

An Analysis of Performance of Service Sector in India

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Abstract

Services sector is generally stated as “non-commodity sector”. The American Marketing Association defines service sector as, those separately identifiable, essential, intangible, essential, intangible activities, which provide want stratification and are not necessarily related to the sale of product or another activity. The International Standard Industrial Classification (ISIC) includes the following activities as service sector activities electricity , gas and water constructions, wholesale and retail trade, hotel and restaurant, transport , storage and warehousing, post and telecommunications, financial institution’s insurance, real estate, business services, machinery and equipment, rental and leasing, public administration and defense, sanitary and social services, social and related community services, including education, research and scientific institution, medical , professionals and labor association and the household services.

Keyword : Service sector, economy, GDP

Introduction

The nature and the rate of growth of the economy of any country are determined as the result of the combined performance of different sectors. Economic activities are classified into primary sector secondary sector and tertiary or services sector. In the process of industrialization there is transformation in the sectoral and structure of the economy with the secondary and tertiary sector becoming more important and the role of primary sector becoming less significant.

Service sector in World Economy

The service sector in the world economy has been growing steadily over past two decades. Service sector is one of the most encompassing and growing areas of activity today. Service sector has emerged as largest and fastest growing sector. In the global economy in the last two decades providing more than 60 percent of global output.

Table 1 The share of service sector GDP for some important countries are given in the table

Nations	Share of services in GDP (percent)	
	1980	2000
South Asia	37	47
East Asia	28	41
Latin America	50	64
Africa	43	56
High income countries	61	71
World	55	63
Source: World Development Indicators, 2001		

The above table evident that in the last two decades, the services sector has expanded rapidly all over the world. Developing countries like those of Latin America have services accounted for a higher percentage of GDP than the world average.

Public Policy Issues to Service Sector

Services 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 of the GDP marks a shift in the evolution of the Indian economy and takes it closer to the fundamentals of a developed economy.

Indian Service Sector

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 service, community, social and personal services come within the gambit of the service industry. One of the key service industries in India would be health and education. They are vital for the country's economic stability. A robust healthcare system helps to create a strong and diligent human capital, who in turn can contribute productively to the nation's growth.

Sub sectors

Information Technology Industry

The Information Technology industry has achieved phenomenal growth after liberalization. The industry has performed exceedingly well amidst tough global competition. Being knowledge based industry; India has been able to leverage the global markets, because of the huge pool of engineering talent available and the proficiency in English language among the middle class.

ITES Sector

The ITES sector has also leveraged the global changes positively to emerge as one of the prominent industries. Some of the services covered by the ITES industry would be:

- Customer interaction services-Non voice and Voice.
- Back office, revenue accounting, data entry, data conversion, HR services.
- Medical Transcription.
- Content development and animation.
- Remote education, market research and GIS.

Retailing

Prior to liberalization, India had one of the most underdeveloped retail sectors in the world. After liberalization the scenario changed dramatically. Organized retailing with prominence on self service and chain stores has changed the dynamics of retailing. In most of the tier I and tier II cities supermarket chains mushroomed, catering to the needs of vibrant middle class. This indirectly contributed to the growth of the packaged food industry and other consumer goods.

Financial Services-Banking and Insurance

Prior to liberalization these two sectors were controlled and regulated by the government. Nationalized banks and insurance companies had a firm grip over the market. After liberalization, the banking and insurance domains were opened up for private participation.

Banking Sector

The three major changes in the banking sector after liberalization are;

- Step to increase the cash outflow through reduction in the Statutory Liquidity and Cash Reserve ratio.
- Nationalized banks including SBI were allowed to sell stakes to private sector and private investors were allowed to enter the banking domain. Foreign banks were given greater access to the domestic market, both as subsidiaries and branches, provided the foreign banks maintained a minimum assigned capital and would be governed by the same rules and regulations governing domestic banks.
- Banks were given greater freedom to leverage the capital markets and determine their asset portfolios. The banks were allowed to provide advances against equity provided as collateral and provide bank guarantees to the broking community.

Insurance Sector

The Insurance Regulatory and Development Authority Act 1999 (IRDA Act) allowed the participation of private insurance companies in the insurance sector. The primary role of IRDA was to safeguard the interest of insurance policy holder, to regulate, promote and ensure orderly growth of the insurance industry. The insurance sector could invest in the capital markets and other than traditional insurance products, various market link insurance products were available to the end customer to choose from.

Future Trends

- Globally outsourcing industry would continue to grow.
- Following the success of US and UK, more countries in the European Union would outsource their business.
- Technological power shift from the West to the East as India and China emerge as major players.
- Political backlash over outsourcing would come down as companies reap the benefit of outsourcing.

Statement of the problem

India like other developing countries implemented development plans to achieve higher rate of economic growth and other socio-economic goals. Economic crisis that developed in the 1990s resulted in a paradigm shift in the economic policy. Economy moved from the controlled economic regime to the open and liberalized system.

Many measures have been adopted by the government to promote primary secondary and tertiary activities. More than 19 years have been past after the new economic policy, the questions before us is whether these promotion measures adopted by the government were adequate to develop the performance of the service sector and, to make service sector as the leading sector and whether measures taken includes the contribution of service sector to overall economic growth of India is sufficient or not.

The researcher has under taken this problem to study the behavior of India's service sector.

Objective of the study

The main objective of the study is to analyze the performance of service sector pre, post and second reforms period. Keeping this as the main objective, following objective is framed for this study.

- To study the trend and growth of service sector in India during pre, post and second reform period.

Hypothesis

- Whether the relationship between services sector growth in pre, post and second reforms period and GDP.

Survey of literature

Arian Payne (1993) had defined 'service' as an activity that has an element of intangibility associated with it and which involved the service provider's interaction with the customers. The service activity does not involve the transfer or ownership of the output

Philip Kotler (2002) had defined the "service" as any activity or benefit that one party could offer to another that is essentially intangible and does not result in the ownership of anything. It produce in right not be a physical product.

Sources of data

The basic materials for this study have been drawn from second and published materials. Secondary data were collected from Hand Book of Statistics on Indian Economy published by RBI.

Period of study

The study extends over the period of 29 years. The study beings with the year 1980-81 and ends with the year 2008-09. this is to make a comparative analysis of service sector performance of India during three Economic Regime: (1) the period of pre reform 1980-81 to 1989-90, the period of post reform period 1990-91 to 1999-2000, and the period of second reform 2000-01 to 2008-09.

Tools of analysis

Statistical and Mathematical tools such as Average, Growth rate, Regression were used by the researcher. To analyze the performance of service sector in terms of income generation, Simple Growth rate, Semi Log Compound rate model are used.

Result and Discussion

Shares of primary, secondary and service sector during the pre, post, and second reform period (1980-81 to 2008-2009) and Income generated by primary, secondary, and service sector during the period (1980-81 to 2008-2009) and their share in total GDP have been estimated and given table in 1, 2 and 3.

Table 1 Shares of Primary, Secondary and Service Sector during the Pre Reform Period (1980-81 to 1989-90)

(Rs in Crores)

Year	Primary Sector	Share	Secondary Sector	Share	Service sector	Share	Total GDP
1980-81	243421	37.92	112002	17.44	244159	38.03	641921
1981-82	254622	37.55	121997	17.99	256755	37.86	678033
1982-83	253907	36.38	127645	18.29	274787	39.37	697861
1983-84	279605	37.14	139098	18.48	290202	38.55	752669
1984-85	284037	36.29	145294	18.56	307874	39.34	782484
1985-86	284930	34.95	150992	18.52	331285	40.64	815049
1986-87	283763	33.97	161250	18.96	356217	41.89	850217
1987-88	279257	31.72	170277	19.34	378938	43.04	880267
1988-89	322932	33.29	186578	19.24	404756	41.74	969702
1989-90	326773	31.75	202947	19.71	440124	42.76	1029178

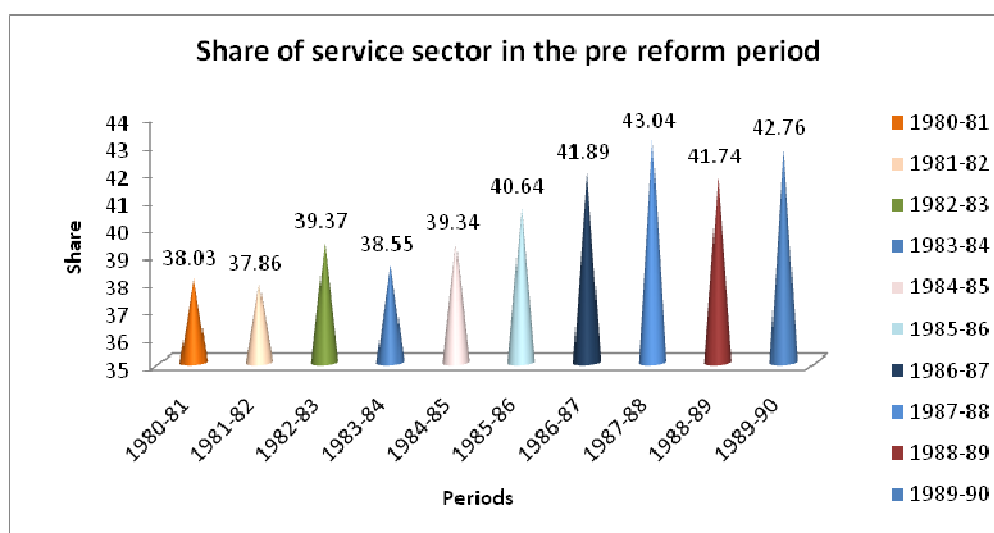


Table 2 Shares of primary, secondary and service sector during the post reform period (1990-91 to 1999-2000)

Year	Primary Sector	Share	Secondary Sector	Share	Service sector	Share	Total GDP
1990-91	339893	31.36	214552	19.80	462797	42.71	1083572
1991-92	333256	30.32	213925	19.46	484195	44.05	1099072
1992-93	355421	30.69	220880	19.07	511670	44.18	1158025
1993-94	367231	30.00	237376	19.39	548757	44.83	1223816
1994-95	384549	29.53	262164	20.13	581118	44.63	1302076
1995-96	381875	27.33	296664	21.23	639752	45.79	1396974
1996-97	419759	27.82	320266	21.23	688196	45.62	1508378
1997-98	409039	25.99	326720	20.76	748951	47.60	1573263
1998-99	434892	25.91	338369	20.16	811039	48.32	1678410
1999-00	446515	24.99	350233	19.60	887771	49.69	1786525

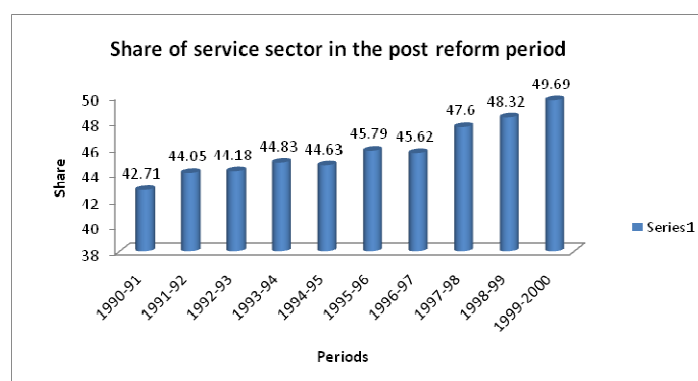
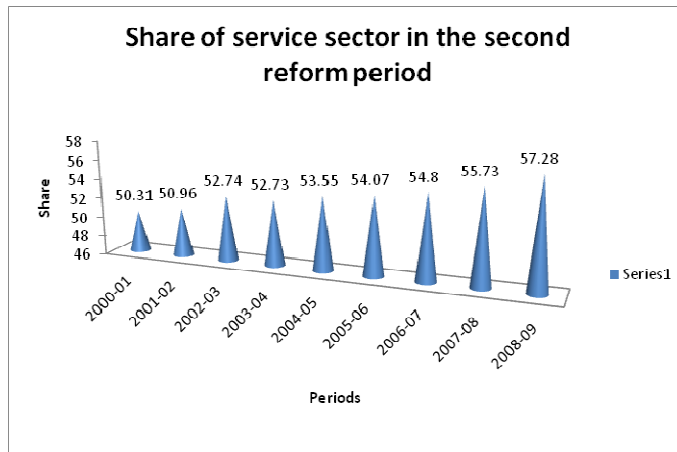


Table 3 Shares of primary, secondary and service sector during the second reform period (2000-01 to 2008-09)

Year	Primary Sector	Share	Secondary Sector	share	Service sector	Share	Total GDP
2000-01	445403	23.89	372599	19.98	937937	50.31	1864301
2001-02	473249	23.99	381366	19.33	1005299	50.96	1972606
2002-03	438966	21.43	407276	19.88	1080394	52.74	2048286
2003-04	482676	21.75	431724	19.42	1172134	52.73	2222758
2004-05	489910	20.21	468451	19.61	1279195	53.55	2388768
2005-06	511114	19.53	506519	19.36	1414600	54.07	2616101
2006-07	531315	18.50	560775	19.53	1573486	54.80	2871120
2007-08	557122	17.80	602032	19.23	1744238	55.73	3129717
2008-09	566045	16.95	617882	18.50	1912871	57.28	3339375

Source: Hand Book of Statistics of Indian Economy, RBI.



Tables 1, 2, 3 have revealed the following:

- In 1980-81 the share of primary sector in total GDP is 37.92 per cent. This decreased to 31.36 per cent in 1990-91 and in 2008-09 again decreased to 16.95 per cent. In 1980-81, the share of secondary sector is 17.44 per cent. It increased to 19.80 per cent in 1990-91 and in the second reform period, it decreased

marginally to 18.50 per cent in 2008-09 and the service sector increased from 38.03 per cent in 1980-81 to 42.71 per cent to 1990-91 and after the second reform period increased to 57.28 per cent.

- When compared to 1980's the share of primary sector has decreased to 16.95 per cent (2008-09) and the secondary sector has fluctuated. During the post reform period and second reform period there is gradual increase in the share of service sector to 57.28 per cent in 2008-09.
- In all the three periods of pre, post and second reform, the share of service sector to total GDP has increased continuously. Among the three periods, the share of service sector in the pre reform period has witnessed fluctuations. The service sector has become the predominance sector contributing more than 57.28 per cent of GDP in 2008-09. However, service sector GDP in India is very less, when compared to other advanced countries.

Overall multiple linear model results or service sector in India during 1980-81 to 2008-09

To analyze the performance of sub sector service sector during pre, post and second reform period, a multiple linear regression model was formulated. The results of multiple linear regression model function fitted to find out the performance of three category wise for three periods have been estimated and presented table 4.26

Table 4 Multiple linear regression model of category wise of service sector during the pre reform period 1980-81 to 2008-09

Variables	β	Std error	Beta	T	SIG	R2
Constant	293658.93	23588.47		12.449	0.0000*	
Category I	0.372810	0.199025	0.115542	1.873	0.0000*	0.99908
Category II	4.143283	0.658159	0.675766	6.295	0.0000*	
Category III	1.489462	0.471651	0.209773	3.158	0.0000*	

Source: Computed from table 4.20. 4.21. 4.22.

*denotes statistically significant at 1% level.

Analysis of regression results table 4.26 reveals the following,

- The regressions co-efficient shows that a 1% level increases of shares of service sector in first category, second category and third category shares leads to (0.37 per cent) (4.14 per cent), and (1.48 per cent) increase in share of total service sector in total GDP.
- Contribution of second category in total service sector is very high (4.14 per cent) followed by third category (0.37 per cent)
- The co-efficient determination R2 which has been estimated as 0.99 percent reveals that 99 percent variations in total service sector in GDP is explained by variations in category wise share.

Testing of hypothesis

To test the hypothesis that there is no significant difference between growth of service sector during pre, post, and second reform period chow test has been used.

$$F = \frac{S6/k}{S(N1+N2+N3-3k)}$$

$$S1 = 0.352; \quad S2 = 0.446; \quad S3 = 0.493; \quad S4 = 10.537$$

$$S5 = 1.296; \quad S6 = 13.603; \quad k = 3$$

$$F = \frac{4.53}{25.92}$$

Computed F = 0.174 Table value F = 3.468

Computed F value < than table F value for 3k, N1+N2+N3-3k degree of freedom. It indicates that there is significance different between growth of service sector during the pre, post and second reform periods.

Findings and Conclusion

- In 1980-81 the share of primary sector in total GDP is 37.92 per cent. This decreased to 31.36 per cent in 1990-91 and in 2008-09 again decreased to 16.95 per cent. In 1980-81, the share of secondary sector is 17.44 per cent. It increased to 19.80 per cent in 1990-91 and in the second reform period, it decreased marginally to 18.50 per cent in 2008-09 and the service sector increased from 38.03 per cent in 1980-81 to 42.71 per cent to 1990-91 and after the second reform period increased to 57.28 per cent.

- When compared to 1980's the share of primary sector has decreased to 16.95 per cent (2008-09) and the secondary sector has fluctuated. During the post reform period and second reform period there is gradual increase in the share of service sector to 57.28 per cent in 2008-09.
- In all the three periods of pre, post and second reform, the share of service sector to total GDP has increased continuously. Among the three periods, the share of service sector in the pre reform period has witnessed fluctuations. The service sector has become the predominance sector contributing more than 57.28 per cent of GDP in 2008-09. However, service sector GDP in India is very less, when compared to other advanced countries.
- The compound growth rates of primary sector are 2.97 per cent, 3.33 per cent and 3.19 per cent. The secondary sector compound growth rates in the pre, post and second reform are 6.40 per cent, 6.63 per cent and 7.23 per cent and service sector growth rate of pre, post and second reform are 6.75 per cent, 7.64 per cent, and 9.49 per cent.
- Among the three sectors, primary sector growth rate has fluctuated. The secondary sector, tertiary sector growth rate gradually increased because of technological and capital support in our country.
- The performance of service sector in terms of its share in GDP has steadily increased. In the beginning of pre reform period the service sector share in GDP was 38.03 per cent.
- The end of the pre reform period saw the share of service sector in GDP rising to 42.76 per cent.
- In the post reform period, the share of service sector was 42.71 per cent. In the period of post reform the service sector grew steadily.
- In the year of 1999-2000, the shares of service sector in GDP was 49.69 per cent.
- The performance of the service sector share in the second reform period is 50.31 per cent. Here the shares of service sector had improved and also steadily increased.
- During the period 2008-09 the shares was 57.28 per cent.
- During the pre reform period the compound growth rate is estimated to be 6.75 per cent.
- The compound growth rate of post reform period is estimated as 7.63 per cent and second reform period compound growth rate was estimated to be 9.49 per cent.
- The compound growth rates in the three periods have gradual increased. These results show that economy is on its way to greater growth in future.

- In the year 1980-81 the share of service sector was 244159 crores in India GDP and growing continually. At the end of pre reform period the share of service sector was 440124 crores. In the year of 1990-91 the share of service sector was 462797 crores. In the beginning of second reform period, the share was 937937 crores. In the year 2008-09 the share was 1912871 crores.
- The shares of service sector during 1980-81 to 1989-90 had grow sufficiently and in the post reform period and second reform period also it has performed well.
- The regression co-efficient shows that if 1% increases in the shares of service sector in category I, category II, and category III leads to (-1.21 per cent), (12.66 per cent), and (-4.63 per cent) change in employment in the period of pre reform.
- During the post reform period of regression of co-efficient shows that if 1% increases shares of service sector in category I, category II, and category III leads to (3.16 per cent), (1.42 per cent), and (-0.48 per cent) change in employment opportunities and similarly, second reform period co-efficient shows that 1% increase category I, category II, and category III leads to (2.40 per cent), (0.99 per cent), and (-0.29 per cent) change in employment.
- When comparing the three periods, the high regression co-efficient of 12.66 per cent shows that II category (pre reform period) is leading sector in employment generation.
- In the year 1981-82, the third category of services had a growth rate of 2.14 percent. It is the lowest among the three categories in the entire pre reform period. In the year 1989-90 the second category growth rate is the highest when compared to the other two categories in the pre reform period.
- In the year 1991-92 first category growth rate was 2.7 per cent. In the year 1994-95 second category growth rate became 3.88 percent. In the year 1981-82, 1994-95 years of growth rate has gone below 2 per cent.
- In the year of 1995-96, the growth rate of service sector in category I was 13.19 percent and in 2006-07 the growth rate in category II was 13.77 per cent. This are the highest growth rates recorded.
- Over the 29 years, the growth rate of trade, hotels, communications (category I) finance, insurance, real estate and business services (category II) and the share of community, social and personal services (category III) is not steady.
- The growth rate in the first category declined to 4.82 per cent in 1984-85. All the three categories have shown both upward and downward trend in the pre-reform period.
- During the pre reform period, I category compound growth rate increased from 5.29 percent to 11.27 per cent in the second reform period.

- Among the three periods of service sector growth rate of the I category has been the most impressive and substantive. The second categories of services experienced ups and downs and growth in category III is only marginal. This is because they include trade, hotels, transport and communication which have been the core sectors.
- The regressions co-efficient shows that a 1% level increases of shares of service sector in first category, second category and third category shares leads to (0.37 per cent) (4.14 per cent), and (1.48 per cent) increase in share of total service sector in total GDP.
- Contribution of second category in total service sector is very high (4.14 per cent) followed by third category (0.37 per cent)
- It was found that there is significance different between growth of service sector during the pre, post and second reform periods.

Conclusion

Service sector is leading sector contributing more than 50 per cent of GDP in Indian Economy. Structural changes have occurred that has shifted the focus from primary sector to service sector since the 1990s. It is concluded that performance of service sector in term of income generation and investments is good and satisfactory over the period of study. Infrastructural development may lead to a better performance of service sector which in turn will boost the total performance of Indian Economy.

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