

## THE ROLE OF SERVICE SECTOR IN INCLUSIVE GROWTH OF INDIAN ECONOMY

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### ABSTRACT

If India is to become an economic power, growth has to be inclusive i.e. it has to benefit the lives of millions of people living in rural India. To ensure that growth is well distributed Planning Commission has made inclusive growth as their explicit goal in Eleventh five year plan and again in Twelfth Five year Plan government has taken unique steps to ensure that benefit of growth should be shared by everybody and targeted on 'more inclusive growth'. India's accelerated economic growth in recent years has been a focus of discussion and analysis. As India has undergone a structural shift, service sector growth has been higher than growth in agriculture and manufacturing sector. Growth in services picked up in 80's and accelerated in the 90's, now this sector is contributing more than 50% of GDP but its share in employment is only 25%. Since the late 1980's much discussion has been taking place to assess whether the services led growth of Indian economy is inclusive and sustainable or not. India has a potential to become a role model if it can bridge the gap between haves and have not's. Present paper is an attempt to study the changing structure of the economy and how can service sector growth be made more inclusive and well-distributed.

*Keywords: GDP, inclusive growth*

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## SERVICE SECTOR AND INCLUSIVE GROWTH

Famous economists considered services to be unproductive as in the case of **Adam Smith (1776)**, who stated that services did not generate value. Services were seen only as immaterial activities unable to contribute to the material economic progress. **Fisher (1935)**, **Colin Clark (1940)** and **Jean Fourastie (1949)** were the first to introduce service -sector as the tertiary sector of economic activity. They considered services to be productive. Theoretically process of growth shifts the economy's focus from primary to manufacturing and finally to the service sector. But as our economy experiences a structural shift, it contradicts a seeming iron of development as most of the decline in primary sector has been picked up by service sector. From 1951-80, growth rate of services is 4.5%. Post-reform era had favorable impact on the growth of service sector as from 1991-1999, growth rate of service sector is 7.5% and after that percentage share of service sector to GDP is rising at a faster rate. The various sectors under the service sector in India are construction, trade, hotels, transport, restaurant, communication and storage, social and personal services, community insurance, financing, business services and real estate. Growth pattern of various sectors is shown in the following table.

**TABLE 1: SECTORAL COMPOSITION OF G.D.P.**

YEAR	AGRICULTURE	INDUSTRY	SERVICES
1950-51	53.1	16.6	30.3
1960-61	48.7	20.5	30.8
1970-71	42.3	24.0	33.8
1980-81	36.1	25.9	38.8
1990-91	29.6	27.7	42.7
2000-01	22.3	27.3	50.4
2005-06	18.3	28.0	53.7
2010-11	7.2	26.4	56.4
2011-12	13.9	27.1	59.0

SOURCE: CALCULATED FROM CSO DATA

Contribution to GDP is an indicator of the performance of service sector but absorption of labour force in service sector is a very important determinant as far as inclusiveness of growth is concerned. Total employment in different sectors of India is shown in following table.

**TABLE 2: TOTAL EMPLOYMENT IN DIFFERENT SECTORS IN INDIA (in %)**

Sectors	1961	1972-73	1983	1993-94	1999-2000	2004-05	2009-10	2011
<b>Agriculture</b>	75.9	74.4	68.6	62.8	61.7	58.4	53.2	53.1
<b>Industry</b>	10.6	10.8	11.3	15.2	15.9	18.2	21.5	21.9
<b>Services</b>	12.4	14.8	20.1	22.0	22.4	23.4	25.3	25.0

SOURCE: CSO AND NSSO REPORTS

It is important to achieve well distributed and equitable growth than merely achieving growth rate. Service sector has increased its share of employment marginally but this employment generation is insufficient to fulfill the target of inclusive growth. As **D.Subbaro** said “We forgot the most important thing – demographic dividend is not inevitable. To reap the demographic dividend, we need to find jobs for the 150-200 million people who will be thrown out of the farm sector in the near future”. High growth rate of service sector in terms of GDP and low growth rate in terms of employment generation has raised certain questions about this growth pattern being inclusive or not.

The service revolution has altered the nature of services. Old idea regarding services being non-transportable and non-tradable does not exist now. **3T's i.e. tradability, technology and transportability** drive modern service sector's growth. Services are now driven by international demand and not only by domestic demand. We also cannot ignore synergies among various sectors. There are many studies supporting the complementarities between the industry and service sector. There is a stronger link to the production of primary and manufacturing sector today than two decades ago. Services contribute to the efficiency of both agriculture and industry as forward and backward linkages of service sector have favorable impact. **NASSCOM (IT**

**industry Association**) estimates that for every job created in the IT sector, four additional jobs are created in the rest of the economy due to high levels of consumption expenditure by professionals employed in this sector. Banking, Insurance, transport, construction, infrastructure and trade support the production and marketing in agriculture and industry. Three sectors are not entrapped in air-tight containers. They have synergies and linkages.

But the facts remains 24% are poor and 300 millions are still below poverty line.80% poor belong to rural areas. With the world's second largest population and widespread urban and rural poverty, a failure to bridge the gap between the have and have-nots could have a damaging effect on its future prospects. Inclusive growth is the biggest challenge the nation faces today. Inclusive growth is possible only with the rapid reduction of unemployment and poverty.

Without any controversy, labour has always been an active factor of production. Now popularly known as human capital, it needs to be taken care of. Services are assumed to be relatively skill-intensive as compared to manufacturing sector. So health and education play a crucial role to increase the efficiency of human capital. Indians are preferred choice as they are English-speaking workers at relatively lower wages but again this feature is applied to skilled worker, so the priority should be to make our human capital more efficient and skilled only then they can be benefitted with the growth of service sector. Better education is an asset to better jobs resulting in increased income and a better quality of life. **Prof. Amartya Sen** after receiving an honorary degree of Doctor of Literature from National University of Education Planning and Administration at New Delhi in July 2011 said, "**India needs to widen its education base radically**". Government has to ensure equitable distribution of health services and make them easily accessible and available to under-privileged sections of society. Expected expansion of health and education will provide additional jobs in teaching and health services. U.S is getting 75% GDP from services, France and U.K are getting 73% and 72% GDP from services respectively, so we have to prioritize those sub-sectors, which can generate more employment opportunities and make our labour force competent enough to avail those opportunities.

Service sector tends to be more effective in creating jobs for women, results in increased family income thus supporting inclusive growth. But growth of service sector has been lopsided as the sectors that have large potential for creating employment opportunities i.e. construction, transport and professional service have grown slowly; whereas faster growing sectors i.e. communications and financial services have low potential for creating employment opportunities. We need to achieve uniformity in the growth of different services. Focus should also be on those services which have maximum linkages, internal and external economies. Service-sector should further be strengthened by making it internationally more competitive to reap maximum benefits from trade. The theme of **UNCTAD XIII**, Development-Centered Globalization; Towards Inclusive and Sustainable Growth and Development, focuses on how the global economy can spread its benefits more inclusively and sustainably, creating jobs and raising living standards for poor people and nations.(21-26 April 2012).United Nations Conference agrees that tourism can stimulate trade and development. Tourism today is one of the most promising and viable option. The **Global Service Forum** – organised to discuss developments in the service sector, which currently accounts for 50% of the GDP of the developing countries pointed to the many growth and employment opportunities of tourism as a major internationally traded service. UNCTAD secretary-general, **Supchai Panitchpakdi** said, “It is encouraging to see that the contribution of tourism to development, poverty reduction and economic growth is increasingly recognized. It can only be achieved by better policy coherence between and among the various ministries and govt. departments that provide the enabling environment for tourism to flourish.”

The recognition of Indian medical professionals around the world for their skills and low cost quality treatment has made Health-Tourism an upcoming sector. Moreover inclusion of **AYUSH** under **NRHM (2005)** has given a boost to health –tourism, as traditional ancient Indian system of medicine attracts foreigners. An attempt has been made by India-Sri Lanka Comprehensive Economic Partnership (**CEPA**) to give liberal access to Indian services in Sri Lankan market and vice-versa. GATS (General Agreement in Trade in Services) also provide a very flexible framework. To compete at global level innovational aspect, research and development become important as it can cut down cost and help in providing better quantity and quality of services.

Inclusive Growth requires companies to innovate their business model to serve the “bottom of the Pyramid”. Economy wise effort should be made to improve business environment which is more conducive to trade and investment in services. Incentives should be given to private sector to promote inclusive growth. We need to understand the specific needs of the poor, their purchasing power and act accordingly. Govt. has launched a large number of initiatives in the past to achieve the goal of inclusive growth, poverty alleviation and better standard of living. Due to poor and ineffective implementation, they could not benefit the masses and deprived. Good governance is required so that all segments of population have equitable social and economic opportunities. Demographic dividend provides India an opportunity which could transform it into a developed nation, if accompanied by favorable formulation and effective implementation of policies. At the same time the importance of manufacturing sector is in no way reduced. As it can generate enough jobs due to its strong multiplier effect and linkages. Moreover there will be a demand-supply gap because service-sector growth will stimulate demand for goods without an increase in the consumer goods produced, if manufacturing and agriculture sector lag behind.

R.B.I governor **D.Subbarao** warned, “The service sector may have been an autonomous engine of growth for the last 20 years, but going forward, it cannot be an engine of growth like it has been. We cannot depend on it to drive our growth. We need to focus on manufacturing and importantly on agriculture too, for sustainable growth.”

So one can argue that all the three sectors i.e. agriculture, industry and services are closely related to GDP and hence should be promoted in a balanced manner. Development of agriculture and industry along with service-sector will bring real sustainability and social-justice in the economy.

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