account holders. In January 2015, the Indian government announced that it was considering a legislature, to finalize the setting up of the bank, following which a banking license would be applied for at the Reserve Bank of India. Annual Budget of 2015 consisted an announcement that India Post will make use of its large network to run a payments bank.

One doesn’t have to visit Gangotri and Rishikesh to get ‘Gangajal’ (water from river Ganga) now. India Post offices will sell bottled holy water from the Ganga at all its offices across the country at a nominal price and if people want, they can even get it delivered to their doorsteps by ordering it online. It has become an Instant hit at the post offices.

**FUTURE OF SERVICE INDUSTRY**

Both domestic as well as global factors affect the growth of services sector. It is expected that the sector will do well in FY16. The sector witnessed a growth of 7.3 per cent in FY15 and expected to do a little better in FY16 with the growth of 7.4 per cent. Sectors like hotels and restaurants, transport, trade, communication and storage are expected to do well in FY16. Likewise financing, real estate, insurance and business services are also presumed to continue to their good performance in FY16. However a deep in growth of commodity-producing sectors had a negative impact on transport and storage sectors during the last two years. The growth performance of the community, social and personal services sector is directly linked with government expenditure and the government expected to stick to its commitment of fiscal consolidation in FY16.
REFERENCES