



INDIA: A SERVICE BASED ECONOMY

A.Mani*

Assistant Professor - Mechanical Engineering Department
 Dr.Sivanthi Aditanar College of Engineering, Tiruchendur – 628 215,
 E-mail: maniarunachalam82@gmail.com

ABSTRACT

Today, World is classified as “Service Economy”. India too is classified as “Service Economy”. It is because of the predominance of service sector world over. Its predominance is established on the basis of its contribution to gross domestic product, employment generation, structural inclination towards service industry i.e., proliferation of more service businesses, contribution to foreign exchange and export of IT and ITES etc. In general, a country could be classified as agricultural economy, industrial economy or service economy based on their growth and predominance in terms of above said criteria. At the outset, an economy cannot be totally reliant on one sector alone or services alone. However, a service economy is a sign of economic growth and development of the country and shows the strength of the economy.

Keywords: Service economy, Gross domestic product, Employment generation, Structural changes, Liberalization, Globalization, Privatization, and Tertiary sector.

Introduction

When one traces the evolution of economies all over the world, they were primarily agricultural economies. Later on,

due to industrial revolution, the countries were also classified as industrial economies based on the growth they had achieved in the industrial sector. However, during the later part of the 20th century, as a result of remarkable growth in service sector / tertiary sector, the countries were also designated / classified as service economies. Now, all over the world, in general, the service sector has shown remarkable growth and countries including developing countries are designated as service economies. Hence, one can even call the world economy as “Global Service Economy”.

In this context, India is no exception to categorize itself as a “Service predominance in terms of growth and its contribution to GDP, employment generation and structural change in terms of proliferation of various kinds of service industries and service-oriented industries. The article hereunder delineates why India is being described as “Service Economy”, the reasons and criteria thereof.

India is primarily an agricultural economy as a result of its vast stretch of agricultural lands and a vast majority of people dependent upon agriculture for their livelihood. Later on, it focused its attention in the development and growth of

industrial sector. However, in the later part of the 20th century, its service sector has gained momentum and achieved a remarkable growth (Jha, S.M, 2011).

When one traces the evolution of service sector in India, one can identify that there was a transition from agricultural sector to industrial sector and finally to service sector.

However, it should be reckoned that the other two sectors still hold their supremacy in the country.

Service sector worldwide

Like in India, the service sector, around the world is going through a period of revolutionary change in which the established ways of doing business continues to be shunted aside. At the beginning of the new millennium, we witnessed the manner in which we live and work being transformed by new developments in services.

As the growth of market for goods in the developed world got saturated, their attention has turned towards services. The last decade in particular has seen this phenomenon in the world (Johnston et.al., 2012). This is due to the growing importance of services and their contribution to GDP of many countries around the world. As of 2003, many developed countries had 70% or more of their GDP from services. Even in the context of India, its contribution to GDP is around 50%. In this context, it comes as a surprise to most people to learn that the dominance of service sector is not limited to highly developed nations. Such a trend tends to prevail in varying degrees in many Asian and European countries, although perhaps not to the same extent

Now, let us adduce the reasons why India is being classified as “Service Economy”. To elaborate more, let me throw light on what is an economy, what is

a service economy, and “Is India a service economy?”, etc. as narrated hereunder.

What is an Economy?

An Economy is a system, which consists of different sub-systems or sectors such as agricultural sector, industrial sector and service sector (Paul Justin, 2006).

The development and growth of an economy as a system depends upon the development and growth of all sectors of an economy. Generally, the policy makers have to ensure that there is consistency in the growth of all sectors, though it may not be possible in reality. Based on the overall growth of an economy, we designate / classify economies as developed, developing and underdeveloped.

What is a Service Economy?

As discussed above, an economy may be classified as agricultural economy, industrial economy or service economy based upon the predominance of a particular sector. However, it should be noted that the predominance of a particular sector is determined based upon certain factors / criteria such as:

- (i) The contribution of a particular sector to the GDP of a nation.
- (ii) The percentage of workforce employed in the particular sector and
- (iii) The shift or change in the structure / structural changes i.e., whether the economy is inclined towards a particular sector. (emergence of more service business / industries)etc.

These are the factors which are normally considered while categorizing a particular economy as agricultural economy, industrial economy or service economy.

Is India a service Economy?

Now, the question arises, Is India a service economy? Yes, India is a service economy because of the predominance of service sector. It is predominant because it had the largest share in the GDP; accounting for 53.8% in 2005, provided employment to 23% of workforce in 2005. Further, its growth rate is around 7.5% per annum. Moreover, liberalization fuelled the growth of services.

The reforms which were made in 1990s such as deregulation, privatization and restricted FDI were conducive to the growth of service sector. In addition, the recent decision of the government in July 13 to allow more FDI would act as an incentive for further growth of service sector as anticipated by the government to recover from recent economic slowdown invariably in all sectors (Deepashree, 2007). Particularly, the contribution of service sector has declined to 6.6 percent in the financial year 2012-13 from 8.2 percent in the financial year 2011-12.

On the other hand, there is a structural shift as a result of growth of service businesses such as IT, ITES, business process outsourcing, consultancy services, healthcare services, tourism, medical-tourism and educational services etc. Moreover, there is a shift in focus and concentration from agriculture and industry to services (Bhattacharjee, C, 2010).

Now, to substantiate the claim that India is a service economy, we give below the growth statistics about Indian service sector.

Growth of Service Sector

Growth (in percentage) pattern of Indian Economy

SECTOR	1981-85	1986-90	1991-95	1996-2000	2001-05	2005-06	2006-07
AGRICULTURE FORESTRY AND FISHING	5.8	3.0	3.4	3.1	1.7	5.9	3.8
MANUFACTURING	5.3	6.6	5.2	6.1	6.8	10.1	11.0
SERVICES	5.7	7.4	5.7	8.8	7.6	10.3	11.1
GDP GROWTH	5.5	5.7	4.8	6.5	6.0	9.4	9.6

Source: Measurement issues in service sector - An analysis by Savita Sharma and Rajiv Sharma.

National Account Division - CSO

Now, let us also go through the other statistics about Indian service sector's contribution to India's GDP

Service sector in India's GDP-Period 1950-2010(%)

SECTOR	1950-60	1960-70	1970-80	1980-90	1990-2000	2000-2010
AGRICULTURE	55.3	47.6	42.8	37.3	30.9	21.8
INDUSTRY	14.8	19.6	21.3	22.3	23.3	24.5
SERVICES	29.8	32.8	35.9	40.3	45.7	53.7

Source: Services sector in India: Issues and way forward by Arpita Mukherjee and Tann.M.Goyal.

The statistics provided above undoubtedly indicates the contribution of service sector to India's economic growth.

Generally, a country is categorized as developed based on the growth of industrial and service sectors. When such yardstick is applied in the case of India, it is evident that India also falls in line with other developed countries (Bateson et.al.,2012).

Hence, we may conclude that India is a Service-based economy since it satisfies all the criteria, which determines the predominance of a particular sector.

End Note

India had witnessed a remarkable growth in service sector during the last part of the 20th century and early part of the 21st century. However, it has witnessed decline in the growth of service sector in recent years i.e., during the period spanning from 2010 to 2013.

Hence, the policy makers as well as experts have to analyze, realign and fuel the growth of service sector to hold India's supremacy economically as well, as a prime service economy in the forthcoming decades.

References:

- Arpita Mukherjee and Tanu M.Goyal (2012). Services Sector as an Engine of Inclusive Growth. ICRIER- KAS Seminar. Retrieved from http://www.icrier.org/pdf/Arpita_KAS_Seminar.pdf
- Bateson, John E.G and Hoffman, Douglas. K, "Services Marketing", Cengage Learning, Delhi, 4th Ed", 2012, Pages: 32-41.
- Bhattacharjee, C, "Services Marketing – concepts, planning and implementation", Excel Books, New Delhi, 2010, Pages: 15-54.
- Deepashree, "Indian Economy - Performance and Policies", TMH, New Delhi, 2007, Pages: 6.3-6.10.
- Jha, S.M; "Services Marketing", Himalaya publishing House, Mumbai, 2011, Pages: 46-94.
- Johnston, Robert and Clark, Graham, "Service Operations Management – improving service Delivery", Pearson, New Delhi, 4th impression, 2012, Pages: 23-52.
- Paul, Justin, "Business Environment-Text and Cases", TMH, New Delhi, 2006, Pages: 33-47.
- Sharma Savita, Sharma Rajiv (2008). Measurement Issues in Service Sector–An Analysis. The Journal of Income and Wealth. 30 (2) : 1 – 15.