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**SERVICE SECTOR GROWTH AND PERFORMANCE IN INDIA-A  
COMPARATIVE STUDY**

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**ABSTRACT**

*Services is the fastest growing sector in India, contributing significantly to GDP, GDP growth, employment, trade and investment. India's services sector expanded quickly with double-digit growth in the second half of the 2000s. As the Euro-zone crisis has worsened, growth has slowed, though the sector is still growing at a much higher rate than the other two sectors of the economy. This paper identifies a number of barriers faced by the services sectors, performance of service sector and growth in different time periods. In 2009-10, it accounted for around 62% of the total organised sector employment. However, within the services sector, over 80% of the employment is in the unorganised sector. Sub-sectors such as finance, insurance, real estate and business services and community, social and personal services largely provide organised sector employment. The period of the study is taken from 2000-01 to 2012-13 and based on secondary data.*

*Keywords: Employment, Productivity, Services, Indian Economy, GDP*

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## INTRODUCTION

The services sector is a vital component of the Indian economy. The sector, which accounts for around 60 per cent of the country's gross domestic product (GDP), has emerged as one of the largest and fastest-growing sectors not just in the country but in the global landscape; subsequently, its contribution towards global output and employment has been substantial.

The share of services in India's GDP at factor cost (at current prices) rose from 33.3 per cent (1950–1951) to 56.5 per cent in 2012–13, as per advance estimates. During FY 2014–15, the sector is projected to grow at a healthy 5.6 per cent, according to National Council of Applied Economic Research (NCAER). This sector in India comprises a wide range of activities, including trading, transportation, communication, financial, real estate and business services, and community, social and personal services.

The growth of India's services sector, its contribution to GDP, and its increasing share in trade and investment has drawn global attention. Unlike other countries, where economic growth has led to a shift from agriculture to industries, in India, there has been a shift from agriculture to the services sector. In this respect, some economists (Ansari 1995) consider India as an outlier among South Asian countries and other emerging markets. Contending this view, Gordan and Gupta 2003, Banga 2005 and Jain and Ninan 2010 have pointed out that India is not an outlier as the share of services sector in GDP has increased with rise in per capita income. Kochhar et al. 2006 argued that India was a negative outlier in 1981 compared to other emerging markets as the share of services in value added and employment was below that of other countries. After the economic reforms of the 1990s, services sector grew and in 2000 India became a positive outlier in terms of the share of services in value added but continued to be a negative outlier in terms of its share in employment.

### **Classification of the Services Sector and Governance Structure**

Services sector can be classified either by using the country's own definition or by using the United Nations Central Product Classification (UNCPC). The UNCPC is used as a basis for international negotiations like the WTO. In India, the National Industrial Classification (NIC) provides classifications for services. Since the services sector has evolved over the years and the modes of services delivery have undergone changes, the UNCPC and the NIC have also undergone changes. At present, the NIC 2008 classification is used (see Box 1).

**Box 1: Services Sectors included in the National Industrial Classification 2008**

- Wholesale and retail trade; repair of motor vehicles and motorcycles
- Transportation and storage
- Accommodation and food service activities
- Information and communication
- Financial and insurance activities
- Real estate activities
- Professional, scientific and technical activities
- Administrative and support service activities
- Public administration and defence; compulsory social security
- Education
- Human health and social work activities
- Arts, entertainment and recreation
- Other service activities
- Activities of households as employers; undifferentiated goods and services producing activities of households for own use
- Activities of extraterritorial organisations and bodies

Source: Extracted from National Industrial Classification, Central Statistical Organisation, Ministry of Statistics and Programme Implementation (MOSPI), Government of India, 2008 [http://mospi.nic.in/Mospi\\_New/upload/nic\\_2008\\_17apr09.pdf](http://mospi.nic.in/Mospi_New/upload/nic_2008_17apr09.pdf) (last accessed on May 2, 2012)

India has a quasi-federal governance structure and according to the Constitution of India some services are under the jurisdiction of the central government (Union List), some are under the state governments (State List) and the remaining are under the joint administration of central and state governments (Concurrent List) (see Box 2.)

**Box 2: Services Sector under different Jurisdictions according to the Constitution of India**

- UNION LIST
  - Telecommunications, postal, broadcasting, financial services (including insurance and banking), national highways, mining services

## ➤ STATE LIST

- Health and related services, real estate services, retail, services incidental to agriculture, hunting and forestry

## ➤ CONCURRENT LIST

- Professional services (legal, accounting, auditing and book-keeping, taxation, architectural, engineering, integrated engineering, urban planning and landscape architectural, medical and dental services and service provided by midwives, nurses, etc.), education, printing and publishing, electricity

*Source:* Author's compilation from the Constitution of India, 1950.

### INDIA'S SERVICES SECTOR

India's services sector has emerged as a prominent sector in terms of its contribution to national and states incomes, trade flows, FDI inflows, and employment.

Sub-sector wise, among commercial services, in terms of shares, the major services are trade, transport by other means Sub-sector wise, among commercial services, in terms of shares, the major services are trade, transport by other means banking, and insurance, and real estate ownership of dwellings, and business services, besides construction. In 2011-12, though the growth of 'trade' decelerated to 6.5 per cent, its share improved to 16.6 per cent. The share of 'transport by other means' at 5.4 per cent was almost at earlier levels, while its growth was at 8.6 per cent. Banking and insurance with marginal improvement in its share to 5.7 per cent was the most dynamic sector in 2011-12 with a growth of 13.2 per cent on the top of high growths in the preceding years. 'Real estate, ownership of dwellings, and business services' with a share of 10.8 per cent, which is marginally higher than that of the previous year, also had robust growth of 10.3 per cent. 'Other services' with a share of 7.9 per cent both in 2010-11 and 2011-12 grew at a slower pace of 6.5 per cent in 2011-12. Among 'other services', the two major items are community services, of which education, medical, and health, are the major items; and personal services. Interestingly some items among community services like coaching centres and membership organizations have high growth rates with small shares which are rising. Construction, the borderline services sector, has been the most vulnerable to global events. With a share of 8.2 per cent as in the previous two years, it has been growing unevenly since the global crisis.

**Table 1 : Share and Growth of India's Services Sector (at factor cost)**

	2000- 01	2005- 06	2006- 07	2007- 2009-	2008- 2009-	2010- 11@	2011- 12*	2012- 13**	
<b>Trade, hotels, &amp;</b>	<b>14.6</b>	<b>16.7</b>	<b>17.1</b>	<b>17.1</b>	<b>16.9</b>	<b>16.5</b>	<b>17.2</b>	<b>18.0</b>	<b>25.1#</b>
	(5.2)	(12.2)	(11.1)	(10.1)	(5.7)	(7.9)	(11.5)	(6.2)	(5.2)
Trade	13.3	15.1	15.4	15.4	15.3	15.1	15.7	16.6	
	(5.0)	(11.6)	(10.8)	(9.8)	(6.7)	(8.5)	(11.5)	(6.5)	
Hotels & restaurants	1.3	1.6	1.7	1.7	1.5	1.4	1.5	1.5	
	(7.0)	(17.4)	(14.4)	(13.0)	(-)	(1.9)	(10.8)	(2.8)	
<b>Transport, storage, &amp; communication</b>	<b>7.6</b>	<b>8.2</b>	<b>8.2</b>	<b>8.0</b>	<b>7.8</b>	<b>7.7</b>	<b>7.3</b>	<b>7.1</b>	
	(9.2)	(11.8)	(12.6)	(12.5)	(10.8)	(14.8)	(13.8)	(8.4)	
Railways	1.1	0.9	0.9	1.0	0.9	0.9	0.8	0.7	
	(4.1)	(7.5)	(11.1)	(9.8)	(7.7)	(8.8)	(5.9)	(7.5)	
Transport by other means	5.0	5.7	5.7	5.6	5.5	5.3	5.3	5.4	
	(7.7)	(9.3)	(9.0)	(8.7)	(5.3)	(7.3)	(8.2)	(8.6)	
Storage	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	
	(6.1)	(4.7)	(10.9)	(3.4)	(14.1)	(19.3)	(2.2)	(9.4)	
Communication	1.5	1.6	1.5	1.4	1.4	1.4	1.1	0.9	
		(23.5)	(24.3)	(24.1)	(25.1)	(31.5)	(25.4)	(8.3)	
<b>Financing, insurance, real &amp; business services</b>	<b>13.8</b>	<b>14.5</b>	<b>14.8</b>	<b>15.1</b>	<b>15.9</b>	<b>15.8</b>	<b>16.0</b>	<b>16.6</b>	<b>17.2</b>
	(4.5)	(12.6)	(14.0)	(12.0)	(12.0)	(9.7)	(10.1)	(11.7)	(8.6)
Banking & insurance	5.4	5.4	5.5	5.5	5.6	5.4	5.6	5.7	
	(-)	(15.8)	(20.6)	(16.7)	(14.0)	(11.4)	(14.9)	(13.2)	
Real estate, ownership of , dwellings & business services	8.7	9.1	9.3	9.6	10.3	10.4	10.4	10.8	
	(7.5)	(10.6)	(9.5)	(8.4)	(10.4)	(8.3)	(6.0)	(10.3)	
<b>Community, social, &amp; Services</b>	<b>14.8</b>	<b>13.5</b>	<b>12.8</b>	<b>12.5</b>	<b>13.3</b>	<b>14.5</b>	<b>14.0</b>	<b>14.0</b>	<b>14.3</b>
	(4.6)	(7.1)	(2.8)	(6.9)	(12.5)	(11.7)	(4.3)	(6.0)	(6.8)
Public administration & other services	6.6	5.6	5.2	5.1	5.8	6.6	6.1	6.1	
	(1.9)	(4.3)	(1.9)	(7.6)	(19.8)	(17.6)	(0.0)	(5.4)	
Other services	8.2	7.9	7.6	7.4	7.5	7.8	7.9	7.9	
	(7.0)	(9.1)	(3.5)	(6.3)	(7.4)	(7.2)	(8.0)	(6.5)	
Construction	6.0	7.9	8.2	8.5	8.5	8.2	8.2	8.2	8.2
	(6.1)	(12.8)	(10.3)	(10.8)	(5.3)	(6.7)	(10.2)	(5.6)	(5.9)
<b>Total Services</b>	<b>50.8</b>	<b>53.1</b>	<b>52.9</b>	<b>52.7</b>	<b>53.9</b>	<b>54.5</b>	<b>54.4</b>	<b>55.7</b>	<b>56.5</b>
	(5.4)	(10.9)	(10.1)	(10.3)	(10.0)	(10.5)	(9.8)	(8.2)	(6.6)
<b>Total Services (incl. Total GDP)</b>	<b>56.8</b>	<b>61.0</b>	<b>61.0</b>	<b>61.2</b>	<b>62.4</b>	<b>62.7</b>	<b>62.6</b>	<b>63.9</b>	<b>64.8</b>
	(5.5)	(11.1)	(10.1)	(10.3)	(9.4)	(10.0)	(9.8)	(7.9)	(6.5)
<b>Total GDP</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
	(4.3)	(9.5)	(9.6)	(9.3)	(6.7)	(8.6)	(9.3)	(6.2)	(5.0)

Source : Central Statistics Office (CSO).

Notes : Shares are in current prices and growth in constant prices; Figures in parenthesis indicate growth rate;

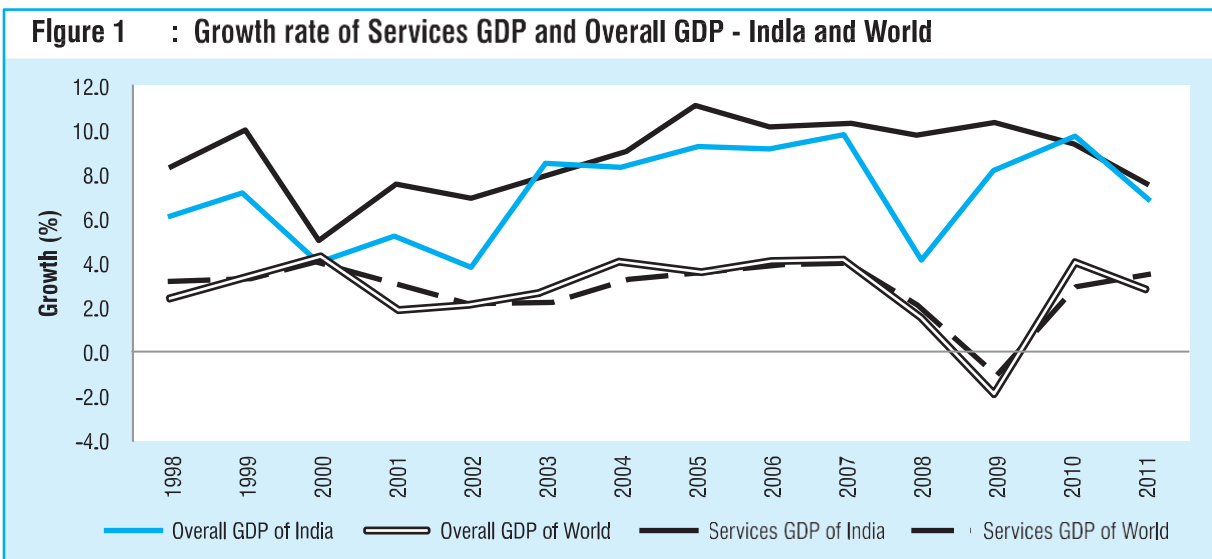
\* first revised estimates, @ second revised estimates, ^ third revised estimates,

\*\* Advance Estimate (AE);

# includes the shares and growth of both trade, hotels, & restaurants and transport, storage & communication only for 2012-13.

### Growth Rate of Services GDP and Overall GDP

The growth story overall and services of world and India in the 2000s began from almost the same level of around 4-5 per cent in 2000. But over the years, India's overall and services growth rates have outpaced those of the world. Interestingly, unlike world services growth, which has been moving in tandem with its overall growth with mild see-saw movements over the years, India's services growth has been consistently above its overall growth in the last decade except for 2003 (when the former was marginally lower than the latter). Thus, for more than a decade, this sector has been pulling up the growth of the Indian economy with a great amount of stability



Source : Based on UN National Accounts Statistics accessed on 2 February 2013.

### Performance of India's Service Sector

The important services for India include trade, tourism, shipping and port services, real estate services, business services including IT and IT enabled services (ITeS), research and development (R&D) services, legal services, and accounting and audit services. The performance of these

India's Services Sector is given below in the table.

Sector	Indicators	Unit	Period				
			2008-09	2009-10	2010-11	2011-12	2012-13
Aviation	Airline passengers (domestic and	Million	49.5 (a)	54.5 (a)	64.5 (a)	70.2(a)	67.5(a)
Telecom	Telecom connections (wireline and wireless)	Lakh	4297.25	6212.8	8463.2	9513.4	8955.1(b)
Tourism	Foreign tourist arrivals	Million	5.28 (a)	5.17 (a)	5.78 (a)	6.31 (a)	6.65 (a)
	Foreign exchange earnings from tourist	US \$ million	11832 (a)	11136(a)	14193 (a)	16564(a)	17737(a)
Shipping	Gross tonnage of Indian shipping	Million GT	9.28	9.69	10.45	11.06(c)	10.45(d)
	No. of ships	Numbers	925	1003	1071	1122 (c)	1158(d)
Ports	Port traffic	Million tonnes	744.02	850.03	885.45	911.68	455.77(e)
Railways	Freight traffic by railways	Million tonnes	833.31	887.99	832.75	969.78	735.32(c)
	Net tonne kilometers	Million	538226	584760	444515	639768	470956(c)
Storage	Storage capacity	Lakh MT	105.25	105.98	102.47	100.85	101.6
	No. of warehouses	Numbers	499	487	479	468	469

**Sources :** Directorate General of Civil Aviation, Telecom Regulatory Authority of India, Ministry of Tourism, Ministry of Shipping, Ministry of Railways and Central Warehousing Corporation (Compiled by EXIM Bank of India).

Notes : (a) calendar years, for example 2007-8 for 2007. (b) As on 31st December, 2012, (c) April- December, (d) As on 31 January 2013, (e) April-September. GT is gross tonnage; MT is metric tonnes.

### **Employment in the Services Sector**

There has been a lot of debate on employment generating capacity of services sector. It has

been argued that employment growth in services sector has not been commensurate to the income growth in the sector (Bosworth and Maertens, 2010) or the rise in its share in India's GDP (Kochhar *et. al.* 2006). The change in the production structure from agriculture to services has not been reflected by a proportionate change in the occupational structure (Bhattacharya and Mitra 1990). As a result, services-led growth has been a jobless growth (Banga, 2005 and Bhattacharya and Sakthivel 2004).

In terms of size of total employment (both organised and unorganised), in 1993-94, close to 63% of the population was engaged in agriculture sector and around 21% in services. Over the years, the percentage of people employed in agriculture has declined and employment in services has increased, though the broad pattern of employment has remained the same with agriculture having the highest share. There has been a change in the pattern of employment within the services sector. Wholesale and retail trade account for a substantial part of services sector employment and its share is rising. The share of transport, storage and communication is also increasing. However, the share of public administration and defence has declined (see Table 3 for details).

**Table 3: Employment in Different Sectors and Some Services Categories as a percentage of Total Employment in India**

Service Category	2009-10	2004-05	1999-00	1993-94
<b>Primary/Agriculture</b>	53.2	58.5	61.7	62.8
<b>Secondary/Industries</b>	21.5	18.1	15.9	15.2
<b>Tertiary/Services</b>	25.3	23.4	22.4	22.0
Wholesale and retail trade; repair of motor vehicles, motorcycles & personal & household Goods	9.5	9.0	8.7	7.7*
Hotels and restaurants	1.3	1.3	1.1	
Transport, storage and communications	4.3	3.8	1.1	3.4
Financial intermediation	0.8	0.6	0.5	1.0*
Real estate, renting and business activities	1.3	0.9	0.6	
Public administration and defence; compulsory social security	2.1	1.8	2.5	9.5*
Education	2.6	2.4	2.0	



Health and social work	0.8	0.8	0.6	
Other community, social and personal service Activities	1.9	1.8	2.4	0.3*

*Source:* Author's own calculations from NSSO Reports on Employment and Unemployment in India, various issues.

### Challenges to India's Service Sector

- The immediate challenge for the services sector covering myriad activities and areas is growth revival. India's growth has been basically a services- led growth pulling up overall growth of the economy. While this could be through a business-as-usual approach, a more targeted approach with focus on big-ticket services could lead to exponential gains for the economy. While software and telecom services have led by example, there are some other important services like tourism including medical tourism and shipping and logistics. Tourism is a big- ticket item which can not only lead to higher growth but also more inclusive growth.
- The other major challenge is to retain and expand our competitive advantage in those services where we have already made a mark. The present advantage in services may not continue forever, with new competitors from other developing countries making rapid strides even in areas where we had the initial advantage as in the case of software services. Further expansion of established services like software and telecom into new markets and greater usage of these services domestically can not only increase services growth but also propel growth in other sectors with greater efficiency in these sectors using knowledge- and technology-based services.
- Removing or easing domestic regulations is the third challenge. While removal of market barriers in the form of domestic regulations in other countries depends on multilateral and bilateral negotiations, the myriad restrictions and regulations in the different services domestically as indicated in Box 10.4 need immediate attention. Removing or easing them can lead to dynamic gains for the Indian economy.
- The services sector is an uncharted sea throwing up many daunting challenges as well as opening up many exciting opportunities. While many hitherto non-tradable services including those in the government and social sectors are becoming domestically tradable, many services hitherto confined within national borders (like telemedicine) have become internationally tradable. Addressing the challenges of the diverse services sectors and seizing the new opportunities

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can lead to multiple gains for the services sector and the economy.

## CONCLUSION

Following the trade liberalization in 1991, the Indian economy embarked on a path of rapid growth of aggregate output. In particular, it witnessed a high growth rate of service sector output while that of industry was relatively muted. As a result, the share of services in GDP has come to resemble that of a high income country while its per capita income still remains that of a low income country. Further, we also observe a sharp increase in the rate of growth of service sector trade. It is high productivity growth, especially in the service sector, rather than growth of trade in services which is the primary factor driving the high growth witnessed by the Indian service sector. The paper found that the services sector faces a number of barriers, which makes it difficult for the sector to reach its full potential and contribute to inclusive growth.

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