

POWER OF SERVICE SECTOR IN COMPARISON TO OTHER SECTORS: AN INDIAN CASE

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Introduction

Service sector is the lifeline for the social and economic growth of a country. It is the largest and fastest growing sector globally contributing much to the world output and employing more people than any other sector (Considine and Painter, 1997). 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 any country. 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 (Langdale, 1991).

In alignment with the global trends, Indian service sector has witnessed a major boom and is one of the major contributors to both employment and national income in recent times. The activities under the purview of the service sector are quite diverse. Trading, transportation and communication, financial, real estate and business services, community, social and personal services come within the gambit of the service industry (Eichengreen and Gupta, 2010).

Service sector is particularly important for India for various reasons. The contribution of service sector in GDP at factor cost was 8 per cent in the year 2009-2010 in comparison to 6.8 percent in the year 2008-09. The GDP growth was relatively lower at 6.8 per cent due to global recession in the year 2008-09. The openness of the Economy reflected by total trade including services as a percentage of GDP shows a remarkable increase from 27.4 percent in 2000-01 to 52.1 percent in 2008-09 (Economic Survey, 2011).

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The era of economic liberalization has ushered a rapid change in the service industry. As a result, over the years, India is witnessing a transition from agriculture-based economy to a knowledge-based economy. The knowledge economy creates, disseminates, and uses knowledge to enhance its growth and development. The service industry forms a backbone of social and economic development of a region (Nahan, 2000). It has emerged as the largest and fastest-growing sectors in the world economy, making higher contributions to the global output and employment. Its growth rate has been higher than that of agriculture and manufacturing sectors. It is a large and most dynamic part of the Indian economy both in terms of employment potential and contribution to national income (Roseau, 1994). It covers a wide range of activities, such as trading, transportation and communication, financial, real estate and business services, as well as community, social and personal services. In India, service sector, as a whole, contributed as much as 68.6 per cent of the overall average growth in Gross Domestic Product (GDP) between the years 2002-03 and 2006-07 (Economic Survey, 2011).

Conceptualization of Services

The earliest attempt to define services was made by Hill, 1977 who argues that “goods and services belong to different logical categories.” He focused on the fact that producers cannot accumulate stock or inventory of services, stressing that services must be consumed as they are produced unlike the goods that can be produced and then stored. This makes it essential for the user and the provider of the service to interact.

Important Services for India

India has export potential in all skill-based and labour-based services. India has to build up on the initial advantage it has gained in software and IT related services. The list of services follows:

Categories of Service-Sector Industries

- Catering Service
- Communication/Media Services
- Design Services
- Engineering Consulting Services

- Exhibition and Convention Service / MICE Service
- Financial Service
- General Business Services
- IT Service
- Logistics Services
- Medical Services
- Other Service-Sector Industries
- Product Processing/Subcontracting & Maintenance Facility
- Superintendent Agencies, Attorney & Authentication
- Tourism and Travel Service
- Transportation

Measuring Long-Run Productivity Performance

India's recent service-led development has deep historical roots. During the colonial period, India's comparative productivity performance was already better in services than any other industry or agriculture sector but India has long lagged behind many developed countries (Mohan, 1998). The service sector productivity growth is not confined to modern services such as finance – it is also visible in trade and transport.

In formerly planned economies, the service sector was previously underdeveloped because governments controlled supply and failed to respond to growing demand for services. In addition, many modern services those play an important role in market economies—such as financial, business, and real estate services—were not needed under socialism (Chanda, 2002). During these countries' transition to market economies, their service sectors have grown rapidly to meet previously unfulfilled demand and the needs of the emerging private sector. Because it allows these economies to employ a share of the educated labor force that might otherwise be unemployed due to the economic crisis. So, in addition to continued public support for health and education, growth of services can help formerly socialist countries preserve the stock of human capital that will be crucial to their post-industrial development (Desai, 2003).

Service Sector and Growth: Brief Review of the Literature and Methodology

One major issue in the empirical literature is the conceptual definition of what constitute the service sector. In other words, services are defined by what they are not. This account for the usual reference to the sector as a residual sector, that it is all those activities that are not agriculture, mining or manufacturing. This residual definition is seen to contribute to the somewhat negative perception about the value of the sector (McLachlan et al. 2002). Singh (2006) explains that nature of the market and the intrinsic characteristics of services are both subject to change as economies and technologies evolve. An alternative approach to defining services is to look for common features or 'peculiarities' that make them different from goods or other types of economic activities. Hill (1977) talks about the feature of non-storability of services, which requires that services must be consumed as they are produced and in a similar way Griliches (1992) defines services as anything that is the result of labor that does not produce a tangible commodity. However, there is absence of tangibility that leads to non-storability and non-transferability (Economic Council of Canada, 1991). Singh (2006) explains that the property of tangibility is to be interpreted with caution in this current digital age since products like software programs and various forms of digital electronic content have only limited tangibility, but are storable and transferable. The creation of these digital products may often be classified as a service.

In recent times, the literature seems to be settling down to accept some distinctive features that is expected of a product that can be considered service. These are (1) intangibility, (2) heterogeneity, (3) simultaneity of production and consumption, and (4) perishability (Parasuraman et al. 1985).

Information has been collected from various sources such as research papers in relevant areas and websites. Apart from it secondary data has been taken from Economic Survey of India, 2011

Rationale of the Study

The service sector in India has achieved high growth rate. Moreover, employment share of India's service sector has grown very positively. Service economy can refer to recent economic development such as the increased importance of the service sector in

industrialized economies. The current list of Fortune 500 companies contains more service companies and fewer manufacturers than in previous decades (www. Business.gov.in).

Reviewing the literature it is found that there are very few studies which have been on the comparison of service sector with the other sectors as far as India is concerned, which is the focus of this study.

What Explains Growth in India's Service Sector?

The literature on growth in service sector primarily argues that when an economy grows, both demand side and supply side factors operate that lead to higher growth in the service sector as compared to the other sectors and also lead to a larger share of service sector in total employment. These factors are:

A. Demand-Side Factors

- a) High-income elasticity of demand for final product services,
- b) Slower productivity growth in services that leads to higher employment potential and
- c) Structural changes within the manufacturing sector, which make contracting out services more efficient than producing them in the firm or household.

B. Supply-Side Factors: Trade Liberalization and Reforms

- a) Increased trade
- b) Higher foreign direct investments in services and
- c) Improved technology (www.wikipedia).

Importance of Indian Service Sector

The growth and development of any nation is revealed from the share of service sector in GDP. The Indian economy traditionally known as agricultural economy has now emerged as a service –led economy with tremendous contribution of 55.2% of service sector in GDP of India in the year 2009-10. The compound annual growth rate of Indian economy was 5.7% in 1990's which raised to 8.6% during the period 2004-05 to 2009-10 and this growth was primarily due to the acceleration of the growth rate (CAGR) in the services sector from 7.5 per cent in the 1990s to 10.3 per cent in 2004-05 to 2009-10. The services sector growth was significantly faster than the 6.6 per cent for the combined agriculture and industry sectors annual output growth during the same period (Economic Survey, 2010-11). India's services

GDP growth has been continuously above overall GDP growth, pulling up the latter since 1997-98. It has also been more stable. Table 1 showed growth and contribution of major sectors of economy to GDP of India.

Table 1: Growth and Contribution of major sectors of economy to GDP of India

Sectors	Growth Rate (A.E.) 2010-11	Growth Rate 2009-10	Contribution to GDP (2009-10)
Agriculture	5.4	0.4	14.2%
Industry	8.1	8.0	30.6%
Services	9.6	10.1	55.2%

Source: Economic Survey 2010-11

A.E.: Advance Estimates

As clear from Table 1 that service sector holds the greater chunk of contribution to GDP in 2009-10 with 55.2% share followed by industry with 30.6% share and agriculture with 14.2% share. If construction is also included, then the share increases to 63.4 per cent in 2009-10. The rise in the service sector's share in GDP marks a structural shift in the Indian economy and takes it closer to the fundamentals of a developed economy (in the developed economies, the industrial and service sectors contribute a major share in GDP while agriculture accounts for a relatively lower share) <http://www.indiaonestop.com/serviceindustry.htm>. The importance of service sector in the Indian economy becomes clearer with highest growth rate of service sector i.e. 10.1 % in 2009-10 which is still maintained at 9.6% in 2010-11 (A. E.) despite being hit by world recession. In comparison with other sectors, service sector is becoming more and more important to Indian market and government is also spending higher amounts on roads, bridges, communication etc. and in 2019-20 the share of service sector is expected to be 60 % in Indian economy (<http://www.interlinkre.com>).

Some services have been particularly important for the improving performance in India. Software is one sector in which India has achieved remarkable global brand identity. Tourism- and travel-related services and transport services are also major items in India's services. Besides these, the potential and growing services include many professional services, infrastructure-related services and financial services are emerging in Indian economy (Economic Survey, 2011). Table no. 2 shows the share of different services categories in GDP at factor cost in India.

**Table 2: Share of Different Services Categories in GDP at Factor Cost,
India (Current Prices)**

Category	2004-05	2005-06	2006-07	2007-08	2008-09@	2009-2010*
Trade, hotels and restaurants	16.1	16.7	17.1	17.1	16.9	16.3
Trade	14.6	15.1	15.4	15.4	15.4	14.9
Hotels & Restaurants	1.5	1.6	1.7	1.7	1.5	1.4
Transportation, Communication and storage	8.4	8.2	8.2	8.0	7.8	7.8
Railways	1.0	0.9	0.9	1.0	0.9	1.0
Transport by other means	5.7	5.7	5.7	5.5	5.5	5.2
Storage	0.1	0.1	0.1	0.1	0.1	0.1
Communication	1.7	1.6	1.5	1.4	1.4	1.5
Financing, insurance, real estate and business services	14.7	14.5	14.8	15.1	16.1	16.7
Banking & Insurance	5.8	5.4	5.5	5.5	5.7	5.4
Real Estate, ownership of dwellings & business services	9.0	9.1	9.3	9.6	10.4	11.4
Community, social and personal services	13.8	13.5	12.8	12.5	13.3	14.4
Public administration & defense	5.9	5.6	5.2	5.1	5.8	6.3
Other Services	8.0	7.9	7.6	7.4	7.5	8.1
Construction	7.7	7.9	8.2	8.5	8.5	8.2
Total Services (excluding Construction)	53.0	52.9	52.9	52.7	54.1	55.2
Total Services (including Construction)	60.7	60.8	61.1	61.2	62.6	63.4
Total GDP	100	100	100	100	100	100

Source: Economic Survey, India, 2011

@ Provisional estimates * Quick estimates

As depicted from Table 2, financing, insurance, real estate and business services accounts for largest share of 16.7 per cent in services followed by trade, hotels and restaurants having share of 16.3 per cent in the national GDP in 2009-10. From financing, insurance, real estate and business activities, real estate, ownership of dwellings & business services captures the highest share of 11.4% in this category and this share has increased over the period of five years indicating growth of economy. Of trade, hotels and restaurants service category, trade still holds the dominant share of 14.9% despite showing a decline over the last few years. The community, social, and personal services category accounts for a 14.4 per cent share and witnessed a nominal growth of 0.6%, while transport, storage, and communication accounts for a 7.8 per share. Table 1 also shows total share of service sector in GDP which is 55.2% in 2009-10 and after including construction activities it grows to 63.4% showing the power and importance of service sector in growth and development of Indian economy (Ministry of Finance, 2010).

The power of service sector is also visible from the high share of service sector in attracting foreign direct investment (FDI) inflows as shown in Table 3. The financial and non-financial services account for 21% of total inflows which stand out as major recipient of FDI inflows followed by computer software and hardware services, telecommunication services each with 8% share ,while housing& real estate and construction services both having share of 7% .

Table 3: Sectors attracting Highest FDI equity inflows

Rank	Sector	2008-09 (Apr.- Mar.)	2009-10 (Apr.- Mar.)	2010-11 (April- Dec.)	Cumulative Inflows (April 2000-Dec. 2010)	%age to total inflows (in US\$)
1	Service Sector (financial & non- financial)	28,516	20,776	13,044	1,18,274	21%
2	Computer software and hardware	7,329 (1,677)	4,351 (919)	3,054 (670)	47,144 (10, 601)	8%
3	Telecommunications (radio paging,	11,727	12,388	6,021	46,727	8%

	cellular mobile and basic telephone services)	(2,588)	(2,554)	(1,327)	(10,258)	
4	Housing & Real Estate	12,621	13,586	4,680	42,029	7%
		(2,801)	(2,844)	(1,024)	(9,380)	
5	Construction Activities	8,792	13,516	4,109	39,802	7%
	(including roads & highways)	(2,028)	(2,862)	(911)	(8,964)	

Source: Economic Survey, India, 2011

From the above discussion it becomes clear that India stands out for the size and dynamism of its services sector. The rein of growth of Indian economy is in the hands of service sector which has the capacity take Indian economy to growth trajectory. The service sector contributes to about a quarter of total employment, accounting for a high share in foreign direct investment ('FDI') inflows and over one-third of total exports, and recording very fast (27.4 per cent) export growth through the first half of 2010-11 (India budget, 2011).

Reliance of manufacturing sector on Service sector

The Manufacturing Sector is extremely relying on service sector. Services are more independent than the manufacturing sector (Feenstra and Hanson, 1999). Most inputs those are necessary for manufacturing sector to accomplish objectives are derived from the services sector. Their role as providers of intermediate inputs to other industries is strong. Services sector is also contributing to the productivity and employment of manufacturing sector. The dependency ratio of manufacturing sector to service sector is consistently growing (Leek and Naude, 2001).

Transportation system is promoting the manufacturing sector. Modes of transportation used to ship products in various stages of the value chain include ships, barges, trains, trucks, airplanes, and pipelines. Transportation plays powerful role in carrying goods for the proprietors (<http://indiabudget.nic.in>). By means of well-handled transport system, goods could be sent to the right place at right time in order to satisfy customers' demands. It brings efficacy, and also it builds a bridge between producers and consumers. Therefore, transportation is the base of efficiency and economy in business logistics and expands other

functions of logistics system. In addition, a good transport system performing in logistics activities brings benefits not only to service quality of services but also to company competitiveness.

Manufacturing Sector is also supported by the Energy Sector for power (Heshmati, 2003). An interruption to the power supply would directly affect all manufacturing activities located in the region serviced by the downed electric grid, and that interruption could potentially have cascading effects (OECD, 2005).

Manufacturing sector also depends on the information technology sector. Many manufacturing sector facilities rely heavily on the information technology to manage day to day operations at their facilities. Additionally, information technology is used by manufacturing sector to disseminate security and threat information (Wolfl, 2003). The opening of the telecom sector in India has not only led to rapid growth but also helped a great deal towards maximization of manufacturing sector benefits. The Internet, which is another growing mode of communication, helps to convey messages from one place to another place (Hakansson and Gadde, 1992).

Manufacturing Sector also rely on the communication sector for much of its communication capability. Even though an interruption in communication would not be catastrophic to the manufacturing sector, damage to the communications sector would impact the manufacturing sector's ability to operate and would probably cause some cascading economic damages (Fiocca, 1982).

Warehousing services completes the chain with delivery of goods to the consumers. The manufacturers usually limit themselves to the production of goods, leaving marketing and distribution to other firms. Warehousing and storage can be considered in terms of services for the production process and for product distribution. There have been major changes in the number and location of facilities with the closure of many single user warehouses and an expansion of consolidation facilities and distribution centers. These developments reflect factors such as better transport services and pressures to improve logistics performance.

The efficient Insurance facilities have become vital to the smooth functioning of this increasingly complex manufacturing environment. Failure to protect materials can cause business processes to grind to a standstill. The efficiency with which a manufacturer

collaborates – often over vast distances – with suppliers, customers and other business partners increasingly define its competitive (Leek, Turnbull and Taude, 2002). Deepening of insurance markets makes a positive contribution to the manufacturing sector. The insurance sector is an infrastructural pillar of the manufacturing sector and the economy as a whole. It facilitates for risk transfer. More broadly, insurance can give manufacture the financial confidence to make investments, since they know they will be able to recover their investment,(Nicken, Stephen and layard, 2000).

The banking sector is playing an active role in the manufacturing sector (Reddy, 2005). It encourages savings habit amongst manufacturers and thereby makes funds available for production process. It helps business transactions through receipts and payments by cheques instead of currency. It also provides loans and advances to the manufacturers for short term and long-term purposes and promotes import export transactions. Banking sector also helps in national development by providing credit to farmers, small-scale industries and self-employed people as well as to large business houses which lead to balanced economic development (OECD, 2011).

Accounting, auditing, and book-keeping services are part of ‘business services’ and so manufacturing. All business in India has to take accounting and audit services to comply with requirements of taxation authorities. The accounting profession in India is highly developed with the potential to become internationally more competitive. Indian accounting firms are increasingly getting integrated, and are providing associated services such as management consultancy, corporate finance, and advisory services, in addition to their core business of accounting, auditing, and tax services.

Research and Development forms the most important part of the manufacturing process, creating and developing the products to be sold by a company. <http://www.bizhelp24.com> It helps the firms to survive and grow in highly competitive market environment. As per the Department of Science and Technology estimates, the national investment on R&D activities was ` 37,777.9 crore in 2007-08. Though India, with a R&D share of 0.8 per cent in the GDP in 2007-08, is ahead of other developing countries like Mexico, Malaysia, and Chile, it lag behind countries like South Korea (3.5 per cent), Russia (1.1 per cent), China (1.5 per cent), and Brazil (1per cent).

Without the support of service sector, manufacturing sector cannot grow. The service sector provides impetus to manufacturing sector to achieve sustainable growth.

Conclusion - Services sector is an important particularly for India. The main reason for growth of services in India is the development of IT, tourism, health care etc and all these developments and challenges make India the next Asia. In the short and even medium term, the sure bet for higher growth of the Indian economy lies in further accelerating the growth of the services sector, which can be done with considerable ease compared to other sectors due to India's competitive advantage in services. Services and manufacturing firms interact and this interaction seems to take on a large variety of forms. Both sectors contribute mutually to production of the respectively other sector on different of the value added chain. Services are still very much independent and concentrated on their own; while manufacturing industries are much more rely on service sector. The service sector is more independent from other industries than the manufacturing sector. Most inputs that are necessary to produce demand for services derive from the services sector itself. Service industries interact much more strongly with other industries, both as providers and as users of intermediate inputs. Even though services now contribute as providers of intermediate input to the performance of other industries, their role remains more limited than that of the manufacturing sector.

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