SERVICE SECTORS IN INDIA

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Abstract

Since the early 1990s, the growth process in India has been marked by a remarkable performance by the services sector. The experience of developed countries suggests that growth in the services sector followed the growth of the industrial sector. However, India's experience in this regard is somewhat different. The sectoral shift in favor of the services sector over the last two decades has taken place in the face of an almost stagnant share of industry and a reduced share of agriculture in GDP. In fact, it was the growth performance of the services sector during the 1990s which sustained the overall growth of the Indian economy, particularly in times of adverse agricultural shocks and industrial slowdown.

The Article focuses on financial services, information technology services, retail trading services, healthcare services, insurance services, educational services, transportation services, communication services, and tourism. Additionally, it includes a chapter on the taxation of services in India.

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Introduction

The emergence of India as one of the fastest growing economies in the world in the 1990s can be attributed, to a large extent, on the rapid growth of its service sector. The growth of output in the service sector in the 1990s has been much higher than the growth of output in agriculture or industry. Consequently, contribution of services to GDP in the period 2001-2004, has been more than 60 per cent per annum. However, this growth in the service sector has not been uniform. In order to arrive at some policy direction it is imperative to examine the performance of different services and assess the economy's potentials and constraints in these services.

We find that the service sector in India witnessed a phenomenal growth in the decade of 1990s. During 1980s, its output grew at the rate of 6.6 per cent per annum, while during 1990s the growth rate increased to 7.5 per cent per annum. In the last ten years (1994-2004), the service sector has grown on an average by 7.9 per cent per annum, ahead of agriculture with growth of 3 per cent per annum and manufacturing sector with growth of 5.2 per cent per annum. In contrast to this, we find that in the same period in countries like Thailand, Indonesia and China, agriculture sector has grown at an average rate of 1.5 %, 1.9% and 3.8% while manufacturing sector has grown at the rate of 7.2%, 6.6% and 12.2% respectively. Corresponding growth rates in service sector has been 3.9%, 4.5% and 8.9%. Most of the developing countries witness a lower growth rate in the service sector as compared to the manufacturing sector. Higher growth rate in the service sector is therefore a unique feature witnessed by India.

Slower Productivity Growth in Services

It has been long argued that productivity growth in services is slower than that in manufacturing sector. Different explanations have been put forward for it. Following Verdoon's Law5, Kaldor (1966) argued that there will be a negative relationship between labour productivity growth in the economy as a whole and the productivity growth in the non-manufacturing sector because most activity outside the manufacturing sector particularly land-based activities such as agriculture and many service activities are subject to diminishing returns. Further, the unbalanced growth models by Baumol (1967) helped in popularising the notion that because of their labour intensive nature, service-sector activities cannot be made more efficient through capital accumulation, innovation, or economies of scale.

It has also been argued that in the creation of new ways of satisfying wants, technological changes are as important in service sectors (such as health care) as in commodity sectors, but when it comes to cost reduction for existing products or services, technological change is more frequent and more powerful in its effects in the commodity sector. Therefore, productivity of service sector relative to productivity of commodity sector may vary inversely with income level of the country6. In other words, between poor and rich countries the productivity differential in Services are found to be lower than that in commodities.

Financial services

Financial services industry is the mainstay of any economy as it mirrors the financial health of the country. Indian financial markets are highly regulated with different authorities keeping an eye on every avenue of financial sub-segments viz. Stock markets, mutual funds, insurance and banking. Stock markets are regulated by Securities and Exchange Board of India (SEBI) while Insurance Regulatory and Development Authority (IRDA) keeps an eye on the insurance industry. Similarly, Reserve Bank of India (RBI) keeps a check on the Indian banking sector and Association of Mutual Funds in India (AMFI) takes care of the mutual fund segment.

India boasts of a Rs 23, 000 crore (US$ 4.44 billion) - financial services distribution and advice market. Recent developments, Government measures, key facts and figures pertaining to the same are discussed hereafter.

Insurance Services

Even when the turbulent times are prevalent in the global financial markets, Indian consumers have not lost faith in their financial systems. This fact is majorly driving Indian insurance market. According to the data released by Life Insurance Council, total premium collected (including both new and renewal premiums) during April-September 2011 stood at Rs 1,22,661 crore (US$ 23.69 billion). In the same period, the renewal premium collection increased by 17 per cent to Rs 73,575 crore (US$ 14.21 billion), as against Rs 62,818 crore (US$ 12.13 billion) in the corresponding period in 2010. Till September 30, 2011, promoters of life insurance companies had injected over Rs 32,720 crore (US$ 6.32 billion) as capital. Also, there was an investment of more than Rs 200,000 crore (US$ 38.62 billion) in infrastructure development in the services. The council further predicts an upsurge in new premium collections during October 2011-March 2012.

Banking Services

Ratings agency Moody's believe that strong deposit base of Indian lenders and Government's persistent support to public sector and private banks would act as positive factors for the 64 trillion (US$ 1.23 trillion) Indian banking industry amidst the negative global scenario.

According to the RBI's 'Quarterly Statistics on Deposits and Credit of Scheduled Commercial Banks', March 2011, Nationalised Banks, as a group, accounted for 53.0 per cent of the aggregate deposits, while State Bank of India (SBI) and its associates accounted for 21.6 per cent. The share of new private sector banks, Old private sector banks, Foreign banks and Regional Rural banks in aggregate deposits was 13.4 per cent, 4.6 per cent, 4.4 per cent and 3 per cent respectively. With respect to gross bank credit also, nationalised banks hold the highest share of 52.8 per cent in the total bank credit, with SBI and its associates at 22.1 per cent and New Private sector banks at 13.2 per cent. Foreign banks, Old private sector banks and Regional Rural banks held relatively lower shares in the total bank credit with 4.9 per cent, 4.6 per cent and 2.4 per cent respectively. Another statement from RBI has revealed that bank advances grew 17.08 per cent annually as on December 16, 2011 while bank deposits rose 18.03 per cent.

Mutual Funds Industry in India

Recent data released by AMFI stated that the cumulative average Asset Under Management (AUM) of all fund houses aggregated to about Rs 6,87,640 crore (US$ 132.77 billion) in the last quarter of 2011.Data compiled at the end of 2011 indicated that HDFC Mutual Fund maintained its top position with an average AUM of Rs 88,737.07 Crore (US$ 17.13 billion) while fund houses namely Reliance, ICICI Pru, Birla Sunlife and UTI followed. By the end of 2011, there were a total of 44 fund houses in the country as against 42 in the first quarter of the year.

Financial Services

The Government's top priority seems to be the enhancement of investor base for the Indian markets. That is why the Ministry of Finance started 2012 with a happy announcement by allowing foreign nationals, trusts and pension funds to invest directly in the country's listed companies from mid-January 2012. The Government of India has also decided to infuse Rs 6,000 crore (US$ 1.16 billion) in public sector banks during the remaining 2011-12 to ensure that the entities meet regulatory requirements. In 2010-11, the Government had provided Rs 20,157 crore (US$ 4 billion) as its capital support to public sector banks.

In order to prepare public sector banks for neck-to-neck competition ahead and improve their performance in future, the finance ministry has set new benchmarks for them to achieve. The new benchmarks, that would calculate their functional and financial capability to qualify for capital infusion, entail three performance indicators - savings and current deposit ratio, employee-branch ratio and profit per employee.

Information Technology services

The Indian Information Technology industry accounts for a 5.19% of the country's GDP and export earnings as of 2009, while providing employment to a significant number of its tertiary sector workforce. Poised to become a US$ 225 billion industry by 2020, the Indian information technology (IT) industry has played a key role in putting India on the global map. The IT-BPO sector has become one of the most significant growth catalysts for the Indian economy. In addition to fuelling India’s economy, this industry is also positively influencing the lives of its people through an active direct and indirect contribution to various socio-economic parameters such as employment, standard of living and diversity. The industry has played a significant role in transforming India’s image from a slow moving bureaucratic economy to a land of innovative entrepreneurs and a global player in providing world class technology solutions and business services, according to National Association of Software and Service Companies (NASSCOM).

The sector is estimated to have grown by 19 per cent in the FY2011, clocking revenue of almost US$ 76 billion. India’s outsourcing industry has witnessed a rebound and registered better than expected growth according to NASSCOM.

India will see its number of internet users triple to 237 million by 2015, from 81 million registered in September 2010, according to a report titled 'Internet's New bn', by the Boston Consulting Group (BCG). BCG said Internet penetration rate in India is expected to reach 19 per cent by 2015, up from the current seven per cent.

Retail Trading Services

Retailing in India is one of the pillars of its economy and accounts for about 15% of its GDP. The Indian retail market is estimated to be US$ 450 billion and one of the top five retail markets in the world by economic value. India is one of the fastest growing retail markets in the world, with 1.2 billion people.

India's retailing industry is essentially owner manned small shops. In 2010, larger format convenience stores and supermarkets accounted for about 4 percent of the industry, and these were present only in large urban centers. India's retail and logistics industry employs about 40 million Indians (3.3% of Indian population).

In January 2012, India approved reforms for single-brand stores welcoming anyone in the world to innovate in Indian retail market with 100% ownership, but imposed the requirement that the single brand retailer source 30 percent of its goods from India. Indian government continues the hold on retail reforms for multi-brand stores. IKEA announced in January that it is putting on hold its plan to open stores in India because of the 30 percent requirement. Fitch believes that the 30 percent requirement is likely to significantly delay if not prevent most single brand majors from Europe, USA and Japan from opening stores and creating associated jobs in India.

Small and medium enterprises dominate the Indian retail scene. The trading sector is highly fragmented, with a large number of intermediaries. So also, wholesale trade in India is marked by the presence of thousands of small commission agents, stockists and distributors who operate at a strictly local level. Apart from these, in many cases small producers such as artisans and farmers sell their goods directly to end consumers (often one family member is a producer and another sells the products). The existence of thousands of such individual producer-cum-sellers is an example of 'vertical integration' as it is found in the Indian retail sector. There is no 'barrier to entry', given the structure and scale of these operations.

Healthcare services

Health care facilities and personnel increased substantially between the early 1950s and early 1980s, but because of fast population growth, the number of licensed medical practitioners per 10,000 individuals had fallen by the late 1980s to three per 10,000 from the 1981 level of four per 10,000. In 1991 there were approximately ten hospital beds per 10,000 individuals.

Primary health centers are the cornerstone of the rural health care system. By 1991, India had about 22,400 primary health centers, 11,200 hospitals, and 27,400 dispensaries. These facilities are part of a tiered health care system that funnels more difficult cases into urban hospitals while attempting to provide routine medical care to the vast majority in the countryside. Primary health centers and subcenters rely on trained paramedics to meet most of their needs.

The main problems affecting the success of primary health centers are the predominance of clinical and curative concerns over the intended emphasis on preventive work and the reluctance of staff to work in rural areas. In addition, the integration of health services with family planning programs often causes the local population to perceive the primary health centers as hostile to their traditional preference for large families. Therefore, primary health centers often play an adversarial role in local efforts to implement national health policies.

According to data provided in 1989 by the Ministry of Health and Family Welfare, the total number of civilian hospitals for all states and union territories combined was 10,157. In 1991 there were a total of 811,000 hospital and health care facilities beds. The geographical distribution of hospitals varied according to local socioeconomic conditions. In India's most populous state, Uttar Pradesh, with a 1991 population of more than 139 million, there were 735 hospitals as of 1990. In Kerala, with a 1991 population of 29 million occupying an area only one-seventh the size of Uttar Pradesh, there were 2,053 hospitals. In light of the central government's goal of health care for all by 2000, the uneven distribution of hospitals needs to be reexamined. Private studies of India's total number of hospitals in the early 1990s were more conservative than official Indian data, estimating that in 1992 there were 7,300 hospitals. Of this total, nearly 4,000 were owned and managed by central, state, or local governments.

By the late 1980s, there were approximately 128 medical colleges--roughly three times more than in 1950. These medical colleges in 1987 accepted a combined annual class of 14,166 students. Data for 1987 show that there were 320,000 registered medical practitioners and 219,300 registered nurses. Various studies have shown that in both urban and rural areas people preferred to pay and seek the more sophisticated services provided by private physicians rather than use free treatment at public health centers.

Insurance services

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Educational services

Even though India has a strong tradition of higher education since ancient times, western and secular education, with an emphasis on scientific inquiry came to India only with the British. In fact, the first college imparting western education in India was set up in Serampore in Bengal in 1818. The social reforms movement of the 18th century also accelerated the process of setting up of modern Universities and Colleges. In 1857, the three Central Universities of Calcutta, Bombay and Madras were set up, which had 27 colleges affiliated to them. Subsequently, more Universities and Colleges were set up. In 1947, there were 19 Universities in India.

Since independence, the higher education system has grown rapidly. By 1980, there were 132 universities and 4738 colleges in the country enrolling around five percent of the eligible age group in higher education.

Today, India is the third largest higher education system in the world (after China and the USA) in terms of enrollment. However, in terms of the number of institutions, India is the largest higher education system in the world with 17973 institutions (348 universities and 17625 colleges). This means that the average number of students per educational institution in India is also lower than that in the US and China.

Before going further, it will be useful to discuss the types of institutions imparting higher education in India. These are as follows:

- Universities under the Government
- Private Universities
- Deemed Universities (Aided)
- Deemed Universities (Unaided)
- Colleges under Government
- Private Colleges (Aided)
- Private Colleges (Unaided)
- Distance Learning
- Non-University Sector (Polytechnics and Industrial Training Institutes)
- Foreign Institutions

Student enrolment grew at an estimated rate of 7 per cent between 1987 and 1993 but has now declined to 5.5 per cent compound rate of growth. Today, there are 10.5 million students enrolled in all higher education institutions, with the teaching staff numbering 321,000. In spite of this phenomenal growth, the total enrolment forms only about 11 percent of the relevant age-group (17-23) population.

Transportation services

Transport in the Republic of India is an important part of the nation's economy. Since the economic liberalisation of the 1990s, development of infrastructure within the country has progressed at a rapid pace, and today there is a wide variety of modes of transport by land, water and air. However, India's relatively low GDP has meant that access to these modes of transport has not been uniform. Motor vehicle penetration is low by international standards, with only 13 million cars on the nation's roads. In addition, only around 10% of Indian households own a motorcycle. At the same time, the automobile industry in India is rapidly growing with an annual production of over 2.6 million vehicles, and vehicle volume is expected to rise greatly in the future.

Despite ongoing improvements in the sector, several aspects of the transport sector are still riddled with problems due to outdated infrastructure, lack of investment, corruption and a burgeoning population. The demand for transport infrastructure and services has been rising by around 10% a year with the current infrastructure being unable to meet these growing demands. According to recent estimates by Goldman Sachs, India will need to spend US$1.7 trillion on infrastructure projects over the next decade to boost economic growth, of which US$500 billion is budgeted to be spent during the Eleventh Five-Year Plan.

Local transport

Public transport is the predominant mode of motorised local travel in cities. This is predominantly by road, since commuter rail services are available only in the six metropolitan cities of Mumbai, Delhi, Chennai, Bangalore, Hyderabad and Kolkata, while dedicated city bus services are known to operate in at least 25 cities with a population of over one million. Intermediate public transport modes like tempos and cycle rickshaws assume importance in medium size cities. However, the share of buses is negligible in most Indian cities as compared to personalized vehicles, and two-wheelers and cars account for more than 80 percent of the vehicle population in most large cities.

Traffic in Indian cities generally moves slowly, where traffic jams and accidents are very common. India has very poor records on road safely-around 90,000 people die from road accidents every year. At least 13 people die every hour in road accidents in the country, also in the year 2007 road accidents claimed more than 130,000 lives, overtaking China.

A Reader's Digest study of traffic congestion in Asian cities ranked several Indian cities within the Top Ten for worst traffic to worry about communication aspect, you can easily access your friends, family, office, collogues with lots of options for the tourists. The communications technology in India is world class. Also quite cheaper and convenient compare to most of European and other countries. Today, India is quite advancing in terms of communication area namely internet, telephone, cell phones, and postal services. Beside that India cost effective in communications compare to other countries. And the network of all kind of services is quite professional and well organized.

Communication services and tourism

- *Telephone*

The prime mode of domestic and international communication, the telephone net work in India is highly developed and net work is quite huge and well managed. In every city of India, telephone public booths are available to make international and domestic call at every low price. Beside that public phone services are also provided by restaurants, hotels, shops and other commercial set ups. The most important is that telephone access is available in every nook and corner in all the cities and towns of India. The ISD code of India is 91 and to make international call from other countries to India. And you have to dial ISD code 00 before the nos. you want to make call to other countries from India.

- *Mobile Phones*

Another way to communicate in India is through Mobile or Cell phones. If you have a mobile phone with the tri-band technology, you can easily use it here. You don't need to use the service provider of your own country. There are a number of service providers in India to keep you connected. You can buy a prepaid sim card from any service provider. You only need to make payment for it and give a photocopy of your any Identity proof (like your passport). Get it recharged and enjoy free mobility.

- *Internet*

Internet is quite advanced method of communication and India is highly developed in this aspect and connected to the world. To access the internet in public area, there are plenty of

Internet café in all major cities, semi metro, small tours and tourist places, these cafes provide Internet facility through which you would be able to access anywhere in the world. You may access you mail account, browsing, downloads, print outs, scanning etc, By and large most of the urban households have high speed internet access. Even in small towns and rural area, internet facilities by the internet café are available at very cost effective rates. Most of the hotels provide internet facilities to their guest either access from their rooms or from the in-house internet café.

- *Postal Service*

This is one of the oldest and reliable methods of communications. The postal services and network in India is quite advanced and well organized. The parcels and letters are delivered to the desired places in efficient way. For valuable material and documents registered post is almost essential. Air mail services are also offered by Indian postal services almost all the major countries and main cities all over the world. The postal services also provide the services of telegraph where the internet and telephone other services are not available.

- *Fax*

Fax facilities are available at all main telegraph offices that are open 24 hours. It's also possible to receive faxes at these telegraph offices. Many of the STD/ISD booths strewn all over India also have fax facilities for public use, but they invariably cost more than the government offices.The improved systems of Communication in India have changed many lives and made travel within India now very simple.

Tourism Services

Tourism has emerged as an instrument for employment generation, poverty alleviation and sustainable human development. During 2003-2004, direct employment in the tourism sector was estimated to be 21.54 million. Tourism also promotes national integration and international understanding and gives support to local handicrafts and cultural activities.

Tourism in India has grown substantially over the last three decades. Foreign tourist arrivals in India recorded an increase of 13.2 per cent during the year 2005 as compared to the year 2004. India's share in the world tourism market during the year 2005 was 0.49 per cent, as against 0.44 per cent in 2004. Foreign exchange earnings during the year 2005 were Rs.25,172 crores as against Rs.21,828 crores in 2004.

Domestic tourism plays a vital role in achieving the national objectives of promoting social and cultural cohesion and national integration. Its contribution to generation of employment is very high. With the increase in income levels and emergence of a powerful middle class, the potential for domestic tourism has grown substantially during the last few years. During the year 2004, about 366 million domestic tourist visits were made and for the year 2005 it was estimated at 382 million visits.

The Ministry of Tourism is responsible for formulation and implementation of policies and programmes for the development of tourism within the country and for attracting foreign tourists to India by way of developing tourism infrastructure, publicity and promotion, dissemination of information, co-ordination and supervision of activities of various segments of industry such as hotels, travel agencies, tour operators, etc.

Taxation of services

Taxes in India are levied by the Central Government and the state governments. Some minor taxes are also levied by the local authorities such the Municipality or the Local Council.

The authority to levy a tax is derived from the Constitution of India which allocates the power to levy various taxes between the Centre and the State. An important restriction on this power is Article 265 of the Constitution which states that "No tax shall be levied or collected except by the authority of law." Therefore each tax levied or collected has to be backed by an accompanying law, passed either by the Parliament or the State Legislature.

The Central Board of Direct Taxes (CBDT) is a part of the Department of Revenue in the Ministry of Finance, Government of India. The CBDT provides essential inputs for policy and planning of direct taxes in India and is also responsible for administration of the direct tax laws through Income Tax Department. The CBDT is a statutory authority functioning under the Central Board of Revenue Act; 1963.It is India's official FATF unit. The Central Board of Revenue as the Department apex body charged with the administration of taxes came into existence as a result of the Central Board of Revenue Act, 1924. Initially the Board was in charge of both direct and indirect taxes. However, when the administration of taxes became too unwieldy for one Board to handle, the Board was split up into two, namely the Central Board of Direct Taxes and Central Board of Excise and Customs with effect from 1.1.1964. This bifurcation was brought about by constitution of the two Boards u/s 3 of the Central Boards of Revenue Act, 1963.

Conclusion

India is distinctive for the rapid growth of its service sector – high-tech information technology, communication and business services in particular. However, whether the service sector provides a route out of poverty for the masses and thus a path to economic development is disputed. Some say that the high skill and education requirements of modern service sector jobs make them an impractical destination for the rural masses. Others counter that as more skilled and educated workers "graduate" from manufacturing and traditional services, they open up economic space there for less educated workers capable of upgrading their skills. They argue that the skilled unskilled mix of the manufacturing and service sectors, each taken as a whole, is not as different as commonly supposed.

We find little evidence that the growth of the service sector simply disguised manufacturing activity. Although it is probably still the case that even the most rudimentary jobs in the modern service sector, like basic data entry, require some high-school education *(something possessed by only a third of the relevant cohort)* while much employment in manufacturing does not, the data suggest that the skilled unskilled mix of labour in the two sectors is becoming increasingly alike. It is no longer so obviously the case that manufacturing is the exclusive destination for the vast majority of Indian labour moving into the modern sector and that modern services are a viable destination only for the highly skilled few.