

ROLE AND PERFORMANCE OF SERVICE SECTOR

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INTRODUCTION

India's services sector that remained resilient even during and immediately after the global financial crisis buckled under the pressure of continued global and domestic slowdown, resulting in sub-normal growth in the last two years. However, early shoots of revival are visible in 2014-15 with signs of improvement in world GDP growth and trade also reflected in pick-up in some key services like IT, aviation, transport logistics, and retail trading. Different indices and estimates also indicate an expansion in India's services business.

The services sector with an around 57 per cent contribution to the gross domestic product (GDP), has made rapid strides in the last few years and emerged as the largest and fastest-growing sector of the economy. Besides being the dominant sector in India's GDP, it has also contributed substantially to foreign investment flows, exports, and employment. India's services sector covers a wide variety of activities that have different features and dimensions. Some services like IT and telecommunications are very sophisticated, involving high technology and expertise, while some are simple like those of barbers and plumbers. Some services like transport have high linkages with the industrial sector and some like tourism have high employment linkages. Some services like railways and port fall under the definition of infrastructure, while some like construction fall under the definition of industry. Thus there are many borderline inclusions and exclusions. This chapter not only focuses on different aspects of services but also covers many important services.

PERFORMANCE OF SERVICE SECTOR INTERNATIONAL COMPARISON

There was a sudden pick-up in world services GDP in 2012 compared to 2011 with increase in growth from 2.7 per cent to 3.8 per cent with a 65.9 per cent share in the US\$ 72.7 trillion world GDP in 2012. Like in overall GDP, the US ranks first in services GDP also, with Japan and China a distant second and third. Among the world's top 15 countries in terms of GDP, India ranked 10th in terms of overall

Table 1
Performance In Service :- International Comparison

Country	Rank Overall Services GDP	Services growth rate (percent) Y-o-Y			Share of services In GDP			In Emp.			Total export in 2013	Services export growth (percent) Y-o-Y			CAGR 2001-13
		2001	2011	2012	2001	2011	2012	2001	2012	2013		2001	2012	2013	
US	1	2.9	1.9	6.5	2.1	77.2	79.2	75	81.2	29.5	-3.6	5.4	5	7.7	
China	3	10.3	9.5	8.1	10.9	43.4	44.6	27.7	35.7	8.6	9.1	8.4	8.7	16.6	
Japan	2	1.8	1.8	0.5	2.4	69.9	72.7	72.3	63.8	16.8	-6.9	0.0	1.0	7	
France	4	1.8	2.4	0.5	1.4	75.0	79.2	69.9	74.9	28.7	-0.5	-8.1	8.3	9.4	
UK	5	2.7	1.5	1.4	2.1	73.3	77.9	73.8	78.9	34.9	-0.8	-1.5	0.6	7.8	
Russia	6	3.3	3.3	4.8	5.4	55.7	58.9	58.8	62.7	11.1	17.3	6.8	12.7	15.9	
India	7	7.5	8.2	7.2	9.0	51.3	55.7	24.0	28.1	32.4	4.8	5.4	4.8	20.2	
Canada	8	3.5	2.4	1.8	2.6	65.8	71.2	74.7	76.5	14.5	-3.6	-0.9	0.3	6.2	
Australia	9	3.9	3.3	2.9	3.2	69.9	69.6	74.2	75.5	17.1	-8.9	2.7	-0.1	9.4	
South Koera	15	4.3	2.6	2.5	3.4	58.5	57.7	62.6	76.4	16.6	-4.7	17.3	1.3	11.8	
World		2.8	2.7	3.8	2.6	68.9	65.9	39.1	55	19.8	0.1	2.2	5.5	9.9	

Source: Computed from UN National Accounts Statics for GDP, World Bank and ILO database for employment and WTO database for services Trade (accessed on 1 June 2014).

GDP and 12th in terms of services GDP in 2012. However, India has the second fastest growing services sector with in CAGR at 9.0 per cent, just below China's 10.9 per cent, during the last 11 year period from 2001- 2012. Russia at 5.4 per cent is a distant third. Though China at 8.1 per cent followed by India at 7.2 per cent had the highest growth rate in services in 2012 compared to 2011, there was a slight deceleration over 2011 for both. On the country, the US services sector grew by 6.5 percent in 2012 which is more than three times higher than in 2011. There was a pick-up in services growth in Japan and Russia. Among the top 15 countries in terms of services GDP, only China's share in its total GDP at 44.6 per cent in 2012 is less than 50 per cent.

INDIA'S SERVICES SECTOR

Service in India are emerging as a prominent sector in terms of contribution to national and states incomes, trade flows, FDI inflows, and employment.

SERVICES GDP

Services constitute a major portion of India's GDP with a 57 percent share in GDP at factor cost (at current prices) in 2013-14 – an increase of 6 percentage points over 2000-01. Including construction, the share is 64.8 per cent. The CAG of services-sector GDP at 8.5 per cent for the period 2000-01 to 2013-14 has been higher than the 7.1 percent CAGR of overall GDP during the same period.

In 2013-14 the growth rate of the services sector at 6.8 percent is marginally lower than in 2012-13. This is due to deceleration in the growth rate of the combined category of trade, hotels, and restaurants and transport, storage, and communications to 3.0 percent from 5.1 percent in 2012-13, despite robust growth of financing, insurance, real estate, and business services at 12.9 percent. Construction, which has not been performing well since 2012-13, grew by only 1.6 percent in 2013-14.

Sub-sector wise, banking and insurance and real estate, ownership of dwelling, and business services were the best performers in terms of growth rate in 2012-13 and the performance of railways followed by hotels and restaurants was the lowest.

FDI IN THE INDIAN SERVICES SECTOR

The growth of the services sector is closely linked to FDI inflows into this sector AND THE ROLE OF TRANSNATIONAL FIRMS. In the context of FDI, the ambiguity in classifying the different activities under the services sectors continues. However, the combined FDI share of financial and non-financial services, construction development, telecommunications, computer hardware and software, and hotels and tourism can be taken as a rough estimate of the FDI share of services, through it could include some non-service elements. This share is 45 percent of

Table II
Share and Growth of India's Services Sector (at Factor Cost)

	2000-01	2011-12	2012-13	2013-14
Trade, hotels & Restaurants	14.5 (5.2)	17.4 (1.2)	17.2 (4.5)	24.0 (3.0)
Trade	13.2 (5.0)	15.9 (1.0)	15.8 (4.8)	-
Hotels & Restaurants	1.3 (7.0)	1.5 (3.8)	1.4 (0.5)	-
Transport & Communication	7.6 (9.2)	7.3 (9.4)	7.5 (6./0)	-
Transport	5.0 (7.7)	5.4 (6.6)	5.6 (6.6)	-
Communications	1.5 (25.0)	.1 (11.2)	1.1 (6.5)	-
Financing, Insurance & Business Services	14.1 (3.5)	16.5 (11.3)	17.2 (10.8)	18.5 (12.9)
Banking & Insurance	5.4 (-2.4)	5.7 (12.9)	5.9 (11.8)	-
Business Services	8.7 (7.5)	10.7 (9.9)	11.4 (10.0)	-
Construction	6.0 (6.1)	8.2 (10.8)	8.1 (1.1)	7.8 (1.6)
Total Services	51.0 (5.1)	54.9 (6.6)	56.3 (7.0)	57.0 (6.8)
Total GDP	100.0 (4.1)	100.0 (6.7)	100.0 (4.5)	100.0 (4.7)

Source: Central Statistics Office (CSO).

the cumulative FDI equality inflows during the period April 2000-March 2014. If construction, the borderline inclusion, is excluded, then it falls to 34 percent. The five services sectors are also the sectors attracting the highest cumulative FDI inflows to their economy with financial and non-financial services topping the list at US \$ 39.5 billion during the period April 2000- March 2010.

If the shares of some other services or service-related sectors like trading, information and broadcasting, construction activities, consultancy services, hospital and diagnostic centers, ports (0.8%), agriculture services (0.8 per cent) and retail trading (0.1 per cent) are included then the total share of cumulative FDI inflows (2000-01 to 2013-14), FDI inflows to the services sector declined sharply by 37.6 percent to US \$ 6.4 billion compared to an overall growth in FDI inflows at 6.1 percent. As a result the share of top five services in totaled fell to nearly one-sixth.

Table III
Services Attracting Highest FDI Inflows

Ranks	Sector	2011 -12	2012 -13	2013 -14	Cumulative inflows	Per cent	2012 -13	2013 -14
1	Services Sector	5216	4833	2225	39460	18	-7.3	-4.0
2	Construction development	3141	1332	1226	23306	11	-57.6	-8.0
3	Telecommunication	1997	204	1307	14163	7	-84.8	29.9
4	Computer Software & hardware	796	486	1126	12817	6	-38.9	31.7
5	Hotels & tourism	993	10214	6370	96864	45	-15.9	-37.6
	Total FDI inflows	6556	34298	36396	217581	100	-26.3	6.1

Source: Based on Department of Industrial Policy and Promotion (DIPP) data.

MAJOR SERVICES: OVERALL PERFORMANCE

Some available indicators of the different services in India for 2013-14 show reasonably good performance of tourism; a pickup in telecom and aviation after the fall in 2012-13; and poor performance of shipping and railways due to the slowdown in trade and industrial activity. Estimates of the center for monitoring Indian Economy, derived from limited from level data, show subdued performance of sectors such as transport, logistics, aviation ,, hotels, and telecom in 2012-13. Some sectors are estimated to have performed well in 2013-14. In the coming year most of the sectors are projected to perform better. As per Market HSBC's Services PMI, India's services sector expanded for the first time in nearly a year during May on a rebound in new business orders, with the index rising to 50.2 in May from 48.5 in April and punting to the first expansion of output in 11 months.

Table IV
Performance of India's Services Sector: Some Indicators

<i>Sector</i>	<i>Indicators</i>	<i>Unit</i>	2009-10	2010-11	2011-12	2012-13	2013-14
Aviation	Airline passengers	Million	77.4	88.9	99.6	97.7	103.3
Telecom	Telecom connection	Lakh	6212.8	8463.3	9513.5	8980.2	9330.2
Tourism	Foreign tourist earning from tourist arrival	Million	5.17	5.78	6.31	6.58	6.97
	Foreign exchange	US \$ million	11136	14193	16564	17737	18133
Shipping	Gross tonnage of Indian shipping no. of ships	Million GT	9.69	10.45	11.06	10.45	10.49
Ports	Port traffic	Million tones	850.0	885.5	911.7	933.7	980.5
Railways	Storage capacity	Lakh MT	106.0	103.5	100.3	102.3	105.6
Storage	No. of warehouses	Numbers	487	479	468	469	471

Sources: TRAI, Ministry of Tourism, Ministry of Shipping, Ministry of Railways, Directorate General of Civil Aviation(DGCA, Central Warehousing Corporation.

MAJOR SERVICES: SECTOR-WISE PERFORMANCE

Some of the important commercial services for India based on their significance in terms of GDP, employment, exports, and future prospects, have been dealt with in detail in this section. Some important services covered in other chapters have been excluded to avoid duplication.

TOURISM, INCLUDING HOTELS AND RESTAURANTS

According to the world Travel and Tourism Council, the US \$ 6.6 trillion World Travel and Tourism sector contributed 9 per cent of global GDP in 2012 and generated over 260 million jobs. There has been a revival in world tourism growth with international tourist arrivals worldwide growing from 4.1 per cent in 2012 to 5.0 per cent in 2013 as per the United National World Tourism Organization.

According to World Travel and Tourism Council estimates, the tourism sector in India contributed around 6.6 per cent of India's GDP in 2012 and sported 39.5 million jobs, which is 7.7 per cent of its total employment. The sector is projected to grow at an annual average rate 7.9 per cent from 2013-2023. India's share in world in bound tourist arrival increase from 0.4 Per cent in 1997 to 0.63 per cent in 2013, with a 6.9 per cent CAGR, which is much higher than 3.9 percent CAGR during the same period. The size of domestic tourism has also already crossed an estimated 1.1 billion annual travel visits.

After a poor performance in 2009 owing to the 2008 global financial crisis, foreign tourist arrivals (FTA) to India and foreign exchange earnings (FEE) in dollar terms quickly rebounded in 2010. However, with the slow down particularly in EU, both FTA's and fees in dollar terms decelerated, through in 2013 there was a pickup in growth in former. While fees in ruppes terms are reflection of exchange rate moments, what is cause for concern in the step decelerated in FEE 'sin dollar terms.

India has not tapped the full potential of its tourism sector,. A world Economic form 2013 study of tourism competitiveness, rated India at a law of 65 among 140 countries. On its three pillars of competitiveness, India was ranked 21 on tourism natural resources, but an abysmal 110 on its regularly framework for tourism and travel, showing India's inability to convert its comparative natural and economic advantages into competitive advantages for the tourism Industry.

CHALLENGES AND OUTLOOK

Challenges: India's growth story with a services-led growth has been unique for a developing country. The immediate challenge in this sector is revival of growth. While this could be achieved through reforms and speeding up of the policy decision asking making a targeted approach and speeding up of the policy decision making, a targeted approach with focus on big ticket services as mentioned in Box 10.1 could lead to a rebounding of services sector growth for India. Some services like software and telecom were big ticket items that gave India a brand image in services and employment linkages.

Conclusion: India's services sector which was growing at a steady rate of over 10 per cent since 2005-06 has shown subdued performance in the last three years.

The resilience of services growth witnessed even during and in the aftermath of the 2008 global recession has started warning, though services sector growth is still higher than that of other sectors. While the slow down in the manufacturing and mining sectors directly effected some services like railways, shipping, ports and other related services on the account of the strong linkage effect other services were affected by income effect with slowdown in growth of both global and domestic income.

There was also lack luster performance of community and social services, which had shown probate growth in 2008-09 and 2009-10 owing to the payment of arrear to govt. employees as per the sixth pay commission recommendation resulting in high growth in the public administration and defense categories. However real estate and defense helped pull-up services growth rate to modest level of seven or near seven percent in the last 3 year.

Going forward, the year 2014-15 seems to augur well for the services sector with expansion in business activity in India and also indicated by some indices. There are also sign. Of revival in growth of the aviation sector with the announcement of new players like air Asia and TATA -SIA air line after a turbulent period of withdrawal and losses by some airlines. The down side risks however the fragile global situation is.

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